

Democracy and Development

Topics

- The Lipset hypothesis
 - Development => Democracy
- The “new institutional economics”
 - Democracy => Development
- Close look at a “natural experiment” Africa
 - From “growth tragedy” to “success story”

Part 1: The Lipset Hypothesis

- Income and Democracy
 - Global cross section of countries circa 1960
- Interpretation
 - As income increases, democracy more likely

The Literature in *Brief*

- From *cross section* to *time series*
 - Prezworski; Boix and Stokes
- Most recently: Acemoglu et al 2008
 - 153 countries 1960-200
 - Find: **NO RELATIONSHIP**
 - What was true in the cross-section not true dynamically
 - Political culture

Acemoglu et al.

- Related variation in income (GDPPC) to variation in democracy (POLITY IV)
- Were worried about impact of omitted variables:
 - common shocks – e.g. 1991 collapse of the Soviet Union
 - or (time invariant) country characteristics : legal system, climate, geographic location
- As is standard, therefore introduced annual and country specific fixed effects

Acemoglu et al. (2)

- BUT: When the investigators assume that
 - all countries have same coefficient;
- And
 - when they include annual and country fixed effects;
- Then the investigators
 - have purged much of the variability – the information – out of the data
- And are arguably biased toward a null finding

We therefore use

- PMG estimator
 - Each country has “own coefficient”
 - The overall coefficient is the average of the cross sectional coefficient
- We retain fixed effects, using
 - Average global income; average global level of democracy;
- We then find that there is a **significant relationships between democracy and income in the global sample**

The relationship differs by sub-sample

- Resource rich countries
 - Income => democracy (negative)
- Non-resource rich countries
 - Income => democracy (positive)
- A shout out to Da Hsiang Lien
- Africa
 - Democracy => income (positive)

Part II

From the Lispet Hypothesis to the

New Institutionalism

Background:

Africa as “Growth Tragedy”

- The Africa-Asia comparison.
- Occampo and Root vs the AERC/CUP
 - 2 volume study of Africa’s Economic Performance
 - From a “growth study” to a project on political economy
 - A study of failure

Post-Independence Political Economy

- Politically: Authoritarian
- Economically: Stasis or decline
- Reason: patterns of political intervention

One Path: Political authoritarianism => Urban Bias

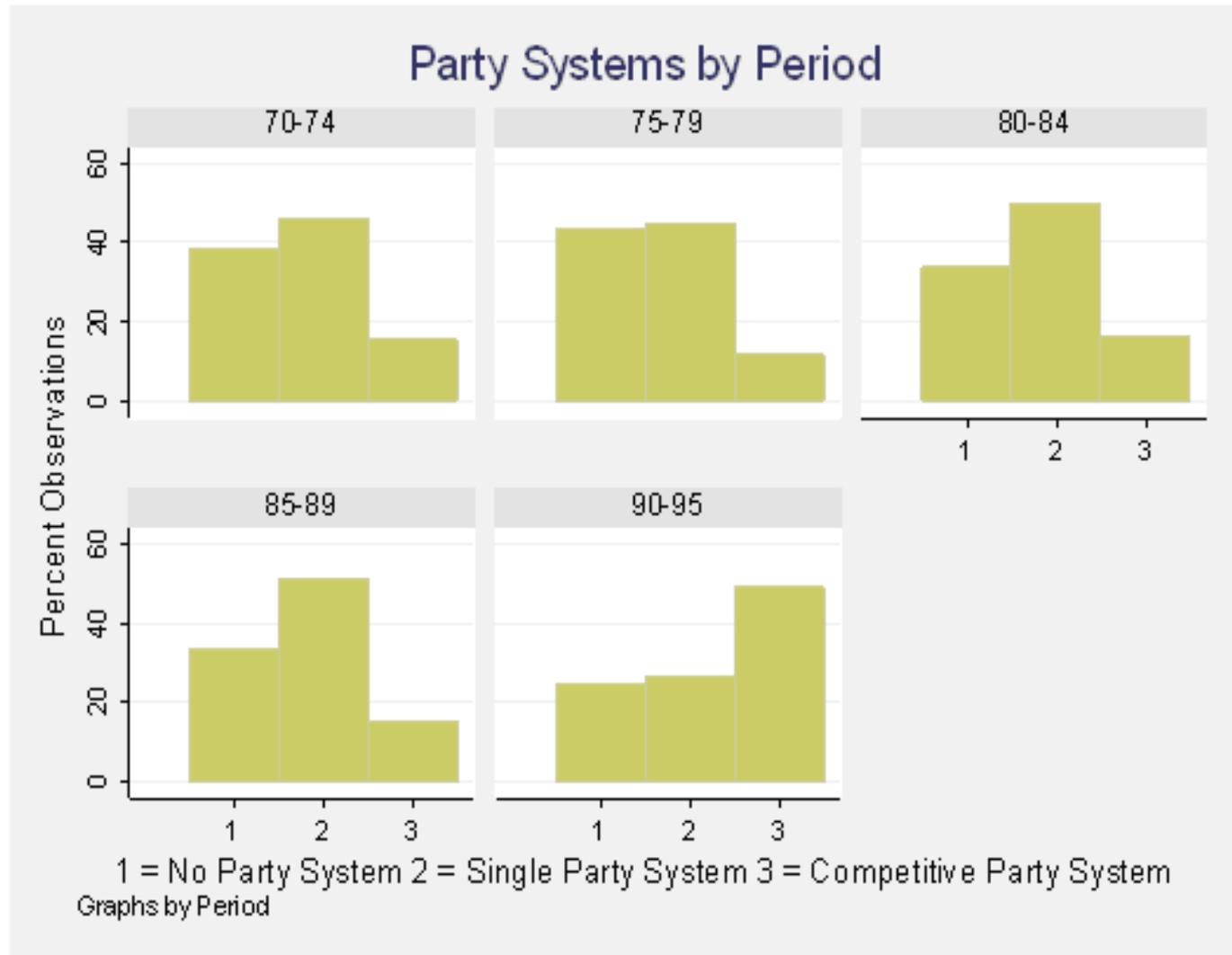
- Authoritarian
 - Means of representation: Interest Groups
- Geographic concentration and price setting power
 - State Industries
 - Government employees: Bureaucrats and armed forces
 - Services: Transport, dockworkers, etc.
- Left out of price setting coalition: Peasants and villagers

