

**Economic Politics in Latin America:
Rethinking Democracy and Authoritarianism**

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Chapter 1

Political regimes and economic performance

1. The question

The relationship between regime type and economic performance is a continuing concern to political scientists and economists. Many studies investigate whether democratic or authoritarian regimes perform better economically, usually focusing on economic growth. But “it is naïve to suppose that one of these types of political systems will regularly have better economic performance than another.”¹ I consider this an ill-posed question, for one thing because it is pitched at too high a level of abstraction. It is a little like asking if religion is good for world peace. A better set of questions to address the same intuitive interest is as follows.

In what ways does democracy enhance or hinder good economic performance? Could authoritarian governments have advantages over democracy in achieving economic growth and price stability? If so, what are the key mechanisms? Could such mechanisms be adapted to democratic government?

Given that democracy is valued as an end in itself, better economic performance under dictatorship would not necessarily lead to a recommendation for authoritarian government, for obvious reasons. First, there is no reason to expect that such governments are *in general* benevolent and oriented to maximizing economic performance. Second, there is minimal accountability in authoritarian regimes, and if it turns out that such a regime is not benevolent or that economic performance is poor, the absence of accountability gives no institutionalized recourse for removal and change.

Finally, even if the authoritarian government is optimizing economic performance, and even if it performs better economically than democratic government, the value of such performance does not necessarily outweigh the other advantages of democracy in respect for human rights, personal freedom and autonomy, and self-government. Moreover, choosing dictatorship because of the expectation of better economic performance begs the question of whether the mechanisms of good economic performance in authoritarian government might be adapted to democracy without the many downsides of dictatorship.

2. The argument

On a worldwide scale, there do sometimes seem to be advantages for non-democratic governments in achieving rapid economic growth from a state of low economic development. For example, several Asian nations have made rapid economic strides under authoritarian governments. But for every China, South Korea, Taiwan or Singapore there are multiple dictatorships that have poor economic performance as well as a lack of freedom and accountability. The governments of Pol Pot and Idi Amin were authoritarian too.

The argument of the book involves two main themes. The first has to do with the nature of democracy and authoritarian government. I will argue that democracy has (at least) two defining features, competitive elections and limitations on government, and that each of these two features can have varying impacts on economic performance. For authoritarian governments, the first question is whether economic performance is an important goal. Sometimes it is, as in the case of the Pinochet regime in Chile, but often it is not.

The second main theme of the argument has to do with the causality of economic performance. I will look at two kinds of performance, economic growth and inflation. For each, I will consider the changing understandings of economists about the kinds of policies and institutions that foster economic growth and price stability. At any given time, conventional wisdom among economists may involve recommendations that are at odds with the conventional wisdom of another time. Microeconomic theory may be the social science most like physics, but development economics and macroeconomics learn from experience.²

2.1 Political regimes

The overall relationship between regime type and economic performance is weak and conditional. Not surprisingly there is more variance in economic performance among authoritarian governments than there is among democracies. Indeed, there is so much variance that any differences in central tendencies are not worth acting on without disaggregating the features of both types of government.³

In what ways does democracy enhance or hinder good economic performance? The answer to this question depends on the features of democracy in question. Elections, one of the basic features of democracy, could have a positive or negative effect. Elections can be a vehicle for irresponsible or misguided people to get into office and make undesirable or unsustainable policies. Electoral campaigns often involve telling people what they want to hear, and are hardly an ideal vehicle for proposing policies that involve short-term pain in order to achieve long-term prosperity or even sustainability, if such a program is required.

But contests for public office can also elect and re-elect responsible leaders who carry out sustainable policies for prosperity. Whether the impact of elections in any particular instance is constructive or not, competitive elections are an institution of regularized accountability, and this feature should be a net plus for economic performance.

But democracy is not just about elections; it also involves a “limitations on government” feature. Limitations on the government might involve limitations on what the government can do in the private sector, or they might involve limitations on the autonomy of the branches of government, such as the checks and balances of the US Constitution. In my view, only the latter kind of limitation is a defining feature of democracy.

To elaborate, I believe that limitations on what a government can do in the private sector are very likely to have an impact on economic performance. For example, protection of property rights against government confiscation is a basic condition for the encouragement of investment and productive economic activity, and by extension economic growth. Yet this kind of limitation on government is not a defining feature of democracy. A growth-oriented authoritarian government might well protect private property rights in the belief that this is a way to bring prosperity.⁴ Limiting and structuring government intervention in the private sector is likely to have a positive impact on economic performance of both types of regimes without being a defining feature of either of them. Including this kind of limitation in a definition of democracy muddles the question.

Limitations on the legislative, executive or judicial branches of government, on the other hand, are in my view defining features of democracy. For one thing, authoritarian governments may not have different legislative and judicial centers of power, and even if they do, the autonomy of these institutions is likely to be limited.⁵ But this feature of democracy, which is currently thought of in terms of veto players,⁶ does not have a clearly positive or negative relationship with economic performance. Checks and balances might work in either direction, depending on how satisfactory the status quo is. Checks on executive authority might obstruct constructive reforms if the status quo is bad, but if the status quo is desirable for continued prosperity, they might limit changes that would undermine that prosperity.

In James Madison's classical formulation in The Federalist Papers #51, ambition counteracts ambition and stands in the way of tyranny. In a modern economic context, more veto points means less policy volatility and a better environment for investment and growth (Henisz 2004). But there are downside risks to such policy stability. A government whose discretion is limited by veto players or checks and balances is less able to react constructively to macroeconomic shocks. Checks and balances provide mechanisms to obstruct both constructive and misguided economic policies and reforms. So, whether we disaggregate the features of democracy or not, we can see why there may not be a clear overall relationship between regimes and economic performance.

Could authoritarian government have advantages over democracy in achieving economic growth and price stability? If so, what are the key mechanisms? If an authoritarian government has a good plan or program for economic performance, it presumably has the authority to implement it. By definition, authoritarian governments do not face meaningful elections, but they may well face other meaningful constraints on their choices. The key mechanism is the presumed capacity to carry out a plan without diluting it to accommodate vested interests that oppose it.

But dictators as well as democratic leaders face vested interests who might oppose constructive economic policies. In a democracy these vested interests may work through constitutionally defined institutions such as legislatures or judiciaries. In authoritarian government, they might be other power centers such as landowners or business elites whose influence is not structured by legislatures and judiciaries.⁷

2.2 Theory and beliefs about good policy.

There has been very little unanimity among economists and political scientists about what kinds of policies and institutions bring good economic performance. This book will carefully consider alternative theories and beliefs about the kinds of economic policies that are desirable and effective. We will also distinguish between theories of economic growth and inflation and associated policies.

Economics has made great advances in understanding both of these goals. But as it learns more, there seems to be less consensus on a single recipe for economic growth without regard to local conditions. On the other hand, there is increasing consensus about how to deal with inflation, and most countries have “solved” their inflation problems for the time being at least, though as of this writing in 2008, the solution seems to be at risk of unraveling.

Both democracies and authoritarian governments make economic policy in a context of prevailing beliefs and understandings about how economies work. A country’s economic policies and performance may have as much to do with the economic beliefs that its policymakers operate under as with the nature of the regime. If this is the case, the policies may make more difference than the regimes.

3. Method

The method I will use is comparative case studies of four Latin American nations that have experienced both democracy and authoritarian government. I am interested in causality more than description, and Argentina, Brazil, Chile and Mexico give plenty of variation over time within the cases, and also provide for comparisons among them. Studying the history of a limited number of cases will make it possible to have a more nuanced view of what democracy and autocracy meant in any particular case.⁸

4. Latin America is not typical

Latin America has some basic advantages for a study like this one. First, Latin America has much longer experience with constitutional government and with democracy than any region other than the first world. Also, we can get variation between democracies and authoritarian governments within the same countries in Latin America. But although we are interested in the most general relationship between these variables and economic performance, we cannot generalize from Latin America to the rest of the world, because it is unique.

5. The organization of the book

Chapter 2 will deal with the conceptualization and measurement of democracy and authoritarianism. Chapter 3 will treat economic and political sources of economic performance. Chapters 4-6 will apply the theoretical framework to the experience of Chile, Argentina and Mexico and Brazil, respectively. Chapter 7 concludes.

Chapter 2

Conceptualizing and measuring democracy and authoritarianism

How do we know when a country is democratic? Literate adults can use democracy correctly in a sentence, but since it is an “essentially contested concept” there will never be a single authoritative definition.⁹ This chapter will review and evaluate prominent definitions and measures, and present a strategy for answering the questions of the book.

Gary Goertz has said that “The amount of attention devoted to a concept is inversely related to the attention devoted to the quantitative measure” (2006, 2). Regarding democracy, this statement may be true for different sets of scholars. There are some who specialize in the meaning of the concept, and there are other scholars who specialize in the quantitative measure. There is all too little communication between the two groups. This chapter will attempt to bridge the gap between concept and measure of democracy.

1. Two defining features of democracy

Democracy as I understand it, and as I will define it for the purposes of this book, has two main features, an electoral feature and a limitation on government feature. This book will treat each of these features as necessary conditions for democracy, and consider them as jointly sufficient to define it. There is now considerable consensus that competitive elections are an essential feature of democracy, but numerous prominent definitions ignore limitations on government. Why would limitations be an essential feature of democracy?

First of all, in the countries that developed the institutions of democracy most gradually, limitations on government preceded elections. In England, the Magna Carta (1215) established that a representative body could limit the powers of the King. The Glorious Revolution of 1688 further limited royal powers and enhanced the powers of Parliament. In the United States, the separation of powers, federalism, a limited list of federal government powers, and a Bill of Rights were all ways of limiting government. Such limits were initially much more central features of the American Constitution than were elections. Not until the 19th century did electoral features become major democratic concerns in either country.

Secondly, limitations make explicit the idea that the winners of elections must follow rules that protect individual and minority rights, and assure that no election will be the last. What keeps the winners of elections from trampling on the rights of the losers? Constitutional limitations on government are the standard way to do this. But not all limitations on government will count as being relevant to democracy, as will be explained below.

Charles Lindblom explains the roots of democracy as follows:

The history of democracy is largely an account of the pursuit of liberty. ... One way (man) has tried to insure his liberties ... is by instituting the more or less democratic regimes we call polyarchies, polyarchy being the means, liberty the end (1977, 162-163).

Polyarchies are systems of rules for *constraining* rather than *mobilizing* authority. *They grow out of the struggle to control authority rather than to create it or make it more effective* (1977, 165, emphasis added).

Lindblom's observations put the finger on a key difference between democracy and authoritarianism. For my purposes of relating institutions to economic performance, authoritarian governments are governments that may be designed to create and to mobilize authority, and this could well be an advantage for carrying out reforms designed to improve economic performance. Democracy, in contrast, has two essential features: competitive elections, which could be used to mobilize authority, and limits on government, which are means of constraining authority. Thus democracy's two features *could* work in concert, but they may be in tension with each other.

Goertz points out that a concept is best defined if its opposite pole is also identified (2006, 30-35). For my purposes, authoritarianism is the opposite pole of democracy, and the real world alternative of greatest interest in comparisons of democracy with non-democracy. In this context, an authoritarian government is one that lacks one or both of the necessary conditions of democracy. Obviously this does not say much, and does not begin to map the enormous present day diversity of non-democratic regimes, let alone the historical diversity.

