Introduction

Questions

Is economic development conducive to political democracy? Does democracy foster or hinder material welfare? These have been central questions on intellectual and political agendas over the past fifty years, ever since the Atlantic Charter, signed by Churchill and Roosevelt in 1941, offered the "assurance that all men in all the lands might live out their lives in freedom from fear and want." For the first time in history, democracy and development, freedom from fear and from want, were conceived as the future of all the people in the world, not as the privilege of the "civilized" nations.

In some ways, these questions are badly formulated. Political regimes, however one thinks about them, are complex. They combine many institutional features that can have emergent effects and that may work at cross-purposes. They may, at the same time, encourage economic rationality but hinder economic initiative, grant governments the authority necessary to promote development but also allow them to evade popular control, and foster long-term thinking at the cost of short-term disasters, or vice versa. Development, in turn, is a multifaceted process of structural transformations, not only economic, that becomes manifest in the growth of income, productivity, consumption, investment, education, life expectancy, and employment – all that makes for a better life. But again, these good things do not necessarily go together, and they certainly do not go together for all. Average income and even consumption can grow at the cost of increasing unemployment, of growing inequality, of immiseration for large segments of the population, of degradation of the environment. Hence, the question of the relationship between democracy and development encompasses more specific issues concerning the impacts of particular features of political regimes on various aspects of economic performance.

Nevertheless, asking these questions in their general form is inescapable. Following World War II, various dictatorial regimes appealed to the masses of the poor by presenting themselves as forces for progress, as agents of development, as shortcuts to modernity. Their claims to legitimacy, their appeals to loyalty, were that they were uniquely capable of mobilizing resources and energies to break the chains of poverty, to build a better future, to lead their respective countries to affluence, power, and prestige. Whatever their particular ideological stripes, such regimes plastered walls and minds with images that pictured how everything – homes, schools, hospitals, armies – would grow in the radiant future. They were to eradicate poverty, generate affluence, enable their countries to assume their rightful places among the powers of the world, and by the example of their own success convert others to the righteousness of their dictatorial ways. They were always the "tigers": The most rapidly growing country in the world in the 1950s, at least if we are to believe its own statistics, was communist Romania. The economic miracle of the early 1970s was the military-ruled Brazil. The economic tigers of the 1980s were the dictatorships of Singapore, South Korea, and Taiwan. In the 1990s the leader was China. And those spectacular successes repeatedly sowed doubt in the minds of even committed democrats: whether or not development did indeed require order and discipline, whether or not rationality would flow from authority, whether or not democrats could continue to trust that their own ways would be capable of lifting the masses of the world's poor from their plight.

Around 1960, when decolonialization was giving birth to many "new nations," in an international context in which communist regimes still appeared to be developing impressively, many scholars and politicians concluded that the perceived economic effectiveness of dictatorships was simply a fact of life, one that should be confronted courageously by admitting that democracy was a luxury that could be afforded only after the hard task of development had been accomplished. To cite just a few typical voices of the time, Galenson (1959: 3) claimed that "the more democratic a government is, . . . the greater the diversion of resources from investment to consumption." De Schweinitz (1959) argued that if the less-developed countries "are to grow economically, they must limit democratic participation in political affairs." La Palombara (1963: 57) thought that "if economic development is the all-embracing goal, the logic of experience dictates that not too much attention can be paid to the trappings of democracy." Dictatorships were needed to generate development: As Huntington and Nelson (1976: 23) put it, "political participation must be held down, at least temporarily, in order to promote economic development."[1]

The world thus faced, it seemed, a trade-off between democracy and development. Yet the future was not so bleak for democracy. Whereas dictatorships, even though despicable, were needed to generate development, they would self-destroy as a result of their own success. According to the dominant canon of the time, democracy would naturally emerge after a society had undergone necessary economic and social transformations. The basic assumption of modernization theory was that societies undergo one general process, of which democratization is but the final facet. Hence, the emergence of democracy would be an inexorable consequence of development. Because in that view dictatorships would generate development, and development would lead to democracy, the best route to democracy was seen as a circuitous one. The policy prescriptions that resulted from that mode of thinking rationalized support for dictatorships, at least those that were "capable of change," that is, anti-communist ones.

