DOES REGIME TYPE EFFECT ECONOMIC GROWTH OR PERFORMANCE?

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Abstract

It has been observed that political institutions and regime types effect economic growth and performance. This paper attempts an overview and evaluates the questionable assumption that democracy has its skeptical impact on development where democratic system is treated as a more or less immediate cause of economic development. This article argue this hypothesis contradicting the belief that current economic condition of a nation is a subsequent effect of its regime history and its current standing and is not entirely dependent on the current political regime.

Keywords: Political Institution, Regime Type and Economic Growth

Introduction

The predominant view among academics, scholars and leading economists is that democracy either has no impact or has negative impact on the leading economic indicator of a country, the GDP growth rate (Przeworski & Maravall, 2003). Therefore it is often argued that authoritarian system of politics may lead a nation to faster growth or will at least match up to that of a democratic political system (Przeworski, 1995). Even though it is seldom believed that democratic systems may have some positive indirect effects, yet empirical evidence has suggested that these positive effects are nullified through the negative effects of democracy over a period of five years (Barro, 1996; Feng, 1997 and Kurzman et al., 2002). Although most of the currently richest countries in the world are democratic, yet it is unclear as to the confirmation of causal effect of democracy. However, it cannot be neglected that most of these richest countries have evolved from an authoritarian ruling system (Phillips & Porter, 2007). If a person has to strongly consider this concept, then it can be said that democracy is the luxury of a rich country which only such richness can afford (Yew, 1994).

In this study we evaluate the questionable assumption that democracy has its skeptical impact on development where democratic system is treated as a more or less immediate cause of economic development. Therefore, the current year's democratic system influences the performance of economic growth in the next decade or so. This paper will argue this hypothesis contradicting the belief that current economic condition of a nation is a subsequent effect of its regime history and its current standing and is not entirely dependent on the current political regime. There might be some contemporary effects of the distant past, and therefore democracy should not be treated as a "stock" but as a "level" variable.

We would start by building a prima facie case for a historical explanation of democracy and its correlation to economic growth. We would then discuss on the *democratic growth effect* –

the magnitude of this parameter, the policy significance and future scope and limitations of study.

Literature Review

Many research works on democracy and growth have primarily focused on the current level of democracy; and its impact on the future span may be a year or multi year period, perhaps a decade. Therefore, researchers and academicians have conceptualized this phenomenon as the impact of regime type on growth and its impact a specific period. Most of these studies are to construct a framework by looking to the future and not from a historical perspective (Lindert, 2003). Democratic and authoritarian regimes are considered to build strong legacies and goes to decades and sometime even centuries (Collier and Collier, 1991). It is the cumulative effect of these historical perspectives and the current regime status that is of utmost concern in order to understand the causal impact of a regime type on a variety of possible outcomes at present – political, economic, social or cultural. However, in order to understand the impact of regime on the performance of a country, the concept of key concern is the capital and the economy of the country. This could be divided into four different types of capital – human, physical, social and political. “Capital, in ordinary practice, involves a fungible resource that may accumulate over time (creating a “stock”) and promising increased returns in the future” (Mahoney, 2002). Various researches on this perception suggest that these four kinds of capital have significant impacts on the growth performance of a country. A representation of this causal pathway of capital is depicted in the fellow schematic.

Democratic and Authoritarian Regimes and Its Relation to Economic Growth:

This is a long cherished presumption that democracies flourish only in those countries, where education and economic development are high. The well-established democratic countries of Western Europe and particularly U.S. are a prime example of this (Sen, 2013). A contrast to this assumption can be presented by China. China can’t be said to be an absolutely communist country and a democracy neither. Various scholars have tried to establish a linkage between democracy and economic performance of a country. For example, Lipset (1960) argues that all the various aspects of economic development – industrialization, urbanization, wealth, and education – are so closely interrelated as to form one major factor which has the political correlate of democracy”. Nevertheless, he further observes that list of economic factors can be not necessarily attributed to causes for democratic regime (Lewis, 2013). As per this assumption, for a democratic regime to survive, the economy should keep progressing. Critics argue that Lipset’s theory was based only on economically developed countries of Western Europe, and neglected developing world, including some powerful and fast developing nations such as India and the other emerging economies such as African countries (Jensen & Wantchekon, 2004). On the other hand, Prezeworski (2003), argues that political regimes don’t transit to democracy as per capita incomes increase, relatively democratic change happen at random, but once attained, countries with upper levels of GDP per capita remain democratic. It means that more the economic conditions are sustainable of a country, more chances that countries would remain democratic (Lamla, Vreeland & Gassebner, 2013). Consequently, it can be argued that developed economic conditions forge the way to a successful democratic transition as per the modernization theory, and Prezeworski’s argument that democracies occur randomly - not relying solely on favourable economic conditions.