In this project, I will not make a serious effort to map that diversity, but I am particularly interested in contrasting democracy with authoritarian or dictatorial regimes that seem to have advantages for achieving good economic performance. My original reason for making Latin America the setting for this investigation was that many countries there have experienced both democracy and authoritarian government, and some of the authoritarian governments and many of the democracies have made serious efforts to improve economic performance.

I will compare almost all of the years of democratic or near-democratic government in four Latin American countries with only some of the other years. The reason for this is that some kinds of authoritarian governments are more likely to be competitive with democracy regarding economic performance. These are regimes that lack elections and constitutional limitations on government, and have economic performance as a major goal.¹⁰

In order to relate my definitions to previous efforts, this chapter will review several prominent ways of conceptualizing and measuring democracy, and their relevance to various forms of non-democracy. I will use the terms authoritarian government and dictatorship interchangeably, even though the latter is more value laden, while the former is more neutral.¹¹

We will see that not all important definitions of democracy have used the necessary and sufficient condition framework. Not all have identified the opposite pole of democracy, and not all have emphasized or even mentioned limitations on government. Some of these definitions are rooted in the “family resemblance” concept structure, which Goertz describes as “in many ways the polar opposite to the necessary and sufficient condition” structure (2006, 7, 35-9).

Family resemblance is a legitimate tradition of concept formation that contains no necessary conditions. “All one needs is enough resemblance on secondary level dimensions to be part of the family.” High values on one indicator can substitute for high values on another (Goertz 2006, 7). For example, intelligence is a concept whose measure is better thought of in the family resemblance framework. Some of the most widely used measures of democracy are of the family resemblance variety. For reasons to be described below, I believe that the necessary and sufficient condition framework is a better way to define democracy.

The electoral features of government are relatively simple and unambiguous, as we will see, and elections are certainly a distinguishing feature of democracy. But the idea of limitations on government is less widely acknowledged as a distinguishing feature of democracy, and demands more subtlety in analysis.

1.1 Not all limitations on government are defining features of democracy.

If a specific kind of limitation on government can be found in a non-democratic system, it can not be a defining feature of democracy. There are several kinds of limitations and constraints on government that can be found in non-democratic as well as democratic systems, and many of them are related to economic performance.

The protection of property rights is a leading example. A well defined and defensible set of property rights is widely thought to contribute to economic growth, because property rights give an incentive to accumulate and invest. Property rights can be threatened by government and by other citizens. The Heritage Foundation has an index of Economic Freedom based on property rights and nine other indicators: business freedom, trade freedom, fiscal freedom, freedom from government, monetary freedom, investment freedom, financial freedom, freedom from corruption, and labor freedom.

These freedoms are indeed limitations on government. But though many can be found in countries that are commonly called democratic, these freedoms are not defining features of democracy. A compelling demonstration of this fact is that the top two countries on the 2008 Heritage Foundation Index of Economic Freedom are Hong Kong and Singapore, which are rarely if ever thought of as democracies.¹²

The kinds of limitations on government that I consider defining features of democracy are those that limit the powers of the government to act or to change its policy. The Constitution of the United States has a full set of examples. It defines a system of separated legislative, executive and judicial powers with checks and balances

among them. It defines a federal system with different powers allocated between the national and state governments. It defines a limited set of powers for the national government. And it defines in a Bill of Rights some things that the federal government cannot do.

In my view, not all of these are necessary for democracy. For example, few would argue that federalism is essential for democracy. Even fewer would argue that a parliamentary system cannot be a democracy, and I explicitly include such systems, with their fused rather than separated legislative and executive powers as having the defining kinds of limitations on government. They have the appropriate limitations because a government needs the support of the legislature to stay in office and to govern.

There is a recent theoretical development that brings together the study of presidential and parliamentary government for analytical purposes. George Tsebelis has proposed and elaborated the concept of “veto players” (1995, 1999, and 2002). Veto players can be individual (a president) or collective (a legislature). They can be institutional or partisan; presidents and legislatures are institutional veto players whose powers are defined by a constitution. A party that is a member of a governing coalition in a parliamentary system is a partisan veto player whose powers are defined by a political system (2002, 2).

The dependent variable for Tsebelis’s veto player theory is policy stability. Different configurations of veto players lead to different predictions for change from the policy status quo or policy stability. For my purposes, this relationship is the one that most directly makes limitations on government relevant for economic performance. Veto players as a limit on the possibility of changing policy is the feature that will be central to my analysis.

Other limitations, such as those on government’s capacity to interfere with individual rights, federalism, and a limited set of powers may well belong in a list of appropriate limits on government as part of a definition of democracy. But I find them more peripheral to economic performance than the veto players concept. Not all features of democracy need be relevant to economic performance, but I will make a case that both the elections and limitations on government features are, in different ways, relevant.

1.2 Not all elections are defining features of democracy.

Only elections that are competitive are defining features of democracy, and it takes at least two options to make an election competitive. Authoritarian leaders sometimes use a popular vote to “demonstrate” their popular support, but these “elections” do not offer genuine competition, meaningful choice, or uncertainty about the outcome. They are easily identified as shams.

Electoral fraud is a problem in many democratic countries, and sometimes it makes a difference in electoral outcomes. When fraud is extensive enough to undermine the legitimacy of an election outcome it undermines the democratic character of a country. We will see some examples below.

1.3 Not all conditions of good government are indicators of democracy.

As defined with necessary and sufficient conditions, a country could become a democracy very soon if not right away. We might ask that it have two competitive elections in a row in order to be sure that a country was not electoral authoritarian (see Schedler, ed. 2006). Przeworski et al. (2000) insist that, for a country to be classified as a democracy by them, an incumbent government must actually lose an election. We might insist that there be an example of a government being defeated by a legislature or vice versa to be sure that limitations on government were real.

But there are many other conditions associated with good government that might be prerequisites of democracy, but are not defining features. Things like basic social order and the rule of law are on some level prerequisites of democracy as well as of any orderly and stable government. In analyzing “What Went Wrong?” in the American experience in Iraq after 2003, Larry Diamond has pointed out that “The first lesson is that we cannot get to Jefferson and Madison without going through Thomas Hobbes” (2005, 305). That is, democratic governments should be governments with monopolies on the legitimate use of force, and with a capacity to enforce their policies. But such capacities are not defining features of democracy, and they are found in effective authoritarian governments as well.

In a related vein, Thomas Friedman (2004) has suggested a distinction between the “hardware” and the “software” of democracy. Free public elections are for him the hardware of democracy. Instituting this hardware is not trivial. Meaningful elections involve identifying eligible voters, establishing polling places, providing secret public ballots, providing vote counting machinery, and assuring that all of this is without fraud.

But the software is not nearly so well understood, and it certainly is not like a package that can be bought from Microsoft and installed in minutes. For Friedman, the software involves “decent, responsive, transparent local government,” and high quality rule of law and regulatory institutions. The kinds of conditions referred to by Diamond and Friedman are prerequisites of good government everywhere, whether democratic or not. They may be prerequisites of democracy and other forms of orderly government without being defining characteristics of democracy.

1.4 Prosperous democracy as an emergent phenomenon Good government is important for economic performance, but good government is not necessarily democratic government, nor is democratic government necessarily good government in the sense that good government means things like transparency, efficiency and lack of corruption. But it may well be the case that mature democracies will have or will develop institutions that are associated with good government and with prosperity, like law and order, property rights and the enforcement of contracts. It may also be likely that countries with these characteristics will move in the direction of democracy if they are not already there. This possibility would explain why sometimes these “non-essential” features sometimes show up in family resemblance indicators of democracy.

For example, Clague, Keefer, Knack and Olson (1996) show that property and contract rights depend on regimes in different ways. For autocracies, such rights are much more likely for autocrats with a long time horizon, because these autocrats want to enhance the base for their tax revenues. For democracies, the logic is different. New democracies may be unable to resist populist pressures, but with time, the predictability of succession and the credibility of policy create conditions that encourage investment (1996, 260). So according to Clague et al., the causality of democracy for property and contract rights is contingent on the duration of the regime, and the causal mechanism is different from that of autocracies. These arguments do not undermine the point that property and contract rights are not features that distinguish democracy and dictatorship, and therefore cannot be defining features of democracy.

Democracies may be more likely than authoritarian governments to develop institutions and practices that are neither necessary nor sufficient for democracy as I am defining it, but which may help make mature and stable democracies more favorable conditions for good economic performance. What are the implications for causal inference about democracy if this is the case?

Measures of democracy that include preconditions of good government in general, and that include conditions for markets to work well are likely to bias tests of hypotheses that democracy is causally associated with good economic performance upwards. If democracies are more likely to have nonessential, non-defining characteristics that facilitate growth and low inflation, measures of democracy that include such things will be more likely to find a spuriously positive relationship.

A test based on a minimal set of necessary and sufficient conditions, such as elections and limitations on government as defined here, is likely to be a more conservative, discriminating and meaningful test. Indeed, I think that including non-essential features of democracy in measures of that concept undermines their validity as measures of democracy.

1.5 Basic ways the two features can affect economic performance

Each of the basic features of democracy can work in either a positive or negative direction on economic performance. Limitations on government in the sense of a significant number of veto players can have a positive effect on performance by assuring investors that a desirable status quo is unlikely to change. But this same configuration might hinder constructive change or reform away from an undesirable status quo.

Similarly, elections can provide a constructive mechanism for getting rid of political leaders who produce poor performance and rewarding those who produce sustainable good performance. On the other hand, elections may bring out proposals that go to the lowest common denominator, pander to the electorate, and avoid desirable programs that involve a painful present in exchange for a more positive and sustainable future.

So neither essential feature of democracy has an unambiguous prediction for economic performance. Either one of them could be constructive or destructive. These

facts may help us understand why so many studies find that democracy has an insignificant relationship with economic growth, and why the relationship between democracy and growth is so contingent on the index, the time period and the sample (Krieckhaus 2004). Once we decompose the concept into essential mechanisms, we find that both features are ambiguously related to performance.

The reader need not agree with me about the definitions of democracy and authoritarianism to benefit from reading this book. Since the analysis will separate the electoral and the limited government features, those who find only one of these truly defines democracy can see how that feature works.

2. Approaching definitional issues

Before I review prominent definitions and measures of democracy, I will review several issues to identify features that I consider desirable, and that will be a basis for commenting on the seven examples.

2.1 Dimensionality

My definition is two-dimensional. Almost all prominent definitions highlight the electoral feature of democracy, but only a few take seriously the limitations on government feature. It may well be that the two features are commonly found together, and that where elections are competitive and meaningful, there are limitations on government. If this were so, the two dimensions would collapse to one.

It is certainly the case that the limitations feature is more difficult to identify and measure, and I do not claim to have nearly solved problems of conceptualization and measurement. But these two dimensions are different in principle, whether they vary together or not. More importantly, they are likely to have different consequences for economic performance, and therefore distinguishing them is important for the project of this book. Collapsing them into a single dimension, as virtually all indexes of democracy do, would be a mistake.

2.2 The other pole

Definitions that explicitly consider what a country is when it does not qualify as a democracy are, other things being equal, more desirable than those that do not. My own definition is weak on this criterion, since the electoral and limitations feature are each necessary and jointly sufficient conditions for democracy. Authoritarian governments are for me the residual of governments that do not fulfill either necessary condition.