Communism now appears dead, and the idea that it ever portended the future seems ludicrous, albeit in omniscient retrospect. And democracy has been discovered to have many economic virtues. It is claimed that democracy encourages investment by safeguarding property rights, promotes allocational efficiency by allowing a free flow of ideas, and prompts governments to choose good policies by imposing the threat of electoral sanctions. Yet doubts remain. For many, Pinochet's Chile was the paradigm of successful economic reforms, and the economic success of authoritarian China is the model for the new Russia. Even though democratic ideals are nourishing political forces from Argentina to Mongolia, the allure of a "strong government," "insulated from pressures," guided by technical rationality, capable of imposing order and discipline, continues to seduce. Whether in the case of the Tiananmen Square massacre or the *autogolpe* of President Alberto

[1] Still in 1975, impressed by the growth of the communist countries, Huntington and Dominguez (1975: 60) observed that "the interest of the voters generally [leads] parties to give the expansion of personal consumption a higher priority vis-à-vis investment than it would receive in a non-democratic system. In the Soviet Union, for instance, the percentage of GDP devoted to consumption was driven down from 65% in 1928 to 52% in 1937. It is most unlikely that a competitive party system would have sustained a revolution from above like this."

Fujimori in Peru, international financial institutions, as well as governments in the developed countries, are still willing to close their eyes to violations of democratic rights and even human rights in deference to the purported economic effectiveness of dictatorships. A myopic public has to be protected from itself; economic reforms must be carried out before the people have time to react. This is still a popular belief.

Thus, whether well formulated or not, the question of the relative merits of political regimes continues to evoke intellectual analysis as well as political passion. Much of the appeal of dictatorships stems from the fact that at various moments they have seemed to offer "the best practice." The "tigers" have tended to be dictatorships. But are dictatorships necessarily tigers? The list of disasters generated by authoritarianism is long and tragic. Even the economic collapse of communism pales in comparison with the destruction caused by dictatorships in many African countries, the squandering of resources in the Middle East, or the havoc spawned by military governments in Central America. For every developmental miracle, there have been several dictatorships that have engaged in grandiose projects that have ended in ruin, or else dictatorships that have simply stolen and squandered. In turn, the record of performance among the democracies, which has featured examples of spectacular growth (notably in Western Europe until the mid-1970s) as well as of rapid deterioration (as in Latin America in the 1980s), has not reached the extremes seen among the dictatorships. Hence, to assess the impacts of political regimes, we must examine their full record, not just the best performances.

We want to know the effects of political regimes on the material well-being of the people who live under them. But well-being, like its cognates, such as welfare, utility, ophelimity, or simply happiness, is an elusive concept. It combines objective and subjective elements: the resources and capabilities that enable people to lead the lives they choose, the choices they actually make, what Sen (1988) calls "functionings," as well as their evaluations of their lives. Well-being entails being able to work and to consume, being sufficiently educated to know what choices one can make in life, being able to choose the number of children one wants, being able to live a healthy life. But whereas the conditions that people face independently of their actions can be measured objectively, well-being is difficult to assess in interpersonal terms when these conditions do afford people the opportunity to make choices. To borrow an example from Sen (1988: 18), one may starve because one does not have enough to eat or because one is fasting. Conditions per se are often difficult to distinguish from the consequences of the choices that people make under those conditions.

Nevertheless, though well-being is difficult to evaluate, destitution is manifest (Dasgupta 1993). Even such a rough measure as income can tell us whether or not people are materially deprived. A life without adequate food and shelter, threatened by disease, condemned to ignorance, is a life of destitution: The most subjectivist economist needs but a few hours to determine that what a poor village needs is clean water and a school.

We are willing to make judgments about the degrees of well-being that people experience under different political regimes because we do not believe that preferences about those aspects we study are endogenous to regimes. Whether living under dictatorship or democracy, people do not want to consume less, live shorter lives, get less education, or see their children die. Yet even if preferences were endogenous (e.g., suppose that mothers would happily offer their sons as cannon fodder for dictators), such preferences could not justify normative judgments unless they were informed by the actual experience of the alternatives.

What, then, are the observable indications of well-being? We do not neglect the intrinsic value of political and civic liberties inherent in democracy. As Dasgupta (1993: 47) argues, the view that the poor do not care about the freedoms associated with democracy "is a piece of insolence that only those who don't suffer from their lack seem to entertain" (see also Sen 1994a). Yet our question is whether or not these liberties, those necessary for people to freely choose their rulers, affect well-being in other realms. This is why we refer to "material" well-being. We are interested in the material consequences of political regimes.

Dasgupta (1993: 76) proposes that, besides political liberties, one can think of well-being along three dimensions: income and all it affords, health, and education. With all the innumerable caveats, income is simply the best overall indicator of the choices people enjoy in their lives. It is in many ways far from perfect: Even if its components were weighted at competitive market prices, those prices would necessarily ignore the capacitating effects of certain forms of consumption, as well as the very capacity to make choices that income affords.[2] Yet, at least when it is accurately computed, more income is better than less: Although income is only a means to well-being, it determines what bundles of consumption a person can choose.

