Coalition Politics and Economic Development

Coalition Politics and Economic Development challenges the conventional wisdom that coalition governments hinder necessary policy reform in developing countries. Irfan Nooruddin presents a fresh theory that institutionalized gridlock, by reducing policy volatility and stabilizing investor expectations, is actually good for economic growth. Successful national economic performance, he argues, is the consequence of having the right configuration of national political institutions. Countries in which leaders must compromise to form policy are better able to commit credibly to investors and therefore enjoy higher and more stable rates of economic development. Quantitative analysis of business surveys and national economic data together with historical case studies of five countries provide evidence for these claims. This is an original analysis of the relationship between political institutions and national economic performance in the developing world and will appeal to scholars and advanced students of political economy, economic development, and comparative politics.

IRFAN NOORUDDIN is Associate Professor in the Department of Political Science at The Ohio State University where, in 2007, he was named Distinguished Undergraduate Research Mentor of the Year. His work has been published in multiple journals including *Journal of Politics, International Organization, Journal of Conflict Resolution, International Studies Quarterly, Review of International Organizations, Comparative Political Studies*, and *International Interactions*.

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Credibility and the Strength of Weak Governments

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For Heidi, unerring muse

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Preface

All over the world people eke out existences on the edge of subsistence. For these members of the "bottom billion," the difference between survival and desperation is razor-thin. Policymakers and academics alike have expended considerable energies identifying policies that might raise the standard of living of the poorest members of our societies, as well as those that provide a partial safety-net against the worst outcomes. Yet, in spite of its obvious importance, we know very little about why some societies are more prone to the types of economic crises and recessions that threaten to plunge one-sixth of humanity below subsistence. This book seeks to add to our understanding of the determinants of such growth-rate volatility, and, by doing so, to change how we think about where economic development might come from for those currently mired in poverty.

Research on economic development is necessarily interdisciplinary, drawing insights from economics, sociology, history, geography, and, more recently, political science. Understanding the economic foundations of economic development is a prerequisite, but, as countless examples suggest, politicians do not heed economists' advice. What is rational for economists is not necessarily optimal for politicians whose incentive structures are influenced more by the imperatives of retaining power than of maximizing economic growth. Where these incentives overlap good things can happen. Indeed a primary insight behind those who advocate the adoption of democratic governments in the developing world is that, by making leaders accountable to their publics, democracies build in a motivation to promote economic development. Yet the most recent research on democracy and development finds no evidence that democracies grow faster than their non-democratic counterparts.

The absence of any relationship between democracy and development bolsters the case of those who defend a form of "benevolent dictatorship," the exemplar of which is supposedly Singapore. Economic reform requires difficult choices and an attention to long-term prerogatives, both of which election-minded politicians are ill-suited to provide. Insulating decision-makers from societal pressures therefore becomes crucial to the adoption of the appropriate policies for economic development. But what such arguments can't explain is why we should expect unaccountable politicians to use their unconstrained power to enact policies in the public interest rather than to enrich themselves and their cronies.

In this book, I offer an alternative to these theories. I come down in favor of democracy, but with an important caveat. The true democratic advantage, I argue, is in its encouragement of political competition and the representation of multiple viewpoints in the deliberative process. When governments are forced to accommodate diverse positions in order to reach policy consensus, the resulting policies are more stable – if (or maybe because?) less radical – than when governments can make changes unilaterally. This stability bolsters confidence among private economic actors who fear policy change, and encourages them to make longer-term investments that they would hesitate to make in a riskier environment. More stable investments in turn lay the foundation for stable economic growth and long-term economic development.

What institutions of democracy promote such policy stability? I argue that institutions that diffuse policymaking authority across multiple actors responsible to different societal constituencies are the key. A perfect example of such an institution is a coalition government in a parliamentary democracy, in which the survival of the government requires cooperation among the members of the coalition, which necessitates compromise and fosters policy stability. In this book, I use a combination of macroeconomic and micro-survey data to test this argument, both cross-nationally and in individual country case studies. The evidence overwhelmingly supports the argument.

A word about my approach is in order. For some readers, the framework developed here will seem too sparse. I do not advocate a "silver bullet" that countries can adopt to reduce growth-rate volatility and increase economic growth. Rather the contribution of my research is to identify the central dynamic of interest: what configuration of institutions works best to harness this dynamic is an empirical question, albeit one whose answer is guided by theory. In the developed North, for instance, independent central banks are the norm, yet there is little evidence that statutory independence for central bankers has yielded any benefits in the global South. Similarly, policy stability via "gridlock" has been good for parliamentary India and Italy (as I will argue in some detail), but scholars of Latin America bemoan the negative effects of gridlock in the presidential systems they study. I believe that my "credible constraints" theoretical framework can help explain these differences, but understand if my answers are unsatisfactory to some. In that case, my sincere hope is that my work encourages others to tackle these same questions in order to yield better answers. The stakes of getting them right are too high not to try.

