

All Democracies Are Not the Same:
Identifying the institutions that matter
for growth and convergence

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The security of property rights matters

- For growth: Knack and Keefer (1995); Acemoglu, Robinson and Johnson (2001,2).
- For convergence: Keefer and Knack (1997)

But what determines the security of property rights?

- Political checks and balances (North and Weingast; Keefer and Knack).
- Elections plus checks and balances (Acemoglu, Johnson and Robinson).
- Horizons of dictators/duration of democracy (McGuire and Olson; Clague, et al.)

A puzzle

- Democracy → secure PR → growth
- But democracy ~~→~~ growth
(Przeworski and Limongi 1993; de Haan 1996; Tavares and Wacziarg 2001)

Possible explanations

- Specifications exclude important channels of democratic influence (e.g., Barro doesn't allow democracy to operate through property rights).
- Democracy proxies measure the wrong thing.

Contribution to democracy literature

- Test a more nuanced approach to democratic institutions: not only elections, not only checks and balances, but also credibility of political actors and extent to which voters are informed.
- Control for endogeneity problems using the “state of the art” instruments from the property rights literature.

Contribution to property rights literature

- Demonstrate the hypothesized link from democratic institutions to property rights security to growth.
- This link is different than hypothesized. Elections don't matter; checks and balances matter somewhat; distortions in electoral markets matter a great deal.

Two subjective measures of democracy

- Freedom House (political freedoms + civil liberties) – Barro, Helliwell, Tavares and Wazciarg.
- Polity democracy indicator (LeBlang, Gerring, et al.)

Four objective measures of democracy

Objective

- Are there competitive elections (*Database of Political Institutions* – DPI)
- Number of political checks and balances (DPI)
- Continuing years of competitive elections (DPI)
- Newspaper circulation per 1000 population (WDI)

Measure of property rights security

Following Knack/Keefer, others: Sum
of indicators from International Country
Risk Guide

*(risk of expropriation, rule of law, threat
of contract repudiation, bureaucratic
quality, corruption).*

Three sets of instruments

1. Colonial heritage dummies (Persson, Tabellini and Trebbi).
2. Years since independence or nation creation (Persson, Tabellini and Trebbi)
3. Distance from the equator (Hall and Jones)
Use: $1+2+3$; $2+3$; 1 only.

Foreshadowing conclusions

1. Elections don't matter, but checks and balances, persistence of elections and information do.
2. Democratic institutions influence growth through property rights security.
3. Democratic institutions are important for convergence.

Democracy specification

$$\begin{aligned} \text{Growth in income per capita}_i (1975 - 2000) &= \beta_1 \\ &+ \beta_2 \ln(1975 \text{ income/capita})_i \\ &+ \beta_3 (\text{predicted democracy, 1975})_i + \varepsilon_i \\ \text{Democracy}_i &= \gamma_1 + (\text{instruments, initial income})'_i \gamma_2 + \eta_i \end{aligned}$$

Parsimonious specification avoids spurious downward bias.

Upward bias exists if omitted growth determinants correlated with, *but not determined by*, institutions.

Justification for instruments

The literature: instruments affect security of property rights indirectly through their influence on institutions, such as elections and checks and balances.

Ergo: They should be even better instruments for institutions than for the security of property rights.

Democracy and growth (1975 – 2000)

	Instrumental Variables			
	OLS	Estimates		
		All	Latitude and years since independence	Colonial heritage
Polity IV	.0008 (.02)	.0008 (.27)	.0017 (.34)	.001 (.16)
Freedom House	.0014 (.04)	.0028 (.14)	.012 (.27)	.0037 (.11)
EIEC	.0065 (.135)	.019 (.235)	.035 (.16)	.014 (.50)
Checks	.0035 (.003)	.0078 (.01)	.01 (.26)	.0087 (.008)
Persistence	.0002 (.14)	.0006 (.04)	.0007 (.01)	.0006 (.17)
Newspaper circulation	.00006 (0.0)	.0001 (.002)	.0001 (.016)	.0001 (.003)

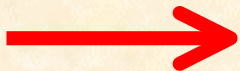


Democracy-Property Rights-Growth

*Growth in income per capita_i = $\beta_1 + \beta_2 \ln(1975$
*income/capita)_i + $\beta_3(\text{predicted property rights}) + \varepsilon_i$**

*Property rights_j (1986) = $\alpha_1 + \alpha_2 (\text{predicted}$
*institutions)_i + $\alpha_3 \ln(1975 \text{ income/capita}) + v_i$**

*Institutions_i (1975) = $\gamma_1 + (\text{instruments, initial}$
*income)_i' $\gamma_2 + \eta_i$**

AJR, HJ, others:

Instruments  institutions (not tested)
 security of PR  growth

My specification:

The same, but tests the institutional claim explicitly.

Predicted property rights and growth

	Instrumental Variables Estimates		
	All	Latitude, years since independence	Colonial heritage
Polity IV	.0009 (.29)	.0017 (.10)	.0014 (.26)
Freedom House	.0012 (.285)	.0025 (.027)	.0024 (.38)
EIEC	.0026 (.19)	.0004 (.84)	.0042 (.45)
Checks	.0014 (.01)	.002 (.05)	.0015 (.009)
Persistence	.0013 (.126)	.002 (.06)	.0007 (.41)
Newspaper circulation	.0029 (.001)	.0025 (.027)	.0033 (.000)

Democracy and convergence specification

$$\begin{aligned} \text{Growth in income per capita}_i (1975 - 2000) = & \\ B_1 + \beta_2 \ln(1975 \text{ income/capita})_i & \\ + \beta_3 \ln(1975 \text{ income/capita})_i * (\text{predicted} & \\ \text{democracy})_i + \beta_4 (\text{predicted democracy})_i + \varepsilon_i & \end{aligned}$$

Democracy and convergence

Interaction of initial income with:	Instrumental Variables Estimates			
	OLS	All	Latitude, years since independence	Colonial heritage
Polity IV	-.0001 (.64)	-.0003 (.37)	-.0003 (.44)	-.0002 (.52)
Freedom House	-.0003 (.67)	-.0005 (.39)	-.0009 (.14)	-.0001 (.86)
EIEC	-.0007 (.40)	-.00006 (.95)	-.0002 (.88)	.0009 (.46)
Checks	-.0006 (.59)	-.002 (.24)	-.0016 (.35)	-.0003 (.85)
Persistence	-.00038 (.000)	-.00059 (.002)	-.00056 (.022)	-.00036 (.049)
Newspaper Circulation	-.00007 (.001)	-.00005 (.003)	-.00003 (.043)	-.00002 (.096)

Convergence effects economically important

Effect of one SD decrease in initial income:

When persistence is at median value (2.6 years):

Per capita growth increases .25% per year

When persistence is at median plus 1 SD (21 years)

Per capita growth increases 1.3% per year

India – Nepal

India:

Persistence = 19.8

$\ln(\text{initial income}) = 6.14,$

Average per capita growth = 6.6% /year

Nepal:

Persistence = 1.8

$\ln(\text{initial income}) = 5.91,$

Average per capita growth = 5.2% /year

Preliminary conclusions

- Security of property rights is economically important for convergence.
- Political institutions are key for the security of property rights, and therefore for convergence and growth.
- But the usual dichotomy of democracy-autocracy doesn't capture the key institutions. More than elections, what matters are:

Credibility of politicians, voter information, checks and balances.