Abstract

Non-democratic regimes vary in the degree to which domestic groups threaten their rule and the extent to which they need the cooperation of these groups. To both neutralize threats to their rule and solicit cooperation, some dictators coopt potential domestic opposition by providing rents and policy concessions within nominally-democratic institutions, such as legislatures and political parties. These institutions, designed as instruments of cooptation, facilitate cooperation between the regime and outside groups which promotes economic growth.

Introduction

Some countries experience phenomenal rates of economic growth while governed by dictatorship. The East Asian “tigers”, such as Malaysia, Singapore, Taiwan, and South Korea all achieved growth rates of over ten percent under the thumb of dictators. Yet some of the worst economic disasters also occur under dictatorial regimes: both short-lived crises and long-term devastation resulting from years of neglect and theft, as in the case of Zaire under Mobutu Sese Seko.

South Korea and Zaire constitute the paradigmatic comparison. In 1960, per capita incomes in South Korea and Zaire were similar, and in fact the prospects of development were thought to be relatively higher in Zaire due to its resource, wealth and size. The economic expansion of South Korea, however, accompanied years of military...
dictatorship beginning with General Park Chun Hee while Zaire’s economy precipitously declined under Mobutu. The result was that thirty years later average income in Korea was 45 times greater than in Zaire. More generally, the variance in performance is higher in dictatorships than in democracies: in spells of dictatorship, or consecutive years of dictatorship within a country, average annual growth rates range from -11.21 percent to 12.06 percent. In contrast, democratic spells never witness averages below -6.70 percent or above 9.34 percent. What accounts for these differences in economic growth among dictatorships?

The central claim of this paper is that dictatorships are not alike in their political organization, which in turn has consequences for economic growth. Dictatorships vary in the degree to which domestic groups within society threaten their rule and the extent to which they need the cooperation of outside groups to govern. To both neutralize threats to their rule and solicit cooperation, some dictators coopt potential domestic opposition by providing rents and policy concessions within nominally-democratic institutions, such as legislatures and political parties. These institutions, designed as instruments of cooptation, insure the cooperation between the regime and outside groups that is necessary for development.

Yet dictators also may vary in their motives. The contrasting development trajectories of South Korea and Zaire, for example, are often attributed to the differing priorities and attitudes of their leaders: Park and his successors had developmental aims while Mobutu did not. Dictators who prioritize economic development may also have “tutelary” motives in politics, believing that their societies must be prepared before they can govern responsibly under democracy. If “developmental” and “tutelary” motives go hand-in-hand, however, dictators who govern with nominally-democratic institutions may be “unusual” in comparison to rulers who preside over non-institutionalized regimes. In this case, the selection of political institutions and the decision to prioritize economic development are not independent, and empirical approaches that assume so will produce biased estimates. To deal with this potential problem, the effect of institutions on economic growth is estimated using a Heckman selection model. Findings from the model show that legislatures and parties do have an effect on economic growth under dictatorship.

The paper proceeds as follows. The next section is a discussion of the heterogeneity of dictators, followed by theoretical sections that examine the systematic, observable reasons for why some dictators govern
with legislatures and parties and the implications for economic growth. The empirical portion of the paper begins with a description of the data and methods used, followed by the results and a discussion of the findings that situates them in the context of both older and contemporary work on the political economy of development. The paper concludes with a discussion of the importance of formal political institutions for understanding the political behavior of non-democratic states.

**Heterogeneity of Dictators**

Upon assuming power, dictators adopt a variety of titles. Some, such as Gamal Nasser in Egypt and Jaafar el-Nemery in Sudan, are chairmen of Revolutionary Command Councils. Other dictators are chairmen of their own collective bodies, whether they are Supreme Councils (e.g. Alfredo Poveda Burbano in Ecuador), People’s Redemption Councils (e.g. Samuel Doe in Liberia), National Provisional Ruling Councils (e.g. Valentine Strasser in Sierra Leone), or State Peace and Development Councils (e.g. Than Shwe in Myanmar). If authoritarian rulers prefer to be known as the sole head of government, they are presidents, prime ministers, emirs, kings, or more creatively, spiritual leaders (e.g. Ayatollah Khomeini in Iran) and Leaders of the Revolution (e.g. Muammar Qaddafi in Libya). Throughout communist countries, the effective head of government is the general-secretary of the Communist Party.