One way, therefore, to assess the effects of regimes on well-being is to examine their impacts on economic growth, something about which people all around the world care.[3] The monetary value of consumption, as distinct from total income (which also includes savings), is an alternative measure. We shall ask under which regime economies develop faster, which is more likely to generate miracles and which disasters, which is more likely to ensure that development will be sustained, which is more apt to exploit advantageous conditions, and which is more adept at coping with adversities. We shall examine the impacts of political regimes on the growth of per capita income and per capita consumption, on productivity, on investment, and on the growth of employment. We shall also attempt to say something about income distribution, about poverty, and about the material security that these regimes generate, but given the paucity and poor quality of the data, there is little we can report with certainty.

Yet people's lives under democracy and dictatorship need not be the same even if those people have the same incomes. As Sen (1993: 40) put it, if "the economic success of a nation is judged only by income and by other traditional indicators of opulence and financial soundness, as it so often is, the important goal of well-being is missed." Birth rates, death rates, fertility, infant mortality, life expectancy, and school enrollment rates conjure an image of what one can expect of life under either regime. Several of these indicators focus specifically on the conditions of women.

These are, then, the aspects of material well-being we examine. Our approach is largely inductive: We consider almost all of the countries that existed at any time between 1950 and 1990 and classify their political regimes. We then examine why so many rich countries enjoy

[2] For a discussion of income as an indicator of well-being, see Dasgupta (1993: chap. 7). The UNDP *Human Development Report* provides an index that aggregates several indicators into a single measure of "human development" (HDI). Although that may be a useful summary measure, we prefer to study its components separately.

[3] Average satisfaction with life rises steeply as the per capita incomes of countries increase from low levels. The same is true of the relationship between income and life satisfaction observed among individuals within a given country. In turn, it appears that the average satisfaction level does not increase as the average per capita income of a country increases over time, but this latter observation is based on countries that already have high incomes. For a recent summary of these findings and an interpretation, see Frank (1997).

democracy and so very few poor countries do. Armed with knowledge of how political regimes rise and fall, we compare their performances in different realms.

Many of the patterns we have discovered are surprising. Indeed, our findings contradict so many preconceived notions that at times we have a feeling that we are digging a cemetery for old theories. Some findings are so puzzling that they leave us speechless. Others lend themselves to rival explanations that cannot be evaluated with the available data. All these findings do call for explanations, and we hope that others will try to understand them. But our own posture is largely minimalist: We simply try to establish what one should reasonably believe about the experience of the forty years we examine, the "facts."

Methods

Democracy and dictatorship constitute different ways of organizing political lives: of selecting rulers, processing conflicts, making and implementing public decisions. We want to know if these ways make a difference for people's lives. And this means that we need to observe democracies and dictatorships wherever they are, under the full range of conditions under which they have existed. To speak of "democracy," one must reach beyond the experience of the industrialized countries. Democracies breathe also in countries where it does not snow: Brazil, Mauritius, Jamaica. Indeed, when we look for democratic regimes that existed during any time between 1950 and 1990, we find two-thirds of them in the less-developed countries. So if we want to know about the impact of "democracy," rather than of snow, we must study all democracies we can find, wherever they are.

Yet knowledge of all the democracies that ever existed is not enough to ascertain the impact of democracy. Because this methodological point is crucial for all that follows, we need to explain the logic of our analysis. We are not the first to study the impact of regimes on economic performance. Indeed, there have been at least forty empirical studies of this subject, the first dating as far back as 1966. Yet if we think that we have something new to say, it is because we believe that all of those studies employed a faulty methodology and drew invalid conclusions.

Our aim is to assess the effects of political regimes on material well-being. How can we go about it? Take the growth of per capita income. We observe Chile in 1985 and discover that its regime was authoritarian and that its per capita income grew at the rate of 2.87 percent.

But what we want to know is whether Chile would have grown faster or slower had its regime been a democracy in 1985. And the information we have does not suffice to answer this question. Unless we know what would have been the growth of Chile in 1985 had it been democratic, how can we tell if it would have grown faster or slower than it did under dictatorship?

Had we observed in 1985 a Chile that was simultaneously a dictatorship and a democracy, we would have the answer. But that is not possible. Still, there seems to be a way out: We could look for some case that was exactly like 1985 Chile in all respects other than its regime and, perhaps, its rate of growth, and we could match this country with Chile. We could then compare the growth of dictatorial Chile in 1985 with the performance of its democratic match and draw a conclusion.