Although I do not fully map this residual, I concentrate on a subset of authoritarian governments: those that are likely in at least one respect to compete effectively with democracy in economic performance. These would be governments that fail the limitations on government test, and have economic performance as a major goal. In other words, these are governments that have to worry neither about obstruction by other governmental units nor about elections in order to take action on the economy. If

authority needs to be mobilized to reform an economy, these would be the governments that have good prospects to succeed.

But in another respect, an authoritarian leader who is free to act as a benevolent dictator has an opposite problem. Since he can do anything, he has a credibility problem that will obstruct his capacity to attract investment and encourage productive activity. How does a dictator convince economic agents that he will not plunder their property or otherwise act in an arbitrary way? How does he convince them that he will not be a predatory dictator?¹³

2.3 Snapshots or continuous measurement

Measures that focus on the electoral politics feature often classify governments for entire electoral periods on the basis of the election that defined it. This makes sense for this feature of democracy, which is easy to think of as something that varies only across electoral periods, rather than within them.

But the limitations on government feature can vary between elections. A government that harasses the opposition, closes the legislature, or stifles freedom of the press is making the next election less democratic, but also affecting negatively the level of democracy before the next election. In principle, measurement on a yearly basis is more desirable than on the basis of electoral periods, if only for the limitations on government feature.

2.4 Dichotomous or ordinal

Some measures are dichotomous, and others are ordinal. Necessary and sufficient conditions imply dichotomies, but I believe that countries that meet the conditions can vary in their degree of democracy. For example, when Argentina established women's suffrage in 1947, or when Chile eliminated literacy tests in 1970, these countries became more democratic than they were before. But since my definition revolves around the competitiveness of elections rather than the fullness of the suffrage, I will consider Argentina and Chile as democratic some of the time before as well as after these dates.

Using dichotomies demands care in defining boundaries. Having two necessary and jointly sufficient conditions implies a dichotomy unless there is differentiation among the residual. Even if one needs to fulfill both criteria to be a full democracy, a country that fulfills one of the two is more democratic than one that fulfills neither, even if it does not cross the threshold. So in spite of the necessary and sufficient condition framework, I believe that it is meaningful to say that some countries and some practices are more or less democratic than others.

2.5 Process vs. outcome

In my view, democracy is a procedural concept. Elections and limitations on government are procedural conditions. Conceptions of democracy that include results, such as good economic performance or equality of opportunity beg the question of whether democracy is causally related to them. Such definitions would make this book meaningless by defining away its central question.

2.6 Parsimony and minimalism

For necessary and sufficient condition definitions, parsimony is a virtue, if only because it makes it easier to keep the different considerations in mind when considering a case. For “family resemblance” kinds of measures, parsimony is less important. For such measures, additional relevant data points may well be a virtue.

One risk of measures that are based on multiple indicators in the study of democracy is that they will include items that are not necessary for democracy, such as those considered in section 1.3 above (Not all conditions of good government are indicators of democracy). Insofar as such indicators include items that are not essential to democracy, but that are related to economic performance, they will bias upwards the relationship between democracy and performance.

2.7 A comment on objectivity and judgment

A primary consideration in measurement is to have the coding rules be clear and unambiguous so that different coders will make the same decisions almost all of the time. The measures I review below vary a great deal in this regard. I believe that judgment is inescapable, even when coding rules are as clear as they can possibly be. Those who go to completely objective measures that can be looked up in books or online do not escape subjectivity. The subjectivity is in the choice of the indicator rather than in the value of the indicator. Using widely available data may risk making objectivity at the expense of validity.

3. Conceptualizing and measuring democracy from past to present

There are many definitions and several indexes that purport to conceptualize and/or measure democracy. For the leading definitions and measures, I will ask three questions:

1. To what extent and how do they conceptualize and measure limitations on government?
2. To what extent and how do they conceptualize and measure the electoral features of government?
3. Are they systematic in considering what is not democratic and how that relates to what is?

When appropriate, I will also make observations on validity and reliability, and on the seven issues mentioned in the previous section. To relate my definition to prominent alternatives, the following discussion addresses three classic theoretical approaches to concept formation, and several empirical indicators that are designed for measurement.

3.1 Schumpeter: a minimalist forward-looking definition

Joseph Schumpeter defined democracy as the “institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote” (1950, 269). This definition has been much quoted and very influential. It revolves entirely around elections, and articulates no feature of limits on democratic governmental power. Nor does it address what happens

in the absence of democracy. I suspect that its influence is due largely to the fact that it focused on observable elections, and eschewed components that depended on philosophical thickets like the “will of the people.”

As Schumpeter’s biographer, Thomas McCraw, observes, Schumpeter’s discussion of democracy is as original and fertile as his discussion of capitalism and socialism. “But it is not nearly as well informed” (2007, 370). Schumpeter is relevant for his idea, which is on target as far as it goes. But no one has developed an empirical measure based on his idea and applied it to historical cases, perhaps because it is so general.

3.2 Riker: a minimalist backward-looking definition

William Riker, in contrast, was very well informed about democracy. For Riker (1982), what is most important for democracy is the capacity of an electorate of undefined size and extent to be able to *reject* incumbent public officials. Riker is very concerned about limiting government, and he, more than any other democratic theorist, sees elections as a way of limiting public officials. He is a leading critic of elections as having any positive meaning, such as expressing “the will of the people,” a view he shares with Schumpeter. So for Riker, elections are mainly a way to limit government.

Riker does not say much about what happens in the absence of elections, and he does not address directly the nature of authoritarian government. His definition has not been applied systematically to historical cases. Riker is probably unique in seeing elections as a limitation on government, and as such he combines in one institution the two main features of democracy. But considering elections as a limitation on government does not substitute for formal institutional limitations.

3.3 Dahl: a more complete, two-dimensional definition

Robert Dahl is perhaps the most influential contemporary theorist of democracy. He has been writing important books and articles about democracy for half a century. His definition is more ambitious and restrictive than those of Schumpeter and Riker. Dahl made an effort to avoid the “essentially contested” character of the term democracy by creating a new term, “polyarchy” (1971). This name did not catch on but Dahl’s definitions have become influential components of many scholars’ conceptions of democracy.

Dahl’s standards for democracy are higher than any others we are considering. He is the only one not to take citizens’ preferences as given, but to require that they have “unimpaired opportunities to formulate their preferences.” He does not elaborate on what that means, but it could mean things like “consciousness raising” for subordinated groups. Citizens must have unimpaired opportunities to signal these preferences to the government, and to have these preferences “weighed equally” in the conduct of government (1971, p. 2). Each of these criteria goes beyond the Schumpeter-Riker standard. Dahl is very concerned with government being “completely responsive or almost completely responsive to all of its citizens,” and is very concerned about the political equality of all citizens.

Dahl identified eight guarantees for these criteria.¹⁴ The guarantees are conditions that elaborate the electoral theme of democracy, but do not address the limitations on government feature. These guarantees make explicit the importance of criteria of individual level fairness, about which Schumpeter and Riker were less clear.

Dahl then collapsed these eight criteria into two basic dimensions: *contestation*, the ability to oppose the government publicly, and *participation*, the fraction of the population that is eligible to vote. Dahl's work is full of empirical references and examples, but he never developed an empirical measure. He continues to work on the conceptual basis of democracy, being an example of the division of labor between theorists and empiricists noted in the Gary Goertz quote in the introduction to this chapter.

Yet, apparently inspired by Dahl's two basic dimensions, Tatu Vanhanen has created systematic measures of contestation (which he calls competition) and participation, and measured them for over 150 countries from 1819 to 1998.¹⁵ For Vanhanen, competition is the share of the vote won by parties other than the largest single party. For example, if a candidate for president won with 52 percent of the vote, and all other parties won 48 percent, the index of competition would be 48. This index seems to consider two party systems less democratic than multiparty systems, other things being equal.¹⁶

Participation for Vanhanen is the total vote as a share of the total population. This indicator is flawed because the voting age share of populations is not constant across countries. As he acknowledges, the voting age share of the population is smaller in poor than in developed countries (Vanhanen 2000, 255). As Munck and Verkuilen observe, Vanhanen did not pay enough attention to the risks of the subjective judgments that go into the choice of "objective" indicators (2003, 16).

Like Dahl's theory, the Vanhanen index says nothing about limitations on government, and it says nothing about the nature of the countries that rank low on the index. Vanhanen's index has the merit of being extremely if not totally objective, being based on widely available existing data, but it is an example of objectivity at the expense of validity.

Dahl himself has enhanced our understanding of the electoral feature of democracy, but he has for the most part ignored the limitations on government feature. And neither he nor Vanhanen have illuminated the nature of the political systems that do not measure up as democracies.¹⁷

3.4 Freedom House: expert opinions aggregated

Under the initial leadership of Raymond Gastil, Freedom House has been publishing an index of freedom annually since 1972, and the Freedom in the World index has been very widely used in empirical research about democracy.¹⁸ Freedom House rates countries as "free," "partly free" and "not free" by combining measures of political

rights and of civil liberties, each of which ranges from 1 (the best) to 7 (the worst). These integer values are now combined into a seven point scale for an overall classification of freedom.¹⁹

The scores are often used as a quantitative measure of democracy, though recently the project has provided another way to identify “electoral democracy,” and distinguish it from “liberal democracy,” which is meant to be even more democratic.²⁰ But since the 1-7 scales have been used from the beginning, and the electoral and liberal democracy designations are more recent, investigators who want a long time series use the 1-7 scales.

But there are dangers to using the numerical scale for the entire period from 1972 through the present. The way the surveys are conducted is continuously being improved, but therein lies a major disadvantage for the historical analysis of democracy. Over the years an advisory committee “has made a number of modest methodological changes to adapt to evolving ideas about political rights and civil liberties. At the same time, *the time series data are not revised retroactively*, and any changes in the methodology are introduced incrementally in order to ensure the comparability of the ratings from year to year (emphasis added).”²¹

This fact means that year to year comparisons are intended to be meaningful, but it implies that comparisons over the thirty plus years of the measure are problematic because the incremental improvements are not incorporated into past measures. In other words, the numbers do not mean the same thing over time. Or, as Munck and Verkuilen put it, “the internal consistency of the data series is open to question (2003, 21 note 13).”²²

For example, the number of items on the checklists is regularly changing, as are the number of total points, and the way the points are translated into the seven integers is not constant. The current version is perhaps the most thorough and systematic. It has 10 political rights questions and 15 civil liberties questions on its basic checklist, and each question has 3 to 10 suggestive sub-questions.²³ It is a family resemblance rather than necessary and sufficient condition type of measure, in that low marks on one indicator can be compensated by high marks on another.

Freedom House is weak on conceptualizing democracy, and it depends on often-changing lists rather than a clearly articulated and defended theory. The 25 questions on the current checklist include a reasonable enough set of items on electoral democracy, but the closest they come to limitations on government is question F1: “Is there an independent judiciary?” But the other 15 questions on the Civil Liberties index include extraneous and results-oriented items like “Is there freedom from war and insurgencies?” (part of F3), things that are not defining features of democracy like property rights (G2), and things that are inherently difficult to measure objectively, like “Is there equality of opportunity and the absence of economic exploitation?” (G4). The Freedom House index is obviously not parsimonious. There is not a clearly articulated conception of what the opposite of “free” is, other than “not free.”