Policy Outcomes

Shift in Urban Rural Terms of Trade

- Foreign markets:
 - Overvaluation
 - Protection
- Domestic markets:
 - Licensing and regulation
 - Goods peasants buy vs goods peasants sell
- Taken together:
 - Raise prices of what villagers purchase from off the farm
 - Lower prices of what sell to urban consumers

Then: Abrupt Institutional Change

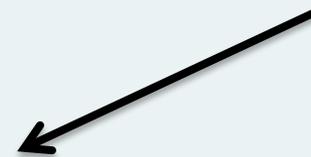
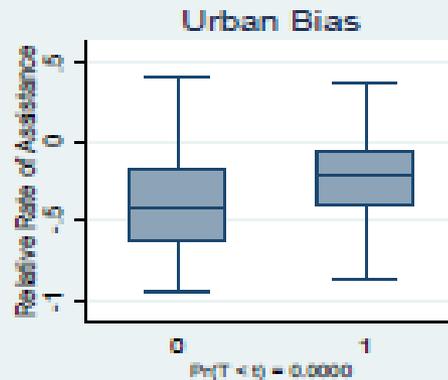
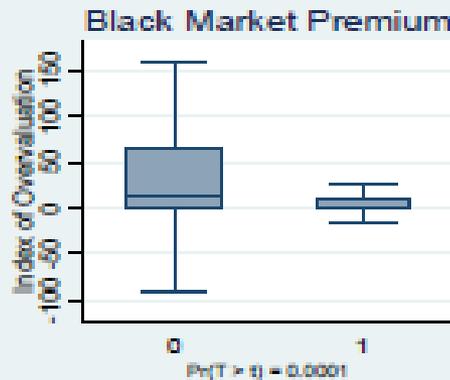
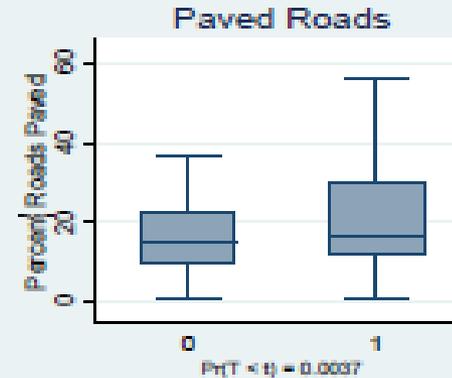
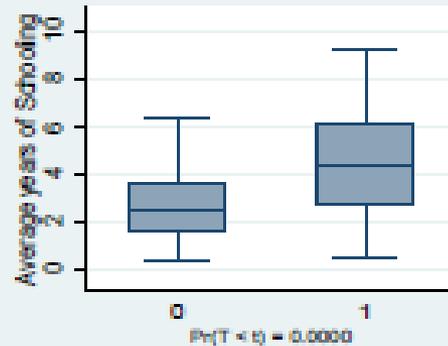
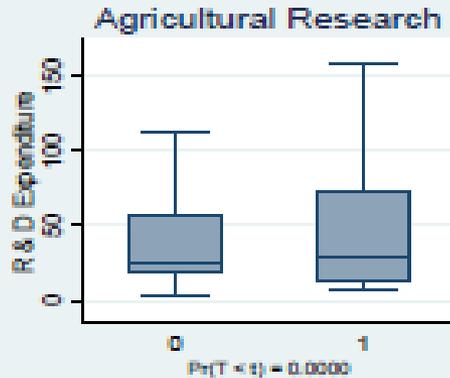