Academic projects, much like economies, experience highs and lows. This project began after an earlier effort at a dissertation imploded when I learned of the existence of the about-to-be-published and obviously bound-to-be-seminal work by Przeworski *et al.* (2000) that made my efforts at answering related questions seem quite pointless. But, taking inspiration in the fact that I had been thinking along the same lines (albeit not nearly as clearly) as those eminent scholars, I used their work as a starting point for my inquiry into yet unexplored territory in the relationship between political institutions and economic volatility. Little remains of the dissertation in which I first explored the main ideas that underpin this book, but the influence of my advisors at the University of Michigan – Pradeep Chhibber, Rob Franzese, John Jackson, and Michael Ross – is evident on every page of this manuscript. To each, once more, I express my deepest gratitude. Most of all, for his steadfast mentorship and encouragement as the dissertation made its halting metamorphosis into a book and as I moved from graduate student to tenured professor, I thank Pradeep. If I can mean to my students a fraction of what he has meant to me, I'll consider my career a success.

Writing the book required considerable research assistance, and I was lucky to be able to draw on the help of a remarkable group of graduate students: Quintin Beazer conducted the preliminary analyses of the EBRD-World Bank enterprise surveys utilized in Chapter 4 and helped prepare the index in addition to providing comments on the entire manuscript; Autumn Lockwood Payton helped construct the bibliography (aided by Brooke Keebaugh); Michael Cohen offered detailed comments on the Italian case study; Sarah Wilson Sokhey was instrumental in the completion of the comparative case studies for Chapter 6; Amanda Yates (with Xiaoyu Pu's help) constructed

Appendix A. Daniel Blake, Scott Powell, Allyson Shortle, and Dana Wittmer, along with Sarah, Quintin, Autumn, and Michael, were a constant source of support and encouragement; I am fortunate to have had these scholars as colleagues and even luckier to count them as friends.

The book is much better for the comments received over its long gestation – so long in fact that I'm sure I've forgotten some whose names should appear below. Audiences at Washington University in St Louis, the University of Notre Dame, Ohio State, University of Chicago, Yale University's Macmillan Center, Stony Brook University, American University, Penn State, and the APSA, Midwest, and Southern meetings provided useful feedback. Nathan Jensen and James Raymond Vreeland went far beyond the call of friendship to offer extremely careful and helpful comments on the entire manuscript; my debt to each is beyond words. Mark Souva, Eddy Malesky, Tim Frye, Pradeep Chhibber, Joel Simmons, Ken Kollman, and Ashu Varshney commented on earlier papers that ended up as part of the book. Daniel Corstange, Daniel D'Souza, Amaney Jamal, Zaheer Nooruddin, and Joel Simmons read multiple chapters of the manuscript and asked difficult questions; for their time and honesty, I am deeply appreciative. Carew Boulding, Emily Beaulieu, and Susan Hyde endured more conversations about the book than I'm prepared to admit, always asking the right questions and offering helpful advice. Considerable thanks are due to the two anonymous reviewers at Cambridge University Press (and the six anonymous reviewers and four editors of other presses that considered the manuscript) for their excellent comments on the entire manuscript; these anonymous scholars exemplify the best of this profession. Finally, John Haslam and Carrie Parkinson have been exceedingly generous and patient editors for Cambridge. This book would be much better had I been capable of addressing all the helpful advice I've received, and I beg these scholars' indulgences for the shortcomings that remain in spite of their best efforts.

My parents and brother have been a constant source of support throughout my life, and their love and encouragement made negotiating the book and tenure process easier. My daughter Esme arrived in May 2009, changing my life forever; her smile makes her the most delightful – if distracting – writing companion. Most importantly, I thank my wife, Heidi Sherman; for nothing I have accomplished, not least this book, would have been possible without her constant friendship. A consummate intellectual, she influenced every page of every draft, beginning with my dissertation seven years ago, and engaged me (often against my will) in conversations about the main ideas that helped me improve their clarity and presentation. She pushed me when I needed to be pushed; supported me when I needed support; and her unconditional love gave me the courage to finish this book when, like an inchworm crawling on a leaf, I threatened forever to "cling to the very end, revolve in air, feeling for something to reach to something." This book is gratefully dedicated to her, my best friend and unerring muse, who makes everything perfect.