A previous checklist has included one very substantive, rather than procedural variable: “freedom from gross socioeconomic inequality” (#24), which might be considered an *outcome* of political as well as economic processes. In any case, this has been changed to vague items like “freedom from extreme government indifference” (C4) and to “equality of opportunity” (D5).²⁴ Even if the index were more solidly based in theory, Munck and Verkuilen observe that Freedom House never provides “a clear set of coding rules and thus offer(s) no basis for a real dialogue about how cases were coded” (2002, 19).

Since the Freedom House index contains many items that are not distinguishing features of democracy, but which are likely to be associated with economic performance, its use is likely to bias the relationship between freedom and economic performance upwards. Along with the absence of clear coding rules and the fact that its meaning changes over time, this makes the Freedom House index an unreliable and noisy indicator of democracy.

3.5 The Polity Series

The Polity Series, initially created by Ted Robert Gurr, makes a very serious and elaborate effort to measure democracy and autocracy on the same scale. The initial interest was less in defining democracy or its opposite than in identifying authority structures over two centuries (Gurr 1974). The current version is Polity IV.²⁵

Polity IV is different from most other indexes and measures in several important ways. First, it identifies several observable criteria for autocracy, rather than considering it a residual of a democracy measure, or not addressing the other pole of democracy at all. Thus it takes very seriously the other pole of democracy. Second, it directly addresses limits on government. Forty percent of the Polity IV maximum democracy score is based on a measure of such limits. Third, it is measured for each country year, rather than on the basis of periods between elections. Fourth, its time span (1800 through 2006) is longer than that of any of the other measures we are considering, making it relevant to the study of regimes in the 19th as well as later centuries. These are four major advantages of this index.

Polity IV has an eleven point, additive democracy score, and an eleven point additive autocracy score. Each ranges from 0 to 10, and subtracting the autocracy score from the democracy score gives an overall Polity score that can range from full democracy (+10) to full autocracy (-10). Democracy and autocracy are thus assumed to be opposites on a single dimension. This assumption is not unique. All of the indexes we are considering are ultimately put into one dimension, even if that means collapsing two dimensions into one, as is the case with Vanhanen and Freedom House, though each of these report the dimensions separately in case a scholar wants to analyze them separately.

Democracy is conceptualized in Polity IV as having three

essential, interdependent elements. One is the presence of institutions and procedures through which citizens can express effective preferences about alternative policies and leaders. Second is the existence of institutionalized constraints on the exercise of power by the executive. Third is the guarantee of civil liberties to all citizens... (Marshall and Jaggers 2007, 13)

Polity IV has no data on civil liberties, so it measures only two of the three elements it considers essential to democracy.

The measure of how citizens express their preferences about alternative policies and leaders is through two variables that measure the competitiveness and openness of executive recruitment (with a maximum of three points between them), and a variable that measures the competitiveness of political participation (also with a maximum of three points).²⁶ These variables are all qualitative and demand judgment.

For Polity IV's consideration of democracy, the measure of limits on government is:

<i>Constraint on the chief executive</i>	<i>Points for democracy</i>
(7) Executive parity or subordination	+4
(6) Intermediate category	+3
(5) Substantial limitations	+2
(4) Intermediate category	+1

For the consideration of autocracy, lower values of the same variable are used, but the points are added in the opposite direction:

<i>Constraints on the chief executive</i>	<i>Points for autocracy</i>
(3) Slight to moderate limitations	+1
(2) Intermediate category	+2
(1) Unlimited authority	+3

Thus a one to seven ordinal scale is split between items three and four and counted monotonically in the opposite direction for the contribution to democracy or autocracy.²⁷

Most of the components of the Polity IV index have to do with the recruitment and constraint on the chief executive. There is little explicit attention to the role of a legislature, and none to its selection.

The Polity IV index gives a more democratic score to countries in which there are more limits on the chief executive. For example, when France moved from a president and premier of the same party to "cohabitation" between a (popularly elected) president of one party, and a (legislatively chosen) premier of another party, France's democracy score went up (Marshall and Jaggers, 2007, 14).

Unlike the Vanhanen index, there is no cardinal measure of participation in the Polity series, such as the fraction of the population voting. Instead, there is a five-point "competitiveness of political participation" scale running from competitive (+3) to suppressed (-2). This demands that judgments be made about whether participation is meaningful, but we know little about how these judgments are made. Munck and

Verkuilen do praise the Polity measures for as a model of clarity in specifying coding rules (2002, 19).

A major disadvantage of the Polity index is that it has no very direct or intuitive interpretation. Countries with scores of six or more are considered democracies. Countries with scores of -6 or less are considered autocracies. The remaining countries between +5 and -5 are considered anocracies.

Furthermore, I have questions about the validity of the Polity IV scores. For example, the United States gets the highest score for democracy at 10 for each year since 1871, with direct election of Senators, women's suffrage and the Voting Rights Act of 1965 not making a difference.

At the other extreme, totalitarian governments like Nazi Germany and Stalinist Russia, and the elected government of Juan Perón in the late forties and early fifties in Argentina all get the same minus 9, one short of maximum autocracy. It seems to take a hereditary monarchy, like those of Saudi Arabia or Qatar to merit a minus ten for full autocracy. I am not convinced that Perón was as autocratic as Hitler and Stalin, and do not believe that the Emir of Qatar is more autocratic than they were. There may be a price in validity to be paid for the grand span of time that the Polity index covers.²⁸

With the Polity IV concept of "constraints on chief executive," we do have a variable that addresses, if not captures the limits on government feature that I have in mind. But the constraint on a chief executive for Polity is not necessarily a governmental body like a legislature or judiciary. Marshall and Jagers are explicit that, while the institutionalized constraints are usually legislatures in western democracies, they may be imposed by any "accountability groups." Such groups might include "the ruling party in a one-party state; councils of nobles or powerful advisors in monarchies; the military in coup-prone polities" (Marshall and Jagger 2007, 23). Under such circumstances, constraints on a chief executive might not be a feature of democracy at all. If it is not unique to democracies it cannot be a defining feature of democracies.

Goertz (2006) and Treier and Jackman (2008) have critiques of Polity. Goertz devotes chapter four to the proposition that most definitions of democracy are based on necessary conditions, but that most measures are family resemblance type. He finds that Polity is guilty of concept-measure inconsistency, and points out some consequences of this. Treier and Jackman (2008) find considerable measurement error in the Polity data, and that the error is greatest at the extremes.

The Polity enterprise has a lot to recommend it. Along with the strengths mentioned above, they are very concerned about inter-coder reliability (Marshall and Jagers 2007, 5-8 and 46-48). Unlike Freedom House, they do make retroactive revisions (Ibid. 10). On the other hand, their assignment of scores sometimes undermines my confidence in their judgment or knowledge, as discussed above. Although I am very pleased to see a variable that approximates limits on government, the more I read about it the less confidence I have in it as a measure of democracy. Finally, for reasons of

parsimony and appropriateness, I much prefer minimalist necessary and sufficient condition definitions to family resemblance definitions, and the Polity index is a good example of one in which low scores on one variable can be compensated for by high scores on another.

3.6 More on political constraints: Henisz and the World Bank's DPI

Two indexes that measure the number of veto players and the degree of agreement among them have been created recently. Witold Henisz has developed a measure of “political constraints” that comes closer than Polity to what I have in mind for limits on government. Independently, the World Bank has also developed an index of “checks and balances” as part of its Database of Political Institutions.

Unlike Polity, both of these indexes limit themselves to constraints on policymaking in elected governments. And unlike the previous five conceptualizations and measures, neither index is motivated by an effort to measure democracy, and neither claims to be an index of democracy. Henisz developed the Political Constraint Index (POLCON) as a better measure of political risk.²⁹ He designed it to measure credible policy commitments in general and the likelihood of changes in the policy regime in particular.

Henisz chose to do this with formal and official institutional veto players and the degree of agreement among them. This is precisely the kind of indicator I have in mind for the limited government feature of democracy. The index is based on the number of independent branches of government with veto power over policy change. To this is added a conception of political agreement across veto players, as measured by party identity.

POL CON III measures effective constraints by way of an executive, a lower house and an upper house of a legislature. POL CON V adds an independent judiciary and sub-national units. Both indexes range between 0, which means no effective veto points, or full discretion of government to change policy without needing anyone's agreement, to 1, which means complete constraint. In effect Henisz combines de jure veto players with a conception of the likelihood that they will in fact agree with each other or block change. Even though Henisz's political constraints index is not motivated by an interest in political variables, it is based on indicators of likely behavior that may be more sophisticated about politics than the other measures I am reviewing.

The World Bank has developed a Database of Political Institutions, which has a measure of checks and balances. This includes an index of political cohesion, which measures whether the same party controls the executive and the legislature for presidential systems, and the number of parties controlling the government for parliamentary systems. This is supplemented by two checks variables, one for the number of veto players, and the other to measure likely disagreement among veto players (Beck et al. 2001).

3.7 Mainwaring et al.: a trichotomy

Mainwaring, Brinks and Pérez-Liñan (2001, 2005) have a trichotomous definition of democracy that creates a separate category for countries that are close to democracy but miss fully achieving that status. Their measure of democracy has four conditions:

- 1: free and fair competitive elections for legislative and executive branches,
- 2: inclusive adult citizenship and franchise,
- 3: protection of civil liberties and civil rights, and
- 4: that the elected governments actually govern, with the military being under civilian control.

If there are no major or minor violations of any of these four criteria, the country is designated democratic by the Mainwaring standard. If there is one or more major violation, the country is designated authoritarian. If there are only partial violations of one or more criteria, the country is designated semi-democratic.

Obviously making these decisions requires judgment on the part of the evaluator, but the result is intuitively meaningful. The coding rules are admirably clear, and the benefit is that it identifies an intermediate category as “semi-democracies” countries that have many if not all of the central features of democracy. The Mainwaring group has measured democracy in nineteen Latin American countries for the period 1945-2003 (Mainwaring et al. 2005)

Disadvantages of the Mainwaring standard from my point of view include the facts that they pay no attention to limitations on government, and that they say nothing about mapping the large residual of countries that do not make the cut for democracy or semi-democracy. Also, by demanding inclusive adult citizenship and franchise, this index rules out years of competitive elections before women’s suffrage and other steps of inclusion.

And this is the only one of our indexes that demands that governments actually govern. This criterion is questionable for several reasons. First, even with the authors’ explanation, it is not clear just what it means, and the answer could be contestable. Second, it comes close to measuring outcomes rather than procedures. And finally, I wonder if it is at odds with limitations on government. At some points in this book I will suggest that democracies work better when they do not try to do too much, and insisting that democratic governments “actually govern” could be self-defeating.

3.8 Democracy and Dictatorship: DD

Adam Przeworski and his colleagues (2000; Alvarez et al. 1996) have carefully worked out a definition of democracy, and they have applied it to 141 countries between 1950 and 1990.³⁰ This index has subsequently been updated, corrected and elaborated by Jose Antonio Cheibub, Jennifer Gandhi and James Vreeland (forthcoming), which they now designate as “DD,” after Democracy and Development in the title of the original book and after Democracy and Dictatorship). They extend the time period back to 1946 and forward through 2007.