But if the fact that Chile was a dictatorship in 1985 had some causes in common with the fact that it grew at the rate observed, then a case that matches Chile in all respects other than the regimes and the rate of growth may not be found. Among all the observed cases, there will be observations without a match, or, stated differently, we will not be able to observe dictatorships under the same conditions as democracies. And this means that we will not be able to distinguish whether the observed differences in economic performance are due to regimes or to the circumstances under which they found themselves. Conclusions based on observed cases, even on all that can be observed, will be then invalid.

Imagine the following thought (or computer) experiment. Assume that the expected rate of growth is the same for all countries regardless of their regimes and that the growth of each country during each year differs from the mean only by a random error. Assume further that democracies are more likely to die, that is, to become dictatorships, when economic conditions are bad. Then it will turn out that, on the average, countries observed as democracies will grow faster than dictatorships. Regression, a conditional mean, will show the same: The coefficient on regimes will show a difference in favor of democracies. And because we have just assumed that the rate of growth does not vary across regimes, the observed difference will be due purely to the bias caused by the non-random selection of regimes. The inference that democracy promotes growth will be thus fallacious: We will observe this difference because democracies disappeared whenever they faced economic crises while dictatorships survived them, not because regimes made a difference for growth. Under these conditions, relying exclusively on the observed values will lead us astray. Our inferences will suffer from "selection bias."

The lesson is that appearances can be misleading. Comparing means of the observed cases or performing standard regression on these observations may lead to invalid conclusions. In the presence of non-random selection, the observed differences are due at least in part to the conditions under which the observations were generated and not to effects of regimes. Whenever observations are not selected randomly, inferences based on observed cases may yield inconsistent and biased estimates of the effect of being in particular states (institutions, policies) on outcomes (performance). This much is now standard statistical wisdom. Yet the implications of this failure are profound: We can no longer use the standard model of induction to make valid inferences from the observed to the unobserved cases.

There are several ways in which such a bias may arise. To take one example, democracies may be more likely to be found in countries that are already wealthy, and, in turn, such countries may systematically develop slower. This is a case of an exogenous selection on observables: Some observable factor, say per capita income, affects both the selection of regimes and the economic growth of countries. We have already provided an example in which selection is observable but endogenous: Say that democracies are more likely than dictatorships to fall when they face adverse economic conditions. Yet there may be also common causes of regime selection and economic development that we are unable to observe: Imagine that if a country happens to have an enlightened leadership, it is more likely both to have a democratic regime and to develop.

The world around us is not generated randomly. The world we observe is a result of actions of people pursuing their ends. It nurtures successes and eliminates failures. These processes are systematic, and so are their effects. The search for randomness is futile; we must proceed differently. The question is how.

To cope with the non-random nature of our observations, we revert to counterfactuals. To evaluate institutions, to assess their impact, we must ask what the outcomes would have been if other institutions had been observed under the same conditions. And if their selection is not random, these institutions are not observable under the same conditions. Hence, a recourse to counterfactuals is unavoidable. To cite Tetlock and Belkin (1996), "counterfactual reasoning is a prerequisite for any learning from history."

To correct for non-random selection, we use the observations we have to generate the counterfactuals we lack. To make such inferences, we study the process by which observations are selected into particular states, that is, the rise and fall of the particular regimes. Then we revert to an artifice: a distribution from which the observed and the unobserved cases were generated. Having assumed the population distribution and having identified the rule by which regimes are selected, we can do the rest: use the actual observations to make inferences about their counterfactual pairs, compare the outcomes, and arrive at a conclusion about the impact of regimes. And this is what we do.

Plan

This methodology underlies the organization of the book. Even though our primary question concerns the impact of democracy on development, more precisely of political regimes on material well-being, in order to study this question we must first learn how countries happen to be living under particular regimes – the impact of development on democracy.

Obviously, our preliminary task is to define "democracy" and "dictatorship" and to classify the observed regimes into these categories. Although several classifications of regimes, covering different periods and sets of countries, are now available, they can be improved by (1) a better grounding in political theory, (2) exclusive reliance on observables rather than on subjective judgments, (3) an explicit distinction between systematic and random errors, and (4) more extensive coverage. In Chapter 1, we develop a classification of political regimes guided by these objectives. This may appear to be the crucial step, because everything that follows hinges upon it. But even if regime classification has been the subject of some controversies, alternative definitions of "democracy" give rise to almost identical classifications of the actual observations. Our own classification, though more extensive than most, is no exception. It differs little from all others with which we could compare it. Hence, it turns out that in the end little depends on the way we classify regimes. If they were available for the same sample, other classifications would have generated the same results.

Once the regimes have been classified, we need to understand their dynamic. In particular, we must examine whether or not the rise and fall of political regimes have something to do with factors that also affect economic performance. We already know that if the same factors, whether or not we can observe them, affect both the selection of