In Africa

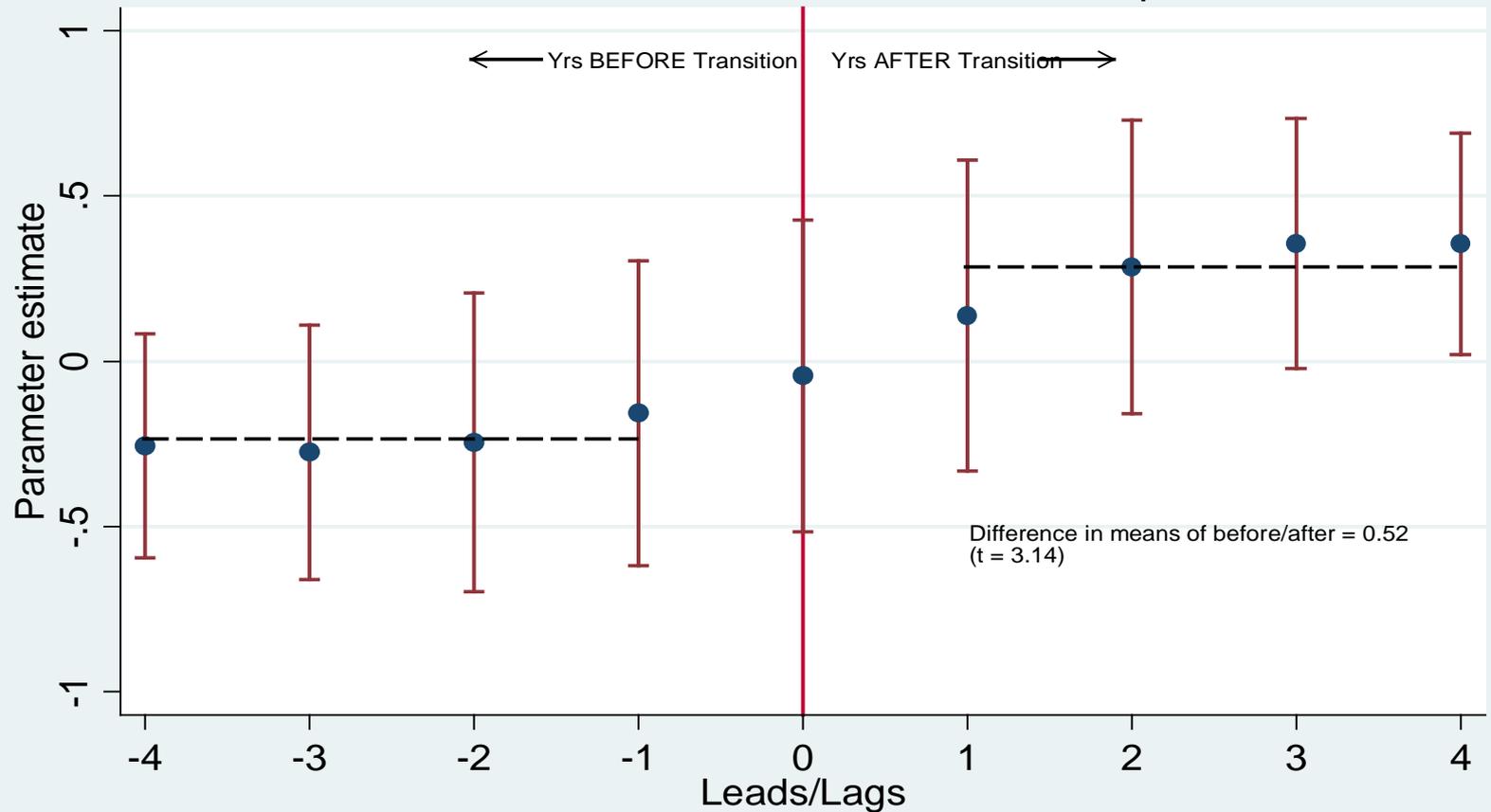
- Enfranchisement of the electorate
- Means enfranchisement of the rural population
- FROM: Interest group politics TO: Majority rule