This index, more than any other, is minimalist and procedural, both of which features I endorse. As a minimalist definition it centers on competitive elections. For DD there are four basic criteria for a country to be a democracy, all of which revolve around elections. They are

1. The chief executive must be elected.
2. The legislature must be elected.
3. There must be more than one party competing in elections.
4. An alternation in power under identical electoral rules must have taken place.

The first three criteria are self-explanatory, but the fourth needs further explanation, which Botswana provides. Botswana fulfils the first three criteria of democracy and has done so for more than 40 years, but the Botswana Democratic Party (BDP) won every election between 1966 and the present. This fact leads Przeworski et al. to question whether the BDP would give up office if it lost an election. They choose to err on the side of caution, and not to classify Botswana as a democracy.

Mexico and Japan are other countries that failed to meet the alternation in power standard for a while before the incumbent party lost. The authors say that these countries became democracies as of the time that the establishment of the electoral rules under which the incumbent party lost. Japan gets credit for being democratic back to 1947, even though the incumbents first lost in 1993. Mexico gets credit for being democratic back to 2000, when the ruling party first lost the presidency, even though the rules changed in 1996 and the ruling party lost control of the legislature in 1997.

The new version combines Gandhi's study of dictatorships (Gandhi 2008) and the original Przeworski et al project into a "six-fold measure of democracies and dictatorships" (Cheibub, Gandhi and Vreeland forthcoming). So the Przeworski group does have a well-specified definition of democracy that is systematically related to a differentiated definition of non-democratic governments, or dictatorships.

The DD definition of democracy lacks a conception of democracy as a way of limiting government. Although limitations on government are no part of the DD definition of dictatorship either, Gandhi finds that dictatorships that have institutions that limit governmental power have better economic performance and greater longevity than those that do not (2008).

The DD index relates to the snapshot and timing question in two different ways. Countries are classified on the basis of the first three questions as democracies or non-democracies for entire electoral periods. Countries do not become less democratic between elections because the "snapshot" definition of democratic is met by the nature of the election that takes place at a single point in time.

Yet the fourth DD test can involve time in a very important and highly variable way. In principle a country that meets the first three tests does not become democratic until it has an election in which the incumbent party loses. So it takes at least two elections for a country to be designated democratic by DD. For Japan it took 46 years for

the opposition to win, which made it a democracy for all of those years. It took Mexico 71 years for the opposition to win, but it got credit for being a democracy only as of the year the opposition won.

3.9 Review

Inclusive suffrage moves Mainwaring et al. in the direction of Dahl's concern with participation, and something that the Przeworski group explicitly rejects.³¹ Protection of civil liberties and civil rights makes explicit something that may be implicitly assumed in Schumpeter and Riker's definitions, and is explicit in Dahl's. It is the basis for one of the two indexes in Freedom House, and while Polity considers it one of the three essentials for democracy, it does not measure it at all. The Przeworski group is explicit about excluding it from their definition.³² Mainwaring et al.'s fourth criterion is that elected governments actually govern, and that civilians control the military. This is not a procedural standard.³³

Mainwaring and Przeworski both agree in calling Chile democratic from their respective start dates through 1972, authoritarian or autocratic in the Pinochet years, and democratic afterwards. Both forgive Chile for having literacy tests until 1970. They differ more on Argentina. Mainwaring et al. call the Peronist period from 1951 through the coup in 1955 authoritarian, whereas Przeworski et al. call it democratic. Mainwaring calls the two periods in the 1950s and 1960s when Peronists were excluded from elections semi-democratic, whereas Przeworski calls them democratic (Przeworski et al. 2000, p. 64; Mainwaring et al. 2001, p. 49).

Only the DD index and the Polity measure integrate substantive differentiations of authoritarian government into their measures of democracy. The DD measure is dichotomous, whereas the Polity measure is a 21 point ordinal scale. As such, both are one-dimensional.

4. How democracy and dictatorship will be used in this book

My concept of democracy is not equivalent to any of those that I have reviewed, but it is closest to the Mainwaring, the DD and the POL CON indexes. But I do not have indicators from each index for each country year that I will be considering. In principle this could be done, but the purpose of this book is to lay out some ideas about how to think about the question of regimes and economic performance, rather than be a definitive measurement and analysis.

I will organize my treatment on the basis of the first criterion, the electoral standard. This does not mean that I value it less than the limitations on government feature, but only that it is easier to measure. The consideration of whether the limited government feature is present will be done within the treatments of each country.

Many of the country years covered in this book involve authoritarian government, at least in the sense of the large and undifferentiated residual of democracy. But since the central questions of this book do not involve an overall comparison between democracy

and authoritarian governments, even among the four countries considered in this book, I will not use either the ordinal scale of the Polity measure or the residual (not a democracy) definition even with the scholarly respectability that Gandhi has given it.

Gandhi does show that dictatorships with more institutionalization, that is with legislatures and with multiple parties on the average experience more growth than dictatorships with less institutionalization (2008, chapter 5). But she is not comparing dictatorship with democracy, and her focus is different from mine.

The way dictatorship relates to the questions of the book is via the questions “*Could authoritarian government have advantages over democracy in achieving economic growth and price stability? If so, what are the key mechanisms? Could the key mechanisms be adapted to democratic government?*”

Most of the governments that are authoritarian simply by virtue of failing the tests for democracy do not have especially good prospects for superior economic performance. The kind of dictatorship that may have the best prospects of achieving good economic performance is a government with a project, i.e. with a plan to change the economy, and the authority to carry it out. This book will focus on four such authoritarian governments in three countries.

Let me articulate a presumption of this hypothesis that authoritarian governments with a project have the best prospects of achieving good economic performance. This hypothesis presumes that there is a coherent package of economic reforms that are central to economic success in emerging economies like those of Latin America in the twentieth century. The rationale for this will be addressed in the next chapter, but to anticipate the discussion there, many people believed in the 1980s and 1990s that there was one relevant, coherent package of reforms, which was known as “The Washington Consensus.” At present, there is much less support for that belief, and the newer conventional wisdom is that different programs work for different countries and settings.

The only authoritarian governments that will receive sustained attention in this book are those in Chile from 1973-1990, in Argentina from 1966-1973 and 1976-1983, and in Brazil from 1964 -1985.³⁴ These are the clearest cases of authoritarian governments with a project. Only the first of these laid the groundwork for continued economic success. The experiences of the others identify some of the limitations of authoritarian governments with a project.

Democracy will be another matter, because I will try to identify all cases of (electoral) democracy in Argentina since 1916, Brazil since 1946, Chile since 1932, and Mexico since 1929. I choose these dates because, for the South American countries, they mark the first period of sustained competitive *electoral democracy*. In each of these cases, the extension of the suffrage was not as broad as is currently considered to be basic and elemental, but the electorates were reasonably inclusive by the standards of the time. By including these years of what is now thought to be restricted suffrage, we can extend the analysis of at least some features of democracy by many years.

The choice of 1929 for Mexico must have a different rationale. Mexico is in a class by itself, without meeting either basic standard of democracy until almost 2000. Mexico is included to show how an authoritarian regime could mimic democracy very closely by adopting the trappings but not the reality of democracy.

The limitation on government feature is no less central to meaningful democracy than the elections feature that will be the basis for the first cut. I do not mean to suggest that limitations on government are lexicographically second to elections in defining democracy. But the fact that it is so much more difficult to conceptualize and measure limitations on government is the main reason for addressing it only after identifying countries that pass the electoral test.

4.1 Why not left authoritarianism?

All four authoritarian governments considered here are right wing military dictatorships for two reasons. First there is not sustained experience of left authoritarian governments in countries that have had extensive democratic experience. Second, the market-oriented programs of right authoritarian governments in the countries investigated here bear some resemblance to contemporary mainstream economics.

There have been authoritarian governments of the left in Latin America, most notably in Cuba. But Cuba is not included because it has not ever had democratic government over a sustained period. The left authoritarian government of Juan Velasco Alvarado in Peru (1968-1975) was not as sustained as the right authoritarian governments in Chile, Argentina and Brazil, and Peru does not have as much democratic experience as those three countries. The elected leftist government of Hugo Chávez in Venezuela has become increasingly authoritarian in my view, but the Venezuelan experience is complicated by its oil wealth and the accompanying resource curse.

This book does rely on contemporary mainstream economics for an understanding of how economies work. The fact that some authoritarian as well as some democratic governments are also guided by an academic discipline should be an advantage to them, insofar as that discipline is relevant. As we will see, in spite of the timeless verity of general equilibrium theory, macroeconomic and development oriented economics is not invariant to experience and new intellectual developments. That is to say that the advice of expert economists on macroeconomic and development issues is not constant and timeless, but change a good deal over time in response to new ideas and experience.

4.2 Definitions and causal inference

This chapter has identified two separate dimensions that I contend are necessary conditions for democracy. I have built on previous efforts at definition and measurement, and have borrowed freely. I have supported essentialist over family resemblance conceptualizations of democracy. My concern is less with defining and measuring than it is in showing how and why each central feature of democracy can be constructive or destructive to economic performance, depending on the circumstances.

Accordingly, there will be no general, unqualified hypotheses about democracy authoritarianism and economic performance in this book. I will give examples of electoral and limited government features having both good and bad consequences for economic performance. Insofar as the setting supports hypotheses conditioned by context, I will try to squeeze as much inference from the analysis as possible. But my argument is that democracy can be good or bad for economic performance, and that the impact of authoritarianism is in general even harder to predict. Over the long term, democracy may be more likely to develop non-essential characteristics of good government, rule of law, etc. that are not defining features of democracy, but that have a positive impact on economic performance. But indexes that include non-essential characteristics are likely to overestimate the actual direct impact of essential democratic institutions, which are limits on government and competitive elections.

Chapter 3

Economic and political sources of economic performance

Historically nothing has worked better than economic growth in enabling societies to improve the life chances of their members, including those at the very bottom” (Rodrik 2007, 2).

“Economic systems are complicated, and no single policy prescription, even if followed to the letter, is likely to be sufficient to insure rapid, sustainable growth in the long run” (Baumol et al. 2007, 6)

Economic growth with price stability is a basic goal for all countries. This goal is especially important for poor countries, because it is only through economic growth that they can rise above poverty. Each type of regime has at least a superficial claim to achieve good economic performance.

If economic growth with price stability is good for everyone, why would a system of government based on the consent of the governed not choose policies that bring such performance? It takes a subtle argument to see why democracy would not invariably be associated with as much prosperity as would be possible under whatever constraints exist.

Similarly, we need not assume that all dictatorships are benevolent to recognize that many (but certainly not all) authoritarian governments do have economic development and improving economic performance as a major goal. This book will review several examples in the four countries in Latin America, but the cases of the Soviet Union of the five year plans, China after the late 1970s, and of South Korea and Taiwan all show authoritarian governments that used their power and influence to achieve economic advancement.

But achieving economic growth with price stability is not a simple enterprise. Unfortunately, there is not a single, demonstrably valid and agreed-upon policy recipe for achieving these goals. If there were, the question of this book could be answered much more straightforwardly than is in fact the case.

If there were a set of policies and practices that were scientifically validated as the best path to long term growth with stable prices, one could theoretically and empirically relate essential features of democracy and authoritarianism to successful implementation of the program. Democracy would always include the possibility that elections would produce public officials who did not accept the program. Democracy would also include the possibility that those whose interests were injured by the program might obstruct its implementation. An authoritarian government *might* be a better bet to assure implementation of the scientifically validated program, *if* there could be some assurance that an authoritarian government would support the program, regardless of the preferences of its own base of support. This is of course a very big if.