The question remains unsolved, as to why some democracies like Canada, Germany and US are doing well in terms of economic growth, and why some countries for instance Bangladesh, Pakistan, and Eastern Europe are incapable to emulate this model. It is true that democracies differ from each other - for example Russia recently adopted the democratic system in choosing their government (Becker, 2004). A recent research carried out by

Princeton University Prof Martin Gilens and Northwestern University Prof Benjamin concluded that "Multivariate analysis indicates that economic elites and organized groups representing business interests have substantial independent impacts of US government policy, while normal populace and mass-based interest groups have little or no autonomous influence". (Study: US is not a democracy but an oligarchy, 2014). This statement indicates that theories are based on the empirical data choosing countries that are economically developed, if they state that democratic regimes are the causes of economic prosperity. Thus, almost all the developed countries are democratic, but an accurate explanation for the economic well-being of a country is still not clear. There are a number of countries such as Russia, Egypt, and Cuba, which have emerged from an authoritarian regime. Authoritarian countries also achieved significant economic success, take for instance Egypt; and under Putin, Russia also recovered comparatively well after the economic devastation during the 1990s. They contend to have democracy, a country should be rich enough to afford it (Sylvia, 2002). In this distinct view or analysis, it can be argued that diverse regimes have different impacts on the development and economic growth.

Many of the scholars assume that economic growth is a direct outcome of democracy. However, this is debatable. Any country's economic well-being has been built upon the decades of historical development which has helped countries to reach, what we see today. For example, Germany, before adopting constitutional democracy in 1949, was either authoritarian regime or under dictatorship. Democratic or authoritarian regimes are constructed over a long period, and there are other social and cultural inputs that contribute (O'donnell & Schmitter, 2013). However, our focus would be on the economic performance of a country and its relationship with regime type of a country.

Democratic transformation can be considered as a process which stretches back several generations and is prone to falling back (Diamond 1999). The first phase towards democracy will liberalize and turn the country towards the old rule of law. In this phase, civil rights of citizens are granted. The second phase of transition will be completed by the construction of the participatory and competitive political institutions. This transition period is characterized by political uncertainty; political parties will fight for the rules of this democratic game and the resources available for fighting this game (Rodrik, 2011). Therefore, the direction of this transition may not be necessarily linear, and it might not result into a democratic regime, possible that it turns up into an authoritarian regime.

Generally a successful democratic transition is understood as completed, if citizens of a country have become habituated to democratic values, practices and cultures, called as Democratic Consolidation (Zanger, 2000). Prezworski (2000) simply claims that "a regime in government offices is filled as a consequence of contested elections". This concept uses elections as a sole indicator of successful democracy, but in reality the picture can be much different, as it ignores several other factors. For instance, a large section of the population is excluded from contesting elections and decision making. Thus, this narrow viewing may lead to almost all the countries who have contested electoral system seem to be identified as democratic, but it is possible that the country might really be authoritarian in nature. Take for instance, the Republic of Singapore, which without rejecting the values of democracy, declines to accept it as a centre of the organization of its state. Keeping this in view, this minimalist view of democracy has been extended. The extended version of definition now includes universal suffrage, competitive election held regularly in the defined period of years. This concept even after including two more important aspects of democracy is still likely to commit the "fallacy of electoralism" (Karl, 1986).

Thus, it can be argued that democracy helps countries in providing both greater stability and public say in policy making, but whether this actually leads to any economic prosperity, is still debatable. To understand this nuance, one has to look more keenly into the differences between presidential form of democracy and parliamentary democracy in policy making. This difference changes from one country to another, as no country's polity may be identical to another's (Schumpeter, 2013). To elucidate, let us take the instance of the USA. The US constitution is hard wired to promote free market economy and capitalism, and on the other hand, developing countries such as India continued with their adopted mixed economy or protected economy approach till the 1990s. Both of these economies look similar on the surface, but are starkly different in terms of economic policies or economic regime (Mulligan, Sala-I-Martin & Gil, 2003). Although our concern is limited to measuring a regime's effects on a country’s growth, but it can’t be denied that the differences that we see between various democracies leave us to assume that only democratic form of government may not guarantee a country’s economic growth. In the next section, we will discuss more about the methods to measure the economic growth.

Economic growth is usually measured by GDP per capita. Capital is regarded as cultivated prosperity, which would give up greater profits in the coming future. Gerring et al (2005) argue that if a democratic regime endures, it is likely to foster four types of capital: physical, human, social, and political. He further argues that the longer the countries remain democratic, the more chances that these four types of capital will be enhanced resulting in improved development. This positive idea is predicated on the concept of equal allocation of capital, which researchers see as a crucial factor of economic growth (Besley and Burgess, 2000). In a democratic regime, the successful redistribution of wealth through taxation, land distribution, social policies, and civil rights created the approach for the economic growth as per this connotation. However, he rightly observes that we expect better results from a long term democracy than newly democratized or authoritarian regime. Learning and instutionalisation takes time to garnish the fruitful results of democracy (Besley and Burgess, 2000). So, it can be argued that democracy is beneficial in the long run, but in the short run it still has to prove.