Impact

Policy Differences

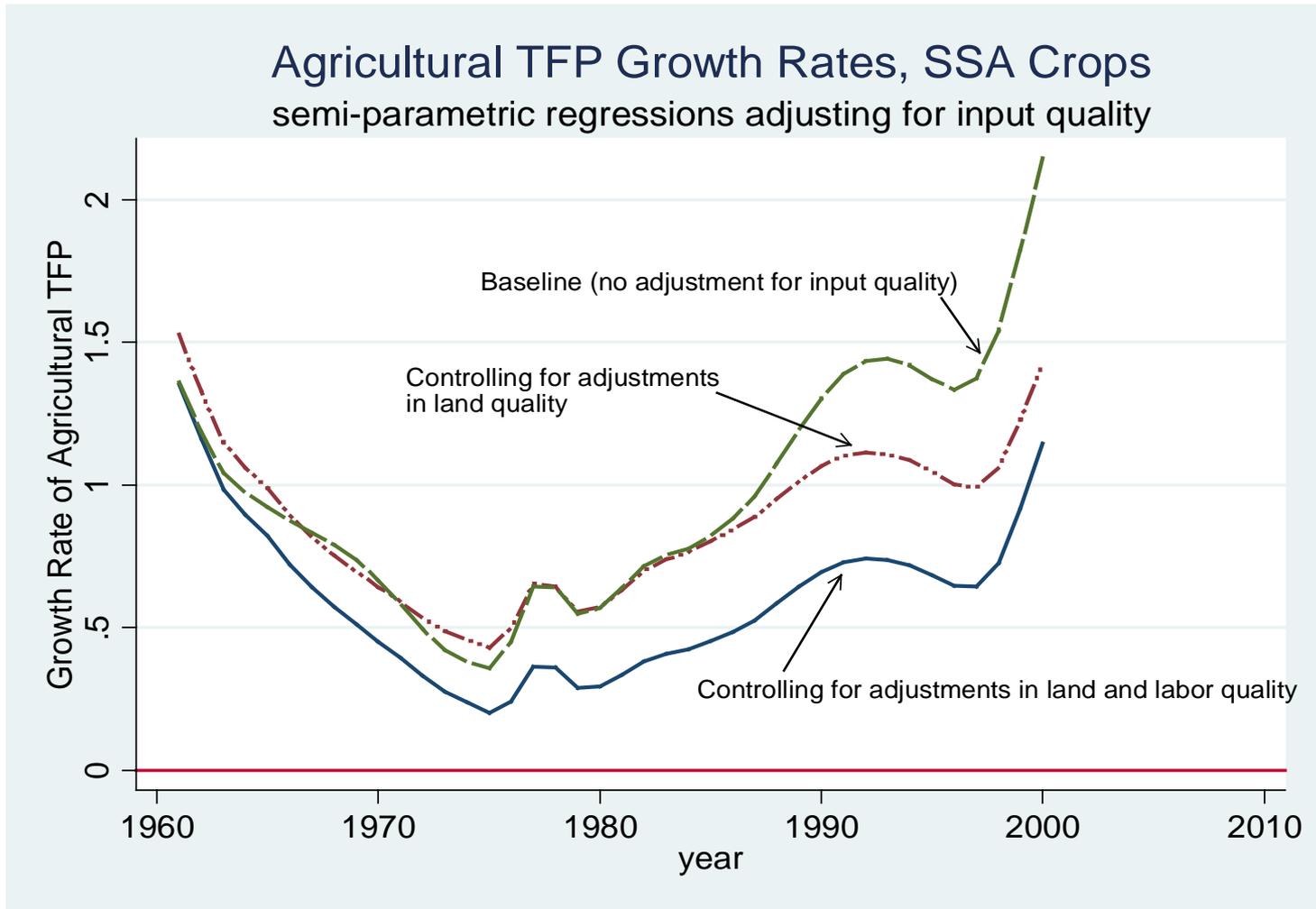


Agricultural TFP Growth (conditional mean) Before & After Transition to Electoral Competition



controlling for country trends, yr dummies

Factor Productivity Growth Agriculture



Add to

- Kudumatsu
 - Child health
- Statsavage
 - Tertiary education

Change over time

- Decay of relationship democracy and growth
- Increasing importance of average global income

Reprise

Democracy and Development

- Lipset hypothesis
- New Institutionalism
- Specific cases

The evidence

- Ghada Fayad, Robert H. Bates, and Anke Hoeffler (2012) “Income and Democracy: Lipset’s Law Revisited” Working Paper IMF, Washington DC
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- With Steven Block, “Revisiting African Agriculture: Institutional Change and Productivity Growth,” Journal of Politics 75.2 (April 2013)