In fact, prevailing views of best practices have varied considerably over time, and periods of total consensus are extremely rare. For a prominent and recent example, the so-called Washington Consensus was a plan that was widely accepted in the 1990s by the important international financial institutions (IFI) such as the World Bank and the International Monetary Fund and by many if not most economists. There is no longer a consensus in favor of the Washington Consensus, and the current conventional wisdom in economics is that different programs work in different settings, as is suggested by the epigraph from William Baumol and his colleagues at the head of this chapter.

There is good news and bad news for democracy in this development. The bad news is that we don't know as much as we thought we did about how to achieve economic growth and that solving this problem is going to be more difficult and uncertain than had been thought, regardless of political system. If there is any good news for democracy in realizing that an important problem is less easily resolved than we thought, it might be that it takes away one putative advantage of authoritarian governments.

1. Policies, institutions and regimes

For a time, some people thought that a certified recipe for economic reform could best be imposed by an authoritarian government. Some people saw the electoral features or the limited government features of democracy as possible obstructions to implementation of the "right" set of plans. The experience of the Pinochet dictatorship in Chile is instructive. This government implemented a plan that was based on Chicago School economics. This plan was anything but consensual in the world of development economics, (not to speak of outside of economics), but it was backed by a very prestigious and scientifically oriented school of economics.³⁵

1.1 Policies

Theories of economic development are contestable, and subject to empirical test. The Chilean dictatorship might be considered a test of Chicago School theories about appropriate policies, a "natural experiment." Depending on when the measurement is taken, the program of the "Chicago Boys" can be considered to have failed or to have succeeded. These issues will be addressed in chapter 4.

It is still the case that both features of democracy could have either positive or adverse effects on economic growth and price stability. What is no longer credible is that there is a single one-size-fits-all plan that authoritarian governments might have an advantage in implementing. Authoritarian governments such as those in China, Taiwan and South Korea have indeed achieved remarkable growth with price stability, but they have not done so with a single policy blueprint or a common strategy. And insofar as there are commonalities in their programs, they do not look very similar to the Washington Consensus.

But economic performance is not simply a matter of government having the right policies. Economic growth depends on investment in human and physical capital, and on technological advance, all of which can be influenced by policy. These things in turn

depend on a stable environment for productive economic activity. And they depend on the behavior of economic actors in the marketplace.

1.2 Institutions

The discussion above revolves around policies and programs, and these are surely important for economic performance. But many political economists believe that institutions are more central to economic performance than are policies. Acemoglu, Johnson and Robinson (2004) are leading proponents of this view, and suggest that important institutional differences can be traced back as far as the 15th century.

Institutions usually change at glacial paces, but the most short term evidence that Acemoglu et al. present is Korea's division in 1948 into the Republic of Korea in the south, and the Democratic Peoples' Republic of Korea in the north. In this case one economically homogeneous country was divided into one with markets and private incentives (the south) and one in which land and property were controlled by a communist state (the north). In just over fifty years (by 2000), the south had moved from parity to a 16 to 1 advantage over the north in per capita GDP. Acemoglu et al attribute this difference to institutional differences between the two Koreas that developed since 1948 (2004, 404-7).

At the other extreme of time for crucial changes in institutions is the same authors' "reversal of fortune" hypothesis. Societies that were rich in 1500 were hierarchical, and European colonizers extracted resources without respecting local property rights. In societies that were thinly settled, like what is now the United States and Canada, it paid the colonists to settle and establish property rights. As a result the fortunes of the two kinds of society reversed (2004, 407-21, 2002, and 2003).

Institutions in the basic sense of "the rules of the game" of social and economic interaction do change very slowly.³⁶ But regime changes from democracy to authoritarianism and back are also changes in institutions, and they can take place in a very short time, especially when a military coup overthrows a democracy, as in Chile in 1973.

None of the twentieth century regime changes in the four Latin American countries that I study is nearly as consequential as that of the two Koreas. In the "rules of the game" respect, the institutional setting is fairly constant in these four countries. The likeliest exception is Chile, where a seventeen year dictatorship laid the groundwork for a successor democracy that was very different from the earlier democracy.³⁷

1.3 Motivations

What we think or assume about the motivations of political leaders and citizens affects how we look at the central questions of this book. Of course the benevolent dictator is a familiar fixture of economic and policy analysis. Asking what a benevolent dictator would do is a way of asking what the best policies are without considering political expediency or political constraints.

Economists no longer assume that public officials are benevolent dictators, and unlike the utility maximizing, if not selfishly motivated homo economicus that is the basis for most models of economic behavior. In this book I will assume that political leaders' motivations are guided and structured by the institutions in which they operate, but I will not assume that leaders all have the same motivation. To do so is a useful simplifying assumption for some purposes, but not here. For example, some authoritarian leaders are rapacious exploiters of their country's wealth. Familiar examples of this are Mobutu Sese-Seko of Zaire and Ferdinand Marcos of the Philippines.

Others seem to be motivated at least in part by the desire to make their country grow and prosper economically. Augusto Pinochet Ugarte of Chile has appeared to some to be an example of this, although I will argue later that it is not easy to make a convincing case that the killings and other human rights abuses of his dictatorship were necessary for achieving the economic goals of his government. And of course his reputation has suffered with the discovery of his secret bank accounts abroad.

Mancur Olson (2000) gives us a way of understanding some differences among authoritarian leaders. He suggests that we think of dictators as bandits that can be mobile or stationary. Roving bandits have no incentive not to appropriate as much of the wealth of any area they may dominate for a time. But a stationary bandit is likely to have a longer time horizon because he may want to maximize an income stream over time. This fact gives him an incentive to encourage economic agents to save, invest and create value for themselves, which makes for a larger tax base for a revenue maximizing stationary bandit. In this way, the goals of a political leader and the citizens they rule become at least partially congruent, in spite of the leader's revenue maximizing goal.

Dani Rodrik, who is a leading scholar on economic development, describes himself as "a believer in the ability of governments to do good and to change their societies for the better." He contrasts that belief with two alternatives. He distinguishes himself from the "public choice or rent-seeking perspective" and the "political economy school." The former "thinks of the government as the malign tool of private interests," and the latter "fully endogenizes" or explains the behavior of government, leaving no room for discretion and choice (2007, 4).

I agree with Rodrik that governments have the ability to do good and change their societies for the better. The important question is their motivation to do so. I think that some political leaders actually want to do good for their societies, though many are more seriously motivated by the desire for power, wealth or both. A naïve view of democratic institutions might be that they would reward politicians who are successful in doing good and changing their societies for the better. The public choice or rent-seeking perspective teaches us not to be so naïve, but we can learn from it without assuming that all politicians are similarly motivated. Also, it is important to understand how institutions can structure motivations.

We might see democratic institutions as designed to guide the motivations of public officials into public purposes, and to inhibit their capacity to do harm. But one need not be a cynic to recognize that opportunistic politicians can “game the system.” No set of institutions can guarantee that all political leaders operating within them genuinely desire to do good and to change their societies for the better.

Most democracies are structured to reward public officials for good economic performance, so selfish incentives are not inevitably at odds with economic growth and price stability. Even authoritarian governments benefit from the public support that comes with good economic performance, and several of the authoritarian governments to be described in this book have taken a special interest in achieving economic development.

One of the most important things that distinguish the economic performance of different governments within and across regimes is their beliefs about what good policy is. We have seen how dominant intellectual views have changed from time to time, usually between belief in more or less government and less or more dependence on markets. The newest development may well be a message that “growth promoting policies tend to be context-specific” (Rodrik 2005, 971).

2. Economic performance: The dependent variable

2.1 The indicators: economic growth and inflation

Per capita economic growth is the most widely used indicator of economic performance, and a matter of great contemporary public policy concern. Although inflation is not the problem it was in the 70s, it is another widely used indicator of economic well-being. Economic growth and inflation will be the main dependent variables of this study.

There are limitations to the importance of per capita income itself. First of all, it is an average, and does not say anything about distribution or equity of income. Nor does it say anything about the sustainability of the growth (see Stiglitz 2006, 44-47). Even less does it directly measure other important indicators of human well-being, such as longevity, literacy, and others measured by the United Nations Human Development Index, or the profound considerations of human welfare discussed in Sen (1999). I do not denigrate the importance of non-economic indicators, but they are not my focus. This is a book about *Economic Performance* in Latin America.

There are other indexes of economic performance that I will also not focus on directly. Unemployment is an important indicator of overall economic performance, and it is usually suffered most directly by those in the lower parts of the income distribution. However, unemployment data are often available only for urban areas in Latin American countries, and unlike growth and inflation, the data series does not go back to the first meaningful experiences of democracy.

Poverty, inequality and the distribution of economic welfare are matters of considerable concern for this book. Even though data and measures for inequality are not as good, nor is the time series as long as our data for growth and inflation, inequality is never far from the foreground in democratic politics.

Inflation and economic growth are not equally subject to control. Nations can control their destiny regarding inflation, but it is not at all clear that they can do so with respect to economic growth. No country is subject to permanent inflation. Albert Hirschman once called Chile the “locus classicus” of inflation, but in spite of many decades of above average inflation, Chile has more recently had remarkable price stability for years. Low inflation may be vulnerable to major price shocks, but there is considerable consensus on how to deal with them (Goodfriend 2007).

It is not so easy to demonstrate that no nation is subject to permanent poverty. Rich nations stay richer than poor nations even when they suffer economic stagnation. And some nations remain poor in spite of the valiant efforts from within and without.³⁸ The causality of economic growth is less well understood and less subject to control in the current state of knowledge than the causality of inflation. These facts have important implications for the prospects for good economic performance under democracy and dictatorship

2.2 Why is economic growth important?

Real per capita income and its rate of growth are the most comprehensive and general indicators of economic well being.

Economic growth is the most powerful instrument for reducing poverty. If you look around the world today and ask where there is the greatest incidence of poverty, the simplest answer is where there has been the least economic growth... historically nothing has worked better than economic growth in enabling societies to improve the life chances of their members, including those at the very bottom (Rodrik 2007, 2).³⁹

The remarkable growth of China since 1978 has made possible one of the largest and swiftest reductions in poverty in world history. *Document*.

But it is not necessarily the case that economic growth is good for those at the very bottom, as well as those higher up, and one need not be a Marxist to believe that the poor may get poorer as the rich get richer. But in the next section (growth and distribution), I will argue that growth is not presently at the expense of the poor.

I am inclined to make the desirability of growth contingent on the condition that it not increase poverty. That is, I sympathize with the view that Gerald Meier attributes to development economists: “the condition has been imposed that even if per capita income rises, there should not be at the same time an increase in the absolute number of people below a poverty line” (2005, p. 5).

Beyond the implicit Pareto criterion implied by the above condition, economic growth can be seen more as a means than as an end in itself. As W. Arthur Lewis, a Nobel Prize winner who was one of the founders of the field of development economics said, “the advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice” (1955, 420). Economic development and growth are a means, not an end. They are a means for escaping the poverty trap, for achieving human development and for acquiring freedom of choice.

