



**UNIVERSITÀ CATTOLICA DEL SACRO CUORE
MILANO**

Dottorato di Ricerca in Istituzioni e Politiche

Ciclo XXIV

S.S.D. SECS-P/02 SPS/04

**DEMOCRACY, INSTITUTIONS, AND GROWTH.
EXPLORING THE BLACK BOX**

Coordinatore: Ch.mo Prof. Paolo COLOMBO

**Tesi di Dottorato di: Domenico Rossignoli
Matricola 3710370**

Tutor: Ch.mo Prof. Simona BERETTA

Ch.mo Prof. Mario Agostino MAGGIONI

Anno Accademico 2012/2013

A Rossana, Emanuele e Isacco

Table of contents

Introduction	6
Section I The theoretical framework.....	10
1. Introducing the academic debate: democracy, institutions and growth.....	10
2. Stylized facts about democracy and growth in the Post-War period	12
2.1. Patterns of growth and democracy in the long-run: empirical facts	13
2.1.1. Patterns of economic growth in the long-run.....	13
2.1.2. Patterns of democratization in the long-run	16
2.1.3. Jointly looking at democracy and growth in the long-run: a pattern of strong correlation.....	18
2.2. Measuring democracy and growth in the long-run (1980-2010).....	20
2.3. The patterns of political and economic development: a new analytical tool .	22
2.3.1. Democracy and growth: outcome of the analysis	25
2.3.2. The world’s development patterns in a snapshot: population, size and conflict	32
2.3.3. Region-specific effects: the role of conflict.....	33
2.4. Dynamic analysis of the patterns of political-economic development.....	35
2.5. Stylized facts of post-War history.....	38
3. Democracy, institutions and growth: a framework of analysis	39
3.1. Revisiting the New Institutional Hypothesis: a paradox partially neglected	40
3.2. Democracy, institutions and growth: a framework of analysis	44
3.3. The quality of democracy.....	50
4. Democracy, institutions and growth: peering inside the black box	55
4.1. Institutions and growth: literature review.....	56
4.1.1. At the core of economic institutions: unbundling Property Rights	58
4.1.2. Where economics happen: markets	61
4.1.3. Constitutions, Forms of Governments and Political Institutions	63
4.1.4. At the core of political activity: the power of Elites.....	66
4.1.5. Rule of law and freedom.....	67
4.2. Democracy and institutions: a self-reinforcing relationship.....	76
4.2.1. Olson’s “encompassing interest”	76
4.2.2. North and the New Institutional Perspective	79
4.3. Is democracy harmful to growth?.....	81
5. Defining the key concepts: growth, institutions and democracy	87
5.1. The long-lasting search for economic growth.....	87

5.1.1.	Proximate and deep determinants of growth.....	90
5.2.	Institutions: why do they matter?.....	96
5.2.1.	A definition of institutions	96
5.2.2.	Endogeneity and persistency	98
5.2.3.	A brief historical example: the Constitution of the United States	101
5.2.4.	Remarks and integrations	102
5.2.5.	Institutions: a classification.....	103
5.3.	Defining Democracy	106
5.3.1.	A world of States	106
5.3.2.	Power and conflict in political regimes	107
5.3.3.	A Schumpeterian definition of democracy	108
5.3.4.	Procedures and rules: some integrations	109
5.3.5.	Representative Democracy	110
5.3.6.	Extended definitions	111
Section II Empirical investigation: how democracy, institutions and growth connect ..		114
6.	Review of empirical literature.....	114
6.1.	Institutions and growth.....	114
6.1.1.	The NIEs revolution	114
6.1.2.	An overwhelming consensus: institutions do matter for growth	117
6.2.	Democracy, political institutions, and growth	121
6.2.1.	An almost overwhelming consensus: inconclusiveness.....	121
6.2.2.	Democratization and growth in developing countries	126
6.3.	Democracy and institutions	130
7.	Inside the black box: the empirical strategy	132
7.1.	A framework of analysis of democracy, institutions and growth	132
7.1.1.	Identification strategy	132
7.1.2.	Estimation techniques.....	137
7.2.	The hypothesis to be tested made explicit	141
7.2.1.	The institutions-enhancing effect of democracy	143
7.2.2.	Does quality of democracy matter?.....	145
7.3.	Description of the adopted institutional proxies	146
7.3.1.	Democracy	146
7.3.2.	Economic Institutions.....	148
7.3.3.	Rule of law.....	149
7.3.4.	Some conclusive remarks.....	151
7.4.	Results and findings: institutions matter	152

7.4.1.	System-GMM: baseline model.....	152
7.4.2.	System-GMM: Testing hypothesis 1	159
7.4.3.	System-GMM: Testing hypothesis 2	161
7.4.4.	System-GMM: Testing hypothesis 3	162
7.4.5.	System-GMM: Testing hypothesis 4	164
7.4.6.	System-GMM: some final remarks.....	166
7.4.7.	Fixed-effect OLS	167
7.5.	Results and findings: democracy improves institutions	173
7.5.1.	Democracy and economic institutions.....	173
7.5.2.	Democracy and the rule of law	175
7.6.	Sensitivity analysis: democracy scores unbundled	181
7.7.	Results and findings: the overall effect of democracy.....	190
7.8.	Summary of the findings	194
8.	The quality of democracy: a further tentative investigation	197
8.1.	Democracy and voter turnout.....	197
8.1.1.	Results and comments	199
8.2.	Democracy and Special-Interest Groups.....	203
9.	Conclusions	208
	Appendix A	214
	Appendix B	219
	Index of tables.....	220
	Index of figures.....	221
	References.....	222