

From settler mortality to patrimonialism: weaving the dynamics of political competition into the political economy of development

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The evidence is overwhelming that the decisions of governments in poor countries are significantly different than in developed countries. On average, developing countries are more tolerant of corruption, more apt to expand government employment opportunities than to offer high quality education, and less likely to enforce contracts and property rights. It is no surprise, then, that in striving to understand economic development scholars have come to focus closely on the role of domestic politics and political institutions.

The political explanations of persistent economic underdevelopment that have attracted greatest attention seem to boil down to three (broad) hypotheses: countries that lack political checks and balances and competitive elections cannot credibly guarantee secure property and contract rights and therefore grow slowly; interest group influence leads governments to resist development-promoting policies; and social and cultural factors, such as caste and clientelism, cripple government decision making in poor countries. This note suggests that more attention in the future should turn to a fourth factor, the dynamics of political competition and systematic differences across countries in how politicians gather voter support.

One important hypothesis emerging from this fourth line of inquiry is that the extent of voter information and the credibility of pre-electoral promises of competing politicians explain dramatic policy differences between countries. Like the first hypothesis, this line of argument is explicitly comparative. It also recognizes that political credibility and voter information are likely to have historical roots. However, it goes beyond formal institutions in framing the political economy of development. Like the second and third hypotheses, this approach is concerned with the political incentives underlying specific government decisions. However, it is more comparative in its approach and, substantively, focuses more specifically on political strategies for obtaining citizen support.

This fourth approach can therefore explain phenomena that are taken as “exogenous” in much of the country-specific literature. For example, much of the literature evokes clientelism as a fundamental feature of countries – as a basic unit of analysis. This fourth argument suggests that clientelism is a product of deeper phenomena, and it is these phenomena that explain cross-country differences in performance.

Formal institutions and development

Formal institutions – the formal rules governing elections and the process of legislation – are an important determinant of political incentives and are a logical choice in attempting to explain why some governments act more in the public interest than others. The empirical rationale for doing so is substantial. It is surely more than a coincidence or a relic of reverse causality that all rich countries are democracies, for example. In specific areas of policy we also observe significant differences between democracies and non-democracies. Human rights violations are lower under democracy (Mulligan, Gil and Sala-i-

Martin 2004). The fiscal costs of banking crises (essentially, government bailouts of crony lenders and depositors) are all substantially lower in democracies (Keefer 2004a).

However, other large empirical puzzles are difficult to explain using formal institutions: substantial heterogeneity across democracies and worse performance among many democracies than among autocracies on important policy dimensions. For example, the median non-democracy (a country with no elections or less than competitive elections, as measured by variables in the Database of Political Institutions, Beck, et al.) had the same score (four) on a six point rule of law index as the median democracy in 1997. Democratic heterogeneity is significant: the standard deviation of the rule of law score among democracies was 1.3, very high relative to the average. With respect to a similar indicator of corruption (on a 0-6 scale), the median democracy stood at 3.7 and the median non-democracy at 3 – but the standard deviation among democracies was almost twice as large as this difference, or 1.25.

Secondary school enrollment is a widely-used indicator of government willingness to provide services to the non-elite, and is a reasonable indicator as well of government inclinations to provide public goods generally to citizens. Secondary school enrollment is much greater in democracies (30 percentage points greater). However, school enrollment decisions by families are notoriously sensitive to income. Controlling for income per capita, secondary school enrollment in the median democracy is only 5 percentage points greater than in the median non-democracy. The standard deviation of enrollment in democracies, controlling for income, is 21 percentage points, however. These comparisons are the same if one compares countries according to whether they exhibit political checks and balances, using the *checks* variable from DPI.

From a development perspective, as important as the heterogeneity of democratic performance is the fact that *poor* democracies perform no better than *non*-democracies. If one compares the corruption, rule of law and secondary school enrollment indicators of the poorest half of countries with competitive elections in 1997 to all countries without competitive elections in 1997, the scores are nearly identical. The performance distance between rich and poor democracies is nearly the same as the distance between rich democracies and all non-democracies.

These results are at least puzzling, even troubling. Elections lower the costs to average citizens of expressing their disapproval of a regime and, one would think, should make politicians think twice before offering large payoffs to special interests. There is no particular reason to believe that this effect should collapse at lower income levels. At the same time, the theory is compelling that the formal institutions of democracy should do a better job of improving the security of property rights (not necessarily of lowering taxes imposed by the majority on the minority, but of preventing an opportunistic increase in taxation on those with the temerity to invest fixed assets in a country). Why, then, should the incentives of elected leaders vary so widely and often be less compatible with the interests of average citizens compared to unelected leaders?