2.3 Growth and distribution

Economic growth has a complicated relationship to the distribution of wealth and income. Some scholars argue that inequality is inversely related to economic growth, i.e. that high inequality causes economies to grow more slowly than they might otherwise.⁴⁰ Different reasons might account for this phenomenon from the situation of the poor and of the rich. Regarding the poor, one reason for this may be that large numbers of people who are impoverished do not have the skills, training and experience, i.e. the human capital to contribute to the productivity and growth of an economy. Regarding the rich, great wealth may not be due to contributing great value to an economy, but rather due to inheritance.

Since Latin America is the region of the world with the greatest inequality, this fact may help explain why its growth performance is poorer than would be predicted by other variables.⁴¹ Latin America has many people who subsist outside the money economy, and do not participate in the production of goods and services where productivity increases can add to the growth of gross domestic product. Education and health benefits for such people could make them more productive and by doing so increase their incomes, reduce inequality, and enhance overall economic growth.

On the other hand, in the current era of globalization economic growth is positively related to economic inequality. This is because the rewards are greatest in the contemporary world economy to advanced skills, and those who lack the skills do not receive the rewards. So there is a two directional causal relationship in which inequality may inhibit growth, but growth may enhance inequality.

Furthermore, inequality affects the likelihood that democracy will exist at all. Democracy is less likely to emerge in highly unequal societies. And democracy is more likely to yield to authoritarian regimes when inequality is high.

Finally, democracies that have high inequality are vulnerable to candidates who promise and carry out redistributive policies that are at odds with sustainable economic performance.⁴² This is the risk that is most central to the focus of this book, which takes the existence of democracy or dictatorship as exogenously given, and asks about their consequences for economic performance.

For example, Meltzer and Richard (1981) have a well known argument that broadening the franchise leads to more redistribution by lowering the income of the median voter. The fact that democracy may be vulnerable to candidates who carry out

growth reducing or unsustainable economic policies is one channel by which democracy may undermine economic performance.

For all of these reasons, inequality should be a matter of considerable concern to publics, policymakers and scholars who are interested in maximizing economic growth. But in my view it would be a mistake to have an unconditional goal of minimizing inequality. Nancy Birdsall distinguishes constructive and destructive inequality. “Inequality is constructive when it creates positive incentives at the micro level,” by reflecting differences in individual responses to equal opportunity. On the other hand, inequality is destructive if it “reflects privileges for the already rich and blocks potential for productive contributions of the less rich” (2007).

So inequality is a major problem for growth, but policies to reduce inequality must be chosen with care. Superficially appealing redistributive policies may have some initial success, but make the problem worse in the long run. This possibility of economic populism will be demonstrated with governments of each of the four countries.

2.4 Why is inflation important?

Levels and growth of per capita income are the broadest indicators of “real” economic performance. Inflation, in contrast, is a “nominal” indicator, in that it is about price numbers that could be anything, so long as they indicate the same relative values between things that are for sale. Inflation measures the rate of change in comprehensive indexes of the general price level. The price system is a way of measuring and communicating the relative value of goods and services. As goods and services become more readily available or scarcer, changes in relative prices communicate these changes. In a stable price system, changes in prices can signal to consumers and producers that they might reconsider what and how much they buy or produce.

Inflation is an overall increase in the level of prices. Inflation distorts the signals that prices send to producers and consumers, making an economy less efficient. Even moderate inflation introduces the problem of distinguishing a rise in prices due to scarcity or increased demand from a general increase. Very high inflation drowns out the information of changes in relative prices, and hyperinflation makes all monetary transactions problematic.

Inflation has been a problem in all four of our countries, especially in the 1970s and 1980s. Argentina and Brazil have experienced annual inflation rates of around 3,000 percent. For Chile, the peak of “only” 600 percent per year came well after Albert Hirschman dubbed that country the locus classicus of inflation (1963,161). Mexico reached a peak of “only” about 130 percent per year. All four countries are in the Fischer et al. (2002) list of 25 high inflation market economies and the Catão and Terrones (2005) list of top 25 inflation countries between 1960 and 2001.

There is a difference between the mechanics of the *creation* of inflation and its *stabilization*. For the most part, the creation of inflation is a result of a lack of fiscal and monetary discipline. In contrast, the stabilization of inflation, for the most part, requires fiscal and monetary discipline. But discipline and indiscipline are not politically

symmetric, as Buchanan and Wagner argued three decades ago (1977). Fiscal and monetary indiscipline may be congruent with appeals for short-term popular support, but the long-term consequences are likely to be debt and inflation. The discipline needed to reverse the indiscipline may well be more politically painful than the gain was politically gratifying and rewarding. In any case, the former will be painful, and the latter will not.

The creation of high inflation is largely due to a combination of fiscal and monetary policy. The kind of fiscal policy that can lead to inflation is that the government spends more than it gains in revenues, resulting in fiscal deficits. The monetary policy that leads to inflation is that the monetary authority prints money, or “monetizes” the fiscal deficit. Inflation results when larger amounts of money circulate without the amount of goods and services expanding commensurately. As Jeffrey Sachs said about the Bolivian hyperinflation of the 1980s, “the government was printing money to pay its bills, and as it printed the money, it was driving down the value of the currency—and driving up the price of goods” (2005, 92).⁴³

3. What are the causal mechanisms influencing growth and inflation?

Neither economic growth nor price stability can be directly legislated.⁴⁴ In this regard, these goals are different from an income transfer system or a public pension system, where a law can mandate public expenditures that can be implemented by what amounts to the writing of checks. Governments can always write checks, but they cannot always control economic growth and inflation. Economics, the discipline that studies the causal processes of growth and inflation, has changed its recommended policy prescriptions over the last 50 to 60 years.⁴⁵

3.1 What ever happened to the Washington Consensus?

In 1989, the Institute for International Economics (now the Peterson Institute for International Economics) convened a conference to assess how far Latin American countries had reformed in response to the debt crisis of the 1980s. In the published version of the conference, John Williamson wrote up his conception of what would be regarded in Washington as constituting a desirable set of economic policy reforms.... The paper identifies and discusses 10 policy instruments about whose proper deployment Washington can muster a reasonable degree of consensus... The paper is intended to elicit comment on both the extent to which the views identified *do* indeed command consensus and on whether they *deserve* to command it... The Washington of this paper is both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks.... Washington does not, of course, always practice what it preaches to foreigners.⁴⁶

As can be seen in the above quote from the original document, the reforms had a rather tentative character, and were presented as a basis for discussion rather than dictation.

The Washington Consensus included the following points:

1. Budget deficits ... small enough to be financed without recourse to the inflation tax.
2. Public expenditures redirected from politically sensitive areas that receive more resources than their economic return can justify ... toward neglected fields with high economic returns and the potential to improve income distribution, such as primary education and health, and infrastructure.
3. Tax reform ... so as to broaden the tax base and cut marginal tax rates.
4. Financial liberalization, involving an ultimate objective of market-determined interest rates.
5. A unified exchange rate at a level sufficiently competitive to induce a rapid growth in nontraditional exports.
6. Quantitative trade restrictions to be rapidly replaced by tariffs, which would be progressively reduced until a uniform low rate in the range of 10 to 20 percent was achieved.
7. Abolition of barriers impeding the entry of foreign direct investment.
8. Privatization of state-owned enterprises.
9. Abolition of regulations that impede the entry of new firms or restrict competition.
10. The provision of secure property rights, especially to the informal sector.⁴⁷

In many ways these are non-controversial to many people, but especially so to many if not most economists. Items 1 through 3 are not very controversial elements of sound fiscal policy reform. Items 4 through 7 involve opening up interest rates, exchange rates, trade and investment to domestic and international market forces. This is a program for globalization of economies. Such a program is controversial among publics and policymakers, though less so among economists. Items 8 through 10 involve letting domestic markets work with minimal government interference. Items four through ten could be seen as contestably conservative, but would be supported in principle by most economists who appreciate the virtues of markets.

The Washington Consensus became a blueprint for policy for Latin American countries, enforced by the World Bank and the other international financial institutions that made implementation of these elements a condition for loans and support. The main problem was that economic performance in Latin America continued to be uneven, and economic growth was barely above the “lost decade” of the 1980s, and far below that of earlier periods. Economic growth was also paltry relative to that of some countries that did not pay any attention to the Washington Consensus.

3.2 A new conventional wisdom and its implications for our question

A new conventional wisdom has gradually emerged in economics, and it is captured in the Baumol epigraph at the head of this chapter: “Economic systems are complicated, and no single policy prescription, even if followed to the letter, is likely to be sufficient to insure rapid, sustainable growth in the long run” (Baumol et al. 2007, 6). No scholar is more clearly identified with the idea that there is no single blueprint that will work everywhere than Dani Rodrik, whose most recent book is titled *One*

Economics, Many Recipes: Globalization, Institutions and Economic Growth (2007). One central insight in Rodrik's work is the importance of local knowledge for the successful implementation of programs of economic reform.

So the Washington Consensus has yielded to less monolithic and more nuanced approaches that pay more attention to specific conditions that will vary a lot from country to country. This much undermines the idea that authoritarian governments might be necessary or useful to implement agreed upon blueprints. Rodrik argues that "participatory political regimes deliver higher-quality growth," and that democracies are participatory regimes (2007, 168-182).

3.3 The Washington Consensus is too general and did not go far enough

William Baumol and his colleagues (2007, 54-58) have suggested that a comparison between the growth experience of China and of Argentina undermined the persuasiveness of the Washington Consensus. No country seemed to do more to follow the elements of the "Consensus" than Argentina, as we shall see in chapter 5, and China's economic policies seemed mostly at odds with it. But China grew rapidly during the 1980s and 1990s while Argentina's growth was not nearly as impressive. Moreover, Argentina faced an enormous economic crisis in 2001-2002 that sent its economy reeling.

More generally, the 1980s were a "lost decade" for growth in Latin America. This was partly due to the oil shocks of the 1970s, which were disruptive by themselves. Furthermore, much of the enormous transfer of wealth to the oil producing countries was invested in first world banks, which pushed loans on developing countries. When interest rates went up in the 1980s, following the United States Federal Reserve's policy of disinflation, the consequences in Latin America were dire. Mexico defaulted on its loans in 1982, leading to a ripple effect throughout the Latin American region.

Now the special economic setting of the last three decades of the twentieth century was central to the possibility that Latin America is an appropriate setting for the comparison of democracy and authoritarian government. Recall that during the 1980s and 1990s, it had become conventional wisdom in economics that "structural adjustment reform" on the model of the Washington Consensus was the way to achieve economic growth. There was little doubt in the IFI that the one-size-fits-all recipe of the Washington Consensus was the way to achieve balanced growth and prosperity.

If the Washington Consensus has been a disappointment as a recipe for growth, there might be several kinds of reasons. The first kind is that the prescriptions might be either misguided in general, or not the best choice for specified circumstances. I do not believe that they are misguided in general, but there is good reason to believe that they are not the best choice for all circumstances.

The remarkable growth of South Korea and Taiwan was due in part to export promotion, which is an implementation of the Washington Consensus point 6: trade liberalization. But Rodrik (1995) argues that export orientation was a small part of the explanation for growth in those countries, and that a bigger part was active government

involvement in alleviating a coordination failure in the investment environment, in unifying exchange rates, and in subsidizing investments. Only the second of these relates to the Washington Consensus, and the first and third are presumably at odds with it. So if Rodrik is correct, there were special circumstances in South Korea and Taiwan that were better seen and grasped by growth-oriented officials there. This suggests that the Washington Consensus was not the best choice for all circumstances.