Another question that is drawing the attention of the academia, is why some countries don't adopt a democratic regime even when they have enough natural resources or economic capability, and why do they still resort to dictatorship (Munck, 2009)? Why have some countries such as Canada, Australia and USA implemented democracy easily, while on the other hand, several Middle Eastern and African countries are still finding it difficult to adopt democracy? A growing number of scholars argue that benevolence or malignancy depends upon the quality of institutions (Clement, 2003). Possibly, this connotation is based on two assumption that: 1) When there is an abundance of natural resources, dictators or authoritarian regimes know that the guaranteed income would maintain their purchasing powers and thus, they cripple the economy to uphold their power. 2) When naturally there are limited resources, the cost of ensuring constitutional autonomy to its citizens will be high, thus, dictators have to balance their desire to survive their regime, with their desire of wealth. Democratic institutions don't provide an incentive to repress the economy. Thus, natural resources damage authoritarian regime, but not democracy. So, according to these opinions, if institutions are weak and not very strong, then political regimes will resort to authoritarianism, autocracy, or lastly dictatorship (Way & Levitsky, 2010).

Autocracy or Democracy?

Interestingly, scholars argue that a democratic regime focuses on maximizing total output, but in an authoritarian regime the focus remains on maintaining the order (Dunleavy, 2014). For an instance, the rise of East Asian economies is portrayed as democracy persuaded growth. Nonetheless, a set of economists observed that growth has induced democracy, not vice-versa (Glaeser, 2004). They took the case of South Korea and North Korea, which were under authoritarian regimes until 1980. Till that time both countries were on the equal ground, but in the same year S. Korea began democratizing. They say that better institutions were developed due to dictator's policy of choices.

Others, such as Aemoglu and Robinson (2012) also argue that this type of growth can be attributed to political decision-making. Because, elites want to uphold and maximize their own power by altering the institutional changes and allowing technological changes required to spur economic growth. The interesting fact, they contend that particularly in S. Korea first introduced economic freedom introduced by dictator government, led to political freedom. However, the autocratic government's fuelled economic growth is sustainable or not is a different matter. Classical analysts also argue that democracy undermines growth unleashing pressure for instant utilization, which takes place at the cost of investment, hence growth (Wantchekon, 2002). This minimalist view is based on the assumption that democracy accelerates the demand for current consumption; these demands obstruct the path of profit, thus obstructing the path of economic growth of a country. For example, the current debate of Indian and Chinese growth in recent decades has also been seen from the prism of autocracy and democracy. Some scholars possibly argue that India will out-place China, as a result of being a democratic nation. However, Chinese growth has been achieved under autocratic region, and India's growth story has formed in a democracy. In an autocratic government, leaders can achieve more than democratic governments, due to the fact that their policy won't be hindered by any legislative, judicial or media constraints. For example, in late 1970s, Deng Xiaoping made a decision to privatize the agriculture, and in a very short span of time, farm products increased dramatically. Similarly, the autocratic rules in Taiwan, South Korea, and Chile made quick turnarounds in the economy.

In autocratic rule, the future of a country strongly depends upon the leadership. It is possible that in the short run it can prove beneficial, but in the long run it can cause disastrous effects on a country. Whether a democracy or an autocracy is more conducive to economic growth is debatable, but what is clear is that democracy produces less variable results, and also less bad outcomes due to accountability to its subjects. Since, there is a great incentive attached to democracy and less variable results, it would be an attractive feature of democracy, even if they fail to produce any greater results on an average. Still, it can be argued that a far-sighted leadership in autocratic regime can pace up the economy as in the case of China. On the other hand, India lags behind due to lethargic bureaucracy, regionalism, policy delays, and corruption and so on. So, here it is clear that in terms of economic growth, Chinese example, show us a different picture.

Conclusion

In this paper, we have touched upon the various issues related to political regimes and its effect on economic growth. We have found that economic prosperity depends upon the economic institutions and choices of government rather than type of government. The well-being of a country also depends upon the distribution of political power. Political institutions provide the political power, and forms of institutions such as democracy and autocracy are the important subset of such institutions. All the developed countries are almost democratic, but it can't be argued in absolute terms that due to democracy they are economically developed. There are various reasons and most probably their past experiences play a major role in development. Some countries such as South Korea has developed in recent years is not a result of democracy, but various policies adopted during the dictatorship regime has also helped to forge the way for economic growth. Thus, it can be argued that economic development surely depends upon the form of government, but historically determined underlying of economic institutions also plays a major role in deciding the future of a country.

There is still a research gap in providing a universal democratic theory which shows that democracy promotes economic prosperity. However, it can be argued that once economic stability is achieved [...] then countries would continue to be democratic. In addition, there is also no appropriate answer for “why some democratic countries are industrialised or developed, and some are not? In the end, we will argue that different regimes have different effect on economic growth. Clearly, the area of research on the political regimes on growth is wide open.

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