One explanation is that our stylized notions of autocracy exaggerate the extent to which autocracies are unaccountable. Recent research tells us that autocracies are in fact often more accountable than their formal institutions would indicate. Work by Haber, et al. (2003) on the Porfirio Diaz government (the *Porfiriato*) in Mexico, by Qian and Weingast (1997) on the operation of federalism in China, by Przeworski and Gandhi (2003) on the

positive impact that even rubber stamp legislatures have on government performance, all tell us that autocracies can manufacture credible commitment. This credible commitment may come at a substantial cost in terms of long run growth and development, since it often involves granting inefficient privileges to the few (e.g., the monopolization of banking in Mexico). But it is sufficient to spur growth at least over a generation. Nevertheless, the ability to make credible commitments to key investors sufficient to trigger growth does not explain why many autocracies perform better than many democracies in the provision of public goods (secondary school enrollment), or in the prevention of corruption.

Another explanation is that the formal institutions of democracy are themselves too heterogeneous to be reasonably grouped together. Persson and Tabellini (2000) argue that whether a country is presidential or parliamentary, whether it has large or small electoral district magnitudes, or whether it uses plurality or proportional electoral systems can have a significant impact on policy outcomes. There is some evidence for these hypotheses. However, the only political institution that varies systematically between poor and rich democracies is regime-type: poor democracies are much more likely to be presidential. Presidential democracies are expected to provide fewer public goods – for which there is some evidence – but they are also expected to be less corrupt – for which there is little evidence. Despite good reasons to believe that politicians will behave differently depending on the specific formal institutions of decision making in a democracy, these behavioral differences seem not explain the heterogeneity we observe among democracies.

If not (only) institutions, then what?

Variation among democracies on non-institutional dimensions is therefore likely to be key to understanding the puzzle of heterogeneous, and often simply bad performance by democratic governments. Other prominent contributions to the political economy literature offer possible sources of such variation: interest groups, clientelism, caste, even leadership. However, although these are each important areas of investigation, they do not close the gap in understanding political performance in rich and poor countries.

For example, Bates (1981) traced diverse agricultural policy outcomes across African countries to differences in the organization of interest groups, and differences in organization, in turn, to the fundamental economic characteristics of countries. Frieden (1991) explains the response of countries to crisis similarly as an outcome of the organization and interests of economic sectors. This work is convincing that interest group influence, like formal institutions, plays a crucial role in policy formation. There is little evidence, however, that interest groups differ across countries in a way that would explain divergent performance among democracies.

One exception might be Acemoglu, Johnson and Robinson (2004). Although they argue for the primacy of institutions, at the heart of their arguments and similar arguments of Engerman and Sokoloff (2002) is historical evidence that the post-independence constellation of economic interests in countries (interest groups) critically influenced subsequent political and economic development. Where elites have no economic interest in opening the political system to participation by non-elites (as when there are substantial natural resource rents that elites do not wish to share), non-elites have no credible guarantees that their economic rights will be participated, refrain from investing, and growth slows, even as elites get rich. These arguments are persuasive, but explain only why democracies should perform better than non-democracies: democracies are countries where elites found it worthwhile to open up the political system to non-elites, giving non-elites credible

guarantees of the security of their economic rights, and thereby spurring growth. This work was not intended to explain either significant performance heterogeneity among democracies or the frequent inferior policy performance of democracies, particularly poor democracies, relative to autocracies.

Variations in leadership quality across countries are also unlikely to provide a satisfying explanation of development. Olken and Jones (2004) show that the identity of leaders matters for growth in the short term; their rigorous examination of the question complements many investigations in the comparative politics literature of the role of leadership in the evolution of policy reform. However, the scant to non-existent evidence that short-run reform successes spur a cascade of long-run reforms is weak. It is unlikely, therefore, that leadership can explain vast performance differences among democracies.

Accountability and the search for votes

What, then, are we to make of performance heterogeneity among democracies? In his contribution to a past newsletter, Adam Przeworski argues that we should focus on “the institutions that matter for development are those that make rulers accountable, those that provide information about government’s actions and permit citizens to sanction bad behavior by throwing governments out of office.”(p. 3) The argument in this note is that the search for the sources accountability should concentrate especially on information and credibility failures.

Just as in private markets, political markets are bedeviled by imperfections. In particular, a wealth of research, theoretical and empirical, has shown that holding rulers to account depends on citizen information about ruler performance, about the costs to citizens of sanctioning rulers, and about the capacity of citizens to make informed choices between political competitors – and on whether those competitors can make credible promises to citizens. Absent any of these, accountability evaporates.