The second kind of reason the Washington Consensus may have been a disappointment is that it did not go far enough. At best, fulfilling the ten items on the list might bring about macroeconomic stabilization, and bring an economy close to its production possibility frontier. That is to say that the items in the Washington Consensus are more about efficiency than growth. It is not well designed to assure long term growth, because it does not say enough about the basic system of production. Presumably this is assumed to be capitalism, but are there any distinctions among different kinds of capitalism?

Baumol et al. identify four different types of capitalism: state-guided, oligarchic, big-firm and entrepreneurial (2007, chapter 4). The first two are less efficient, dynamic and creative than the second two. The first two seem to characterize capitalism in Latin America, and this fact may account for the indifferent growth performance of that region for many years. The last two are the ones that Baumol et al. find to be most growth oriented. Entrepreneurial capitalism brings the technological innovation that is so important for growth, and big firm capitalism provides productive efficiency.

3.4 A short history of change in dominant economic development policies

The shift from the one-size-fits-all Washington Consensus to the recognition that different circumstances demand different policies is just the most recent shift in dominant recommendations about how to achieve economic development. There does appear to be a cyclical pattern that goes from reliance on and trust in markets to dependence on government to correct market failures, and back to markets again. But I believe that there is more intellectual learning and progress going on, and that this is much more than a cyclical process without advancement in understanding. What follows is a brief sketch of dominant policy recommendations since the free trade era that preceded the Great Depression.⁴⁸

Before the Great Depression, most Latin American economies followed a pattern of export-led growth and enjoyed prosperity that seemed to be evidence of David Ricardo's theory of comparative advantage. This theory that two countries could each benefit by specializing in products whose production depends on factors that are relatively more abundant, and trading them. But this system, which had Latin America exporting raw materials and agricultural products, virtually stopped after the Depression led many countries to erect barriers to trade. The world trading system nearly collapsed, and as a result most of Latin America lost its sources of foreign exchange.

As Joseph Love observes, "Industrialization in Latin America was fact before it was policy, and policy before it was theory" (1994, 395). Latin America was

industrializing since even before 1930. By 1945, industrialization had advanced to the point of replacing formerly imported manufactured goods following “existing patterns of demand.” This was what became known as “import substitution industrialization (ISI),” but the theories that articulated rationales for this as public policy did not appear in fully articulated form for twenty years after the stock market crash of 1929. The key person in the development of these theories was an Argentine named Raúl Prebisch (1901-1986), who became the leading figure in the United Nations-sponsored Economic Commission for Latin America (or CEPAL in its Spanish initials) (Love 1994, 395, 402).

The theoretical rationale for what was already happening was as follows. There is a difference between the economic situations of the industrialized “center” (mainly in the northern hemisphere) and the less industrialized “periphery,” of which Latin America was a part. In the periphery, tradable goods tended to be primary products and raw materials, and the demand for these goods tended to fluctuate widely due to demand fluctuations in the “center.” The strategic response to this situation was import substitution industrialization, which would end the dependence of Latin America on manufactured goods from the center, and allow it to advance economically without depending on the developed countries of the center.⁴⁹

Most Latin American countries, including the four of central interest in this book, adopted policies that moved in this direction. In these countries, the state was deeply involved in the process of industrialization, and the result was something called state-led development. This program involved public ownership of industries and a system of protection of local industries against foreign competition.

State-led development and import substitution industrialization (ISI) worked well for a while, and created increases in prosperity during the early, “easy” stages. In order to implement ISI, it did not matter much whether a government was democratic or authoritarian. Governments of either kind liked having new authority and new programs. Market-oriented economic thinking had suffered a great loss of prestige and support in the Depression. Both business and labor were beneficiaries of government led intervention in the economy.

But after the easy stage of growth due to state-led, ISI based development, stagnation was a widespread result. According to Meier, in many countries, the numbers in absolute poverty were increasing, inequality was not diminishing, and more people were unemployed or underemployed. To explain these disappointments, a growing number of development economists attributed policy-induced distortions and nonmarket failure to over planning and inappropriate public policies (2005, 82).

Partly as a result of these failures, market-oriented thinking had a resurgence in the 1970s and 1980s. Three governments led the way with market oriented reforms. The first was the Chilean authoritarian government led by General Augusto Pinochet, which took power in 1973. The second was the British Conservative government of Prime

Minister Margaret Thatcher (1979), and the third was the American government led by President Ronald Reagan (1981).

These governments articulated a view of the proper role of government that was subordinate to markets. In economics, the rational expectations revolution was emphasizing the efficiency of markets, and how public policy could be ineffective because optimizing, rational economic agents would anticipate government policy and defeat it if it were not in their interests (Lucas 1973). There was a convergence of official views that was crystallized by John Williamson into a list of ten items he called “The Washington Consensus,” as reviewed above.

¹ Clague, et al. 1996, 243.

² On development economics, see Meier, 2005. On macroeconomics, see Froyen (2009) or previous editions. For a very brief treatment of changes in macroeconomic theory see Keech (1995, chapter 3).

³ Weede 1996,

⁴ As we will see, authoritarian governments are likely to have a credibility problem for such assurances.

⁵ But see Gandhi (2008), who argues that authoritarian governments with such institutions perform better than those without them.

⁶ See Tsebelis 1995, 1999, 2002.

⁷ A key issue might well be “state capacity” to carry out and enforce policies. Democracies as well as dictatorships can have or not have effective state capacity. See Evans et al. 1985.

⁸ See Gerring 2004 on case studies.

⁹ See Gallie reference.

¹⁰ The argument about the lack of limits assumes that dictators really want to improve economic performance. Several authors, such as Olson, Henisz and Razo use other assumptions about dictator motivations to make an opposite argument.

¹¹ Polity considers authoritarian a pejorative term, which they eschew in favor of autocracy, a term they consider more neutral (Marshall and Jaggers 2007, 14).

¹² See <http://www.heritage.org/index/>. Do the same thing for Fraser Index, ICGR, Henisz, Business X, etc.

¹³ See Razo 2008 for a compelling formulation of this question, and an investigation in the context of the authoritarian government of Porfirio Díaz in Mexico.

¹⁴ List Dahl’s eight criteria in note.

¹⁵ Identify website for Vanhanen index.

¹⁶ This was pointed out by Anibal Pérez-Liñan.

¹⁷ But see Dahl (1956) on Madisonian democracy.

¹⁸ The first publication regarding 1972 was Gastil 1973. The most recent is Freedom House 2008.

¹⁹ Cite 2008 study.

²⁰ Specifically, to qualify as an electoral democracy, a country must fulfill four criteria (a competitive political system, universal adult suffrage, regularly contested elections, and access of major parties to the electorate through the media) *and* achieve a score of at least 7 out of the 12 available points on the three questions on “Electoral Process” on the political rights checklist. These are 1. Is the head of government or other chief national authority elected through free and fair elections? 2. Are the national legislative representatives elected through free and fair elections? 3. Are the electoral laws and framework fair? A liberal democracy is any country that is classified as “free,” whereas some electoral democracies might be “partly free.” Source: http://www.freedomhouse.org/template.cfm?page=351&ana_page=341&year=2008 accessed on July 14, 2008.

²¹ Ibid.

²² A spokesperson for Freedom House answered an email inquiry about these issues as follows: “In terms of your concern, although the methodology for our Freedom in the World survey has been changed over the years, we provide our historical data for public use, and are confident that these scores can be used for trend analysis over time” (email to Keech from Katrina Neubauer, August 20, 2008).

²³ See the methodology section of the 2008 Freedom House website for elaboration:

http://www.freedomhouse.org/template.cfm?page=351&ana_page=341&year=2008

²⁴ See <http://www.freedomhouse.org/research/freeworld/2000/methodology3.htm>, accessed June 2, 2003.

²⁵ For a history of previous versions of Polity, see Marshall and Jaggers (2007, 1-9).

²⁶ For the first two of these variables, there are two options apiece, respectively: “election,” with a scale weight of +2, and “transitional,” with a scale weight of +1; and “dual/election” and “election,” each with a scale weight of +1. For the third, there are three options: factional (+1), transitional (+2) and competitive (+3). See Marshall and Jaggers 2007, 14.

²⁷ The seven values are described in detail with checklists in Marshall and Jaggers (2007, 63-67).

²⁸ Note critiques by Bollen, Goertz, and Treier and Jackman.

²⁹ Henisz’s index is available at <http://www-management.wharton.upenn.edu/henisz/>,

³⁰ The original group was Michael Alvarez, Jose Antonio Cheibub, Fernando Limongi and Adam Przeworski.

³¹ Przeworski et al. reject inclusive suffrage on two grounds: that such a standard would exclude too many countries, and that including it would demand a definition of a threshold (2000, p. 34).

³² I find Przeworski et al.’s justification for excluding civil liberties unconvincing. They say that democracy “cannot be sufficiently defined” in terms of rights and freedoms. Surely this is so, but it is also true of elections, which are central to their definition. Yet they are very careful and creative in identifying the conditions under which elections count for defining democracy.

³³ The Przeworski group also explicitly rejects this criterion (2000, 35).

³⁴ There are two other country periods in our study when there was strong economic growth under authoritarian governments: Mexico and Brazil in the 1930s and after.

³⁵ Valdéz 1995.

³⁶ The rules of the game definition is from Douglass North (1991). See Oliver Williamson 2000.

³⁷ On the other hand, the difference between democracy and authoritarianism is an institutional variable.

³⁸ For a lively demonstration of these points, see Easterly 2001a, *The Elusive Quest for Growth*.

³⁹ Demonstrate this by comparing some countries that grew with some that didn’t. Korea and somewhere else; maybe Chile and Argentina.

Baumol et al (2007) don’t so much make the positive case for growth in chapter 2 as criticize the critics: limits to growth, anti-globalization, growth and happiness, GDP as a full measure, possible zero-sum game, demographics and civility (chapter 2).

⁴⁰ List them.

⁴¹ (see Vanya comments; Easterly 2007; Stiglitz)

⁴² The ways in which redistribution might not be sustainable will be demonstrated in subsequent chapter in episodes of populism.

⁴³ See Sargent (1982), Easterly et al. (1996), Veiga (1999), Hamann and Prati (2002), Buchanan and Wagner (1978).

⁴⁴ This is not to say that all public officials understand this, or that some will not try to do so. See the discussion of the US Employment Act of 1946 and the Humphrey-Hawkins Act of 1978 in Keech 1995, 104-110.

⁴⁵ See Meier (2005) for a very enlightening review.

⁴⁶ These quotes are from Williamson 1990, 7, which is chapter 2 of Williamson, ed. 1990. Williamson’s current thoughts about the Washington consensus can be accessed online at

<http://www.iie.com/jwilliamson.htm>.

⁴⁷ This list is from Williamson’s Appendix to Kucynski and Williamson, eds. 2003. The original Chapter 2 in Williamson, ed. 1990 can be read at

<http://www.iie.com/publications/papers/paper.cfm?researchid=486>, accessed May 16, 2008.

⁴⁸ See Love in Bethell, ed.

⁴⁹ Cite Prebisch.