Uninformed citizens are entirely incapable of holding politicians accountable for performance. We would therefore expect – and we see both theoretically and empirically – that voter information plays a significant role in policy making. This is not surprising: in economic markets, lack of information about product quality also drives a wedge between buyers and sellers. Credibility has similar effects. When political competitors cannot make credible promises, citizens again are entirely incapable of holding politicians accountable unless they can coordinate on *ex post* performance thresholds, a la Ferejohn (1986), committing to expel incumbents who fail to meet the threshold.

The role of voter information in government policy making has been well documented. Besley and Burgess (200) have found that areas of Indian states with the highest newspaper circulation received significantly more food assistance than other areas. Strömberg (2004) uncovers similar effects on state assistance to individuals for radio ownership in the US during the Great Depression. Adserá (2003), et al. conclude that newspaper circulation significantly reduces corruption.

Keefer and Vlaicu (2004) model the behavior of non-credible politicians, allowing them to expend resources to build up their credibility, or to rely on credible intermediaries, patrons who can make credible promises to clients. Predicted policy outcomes are precisely those that one observes in democracies where the influence of patrons is thought to be significant: high corruption, low public good provision, and unyielding pressures to provide

private goods to narrow groups of voters. The key insight, however, is that clientelism is not assumed, but emerges from politician efforts to solve their credibility problem.

The credibility of political promises is more difficult than information to measure directly. However, the theory of credibility and clientelism provides a powerful device for interpreting another robust finding in the cross-country literature, the significant effect of “years of democracy”, or in Keefer (2004b), the continuous years of competitive elections, on policy outcomes. If it is the case that political competitors in younger democracies have had less opportunity to build up credibility, then we would expect younger democracies to exhibit precisely the behavior predicted in Keefer and Vlaicu (2004). This seems to be the case. Keefer (2004b) finds that young democracies engage in more targeted spending (the government wage bill and spending on targetable public investment are high relative to GDP); provide fewer public goods (secondary school enrollment, bureaucratic quality and the rule of law are all low); and high rent-seeking (corruption is high).

The evidence outlined earlier strongly suggests that many democracies exhibit a serious breakdown in accountability relations between governments and the governed. These breakdowns are not easily explained by differences across democracies in interest group behavior or in formal electoral and political institutions. They do seem to be explained by the underlying ingredients that are key in all contracting situations: citizen (consumer) information about the policy performance of the government (product); and citizen (consumer) confidence in the performance promises of the politician (seller). Nevertheless, and not surprisingly, important questions remain.

For example, what is the effect of voter information on public good provision? Government’s most important activities, the ones most necessary to spur development, are related to the provision of public goods, be it control of infectious disease, provision of universal education, or pollution regulation. There is no data or theory that tell us whether informed voters are likely to spur greater public good provision, although information has a demonstrably powerful effect on other types of government decisions.

What determines the transition from unaccountable to accountable democracy? Acemoglu, Johnson and Robinson have discovered important links between colonial origins of countries and their 20th century economic performance. Is there something about the origins of countries that influences the evolution of voter information or the pre-electoral credibility of political actors? Keefer and Vlaicu (2004) suggest that Britain developed an accountable democracy following the dramatic expansion of the franchise through the 1800s because credible political competitors were in place prior to this process. In contrast, the Dominican Republic in 1961, just after the assassination of Rafael Trujillo, had no credible political parties or competitors, and has had a much more difficult political and economic trajectory since the advent of elected government. This leads one to ask whether the elite preferences and initial factor endowments described by Acemoglu, Johnson and Robinson influence not only the evolution of political institutions, but also the underlying conditions of political competition.

Finally, what are the sources of secure property rights? The prevailing wisdom, based on compelling arguments from Acemoglu, Johnson and Robinson, North and Weingast (1989) and many others, suggest that they emerge from formal institutions, particularly political checks and balances. But secure property rights have a public good element to them: expropriation of one investor drives off all investors, suppressing

economic opportunities for all citizens. Do the conditions of political competition, such as the credibility of political promises and the extent of voter information, also influence the security of property rights? It is certainly the case that, even controlling for political checks and balances, the age of a democracy has a strong effect on the security of property rights.

The research agenda charted here is entirely complementary to the existing literature. It recognizes that history matters, and is likely to matter for reasons similar to those discovered by Acemoglu, Johnson and Robinson. It recognizes that political decision making is not only about the formal institutions of government, as much of comparative politics reminds us. And it gives prominence to a rigorous analysis of how the strategies of political competitors change in different institutional and non-institutional environments, consistent with the political economy tradition brought into full bloom with the recent work of Persson and Tabellini (2000). Arbitrating across these different conceptual approaches to the political economy of development seems a natural course to follow in explaining the continuing puzzles of failing democracies, successful autocracies, and the transformation of clientelist governments into accountable governments.

Note: For an extended, early version of the observations here, see Keefer (2004c).

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