While in office, authoritarian rulers also appear to vary in their aims. Following Wintrobe’s (1998) distinction, some dictators appear to be “totalitarians”, exerting as much control as possible over society. Mao, for example, believed that regular purges were beneficial blood-letting that prevented stagnation and complacency within society (Short 2000). Pol Pot, for similar reasons, managed to kill over two million Cambodians in three years. Other authoritarian leaders are “tinpots” who seemingly care more about amassing assets than repressing others. As Ferdinand Marcos’ wife, Imelda, once said: “At least, when they opened my closets, they found shoes, not skeletons” (Quoted in Diaz 2003). Rents from the sale of oil and mineral resources have similarly allowed the likes of Mobutu and others to indulge in profligate spending.

Yet in contrast to Marcos and Mobutu who sought only to pilfer from their national coffers, some authoritarian rulers, such as Park in
South Korea and Lee Kuan Yew in Singapore, have a developmental outlook to which their countries’ miraculous growth is sometimes attributed. Developmental leaders may prioritize economic development due to the exigencies of nation-building or of catching up with developed countries. Leaders’ own personal exposure to the developed world may even influence their outlook.

The goal of economic development is sometimes accompanied by concern about political development. Some dictators clearly view their regimes as necessary, but transitory, periods for improving the political and economic climate of their countries. President Ernesto Geisel, for example, gave a speech before the Brazilian cabinet in 1974, describing the improvement in economic conditions over the past ten years that was a result of the military’s prioritization of development. In addition, he explained:

[...]

In regard to domestic politics, we shall welcome sincere movements toward gradual but sure democratic progress, expanding honest and mutually respectful dialogue and encouraging more participation from responsible elites and from the people in general. (Quoted in Loveman and Davies 1989, p. 232)

As Geisel went on to clarify:

One must not accuse this doctrine of being antidemocratic when [...] it is essentially aiming at perfecting, in realistic terms, democratic practices and adapting them in a way better suited to the characteristics of our people and to the current stage of the social and political revolution of the country. (Quoted in Loveman and Davies 1989, p. 232-233)

President Francisco Morales Bermudez in Peru similarly emphasized how “tutelary” rule would proceed in stages:

[...] our revolution can not be imposed by blood and fire [...] the most acute problem which a movement such as ours has to face is how to carry out profound structural change while still guaranteeing personal freedom. The solution we have found is gradualism. (Quoted in Loveman and Davies 1989, p. 261)

Both Geisel and Morales Bermudez were military dictators, and the heterogeneity of military dictators is well-known. Generals in Chile and Uruguay, for example, seized power in the 1970s to deal with leftist threats. Other military leaders in Ecuador and Peru staged coups to usher in leftist revolutions. Still other members of the armed forces ruled as caudillos rather than as part of an institutionalized military regime. Class background, military training, and attitudes toward civilian authority may determine whether military leaders are revolutionaries, reformers, or just “men on horseback” (Finer 1976;
see also Nordlinger 1977; Stepan 1971; Perlmutt 1977; Rouquié 1987). Yet good ways of sorting out these differences in motives among military dictators remain illusive.

As the words of the two military leaders show, however, some dictators appear to be “enlightened” in that they seek both to improve economic conditions and to gradually reintroduce democratic institutions. They may even view the two goals as linked, using institutions such as legislatures and political parties to facilitate economic growth.

**Dictatorial Institutions**

The fact that non-democratic leaders can change the institutional architecture seemingly at will, suggests that assemblies and parties, are of little importance in understanding politics under authoritarian regimes. Yet if legislatures and parties are nothing but mere ornamentation, then why would some dictators “dress their windows?” More generally, do institutions normally associated with democratic politics, such as legislatures and parties, play a role in authoritarian regimes? Do these formal institutions have systematic effects on political life under dictatorship?

In order to understand the effects of these institutions on outcomes such as economic development, it is important to determine why dictators have these institutions in the first place. Aside from “tutelary” motives, then, why would authoritarian rulers govern with legislatures and political parties? I claim that legislative and partisan arrangements are a strategic response on the part of dictators to two basic problems of governance: how to thwart rebellion and how to induce cooperation from the population.

Political survival is the foremost goal for most political leaders – whether it is to enjoy the value of office or to enact their preferred policies (or those of their constituents). To maintain power, autocratic leaders must neutralize threats to their rule that stem both from the ruling elite and from society at large. To coopt rivals within the ruling elite, dictators frequently rely on executive committees, juntas, consultative councils, and other smaller institutions in which most of the important decisions are made and the spoils of office are

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1 A formal treatment of these conditions is in GANDHI and PRZEWORSKI (2006).
distributed. A regime party also serves to maintain stable mechanisms for recruitment and the distribution of patronage among elites (Brownlee 2007; Geddes 1999; Magaloni 2006). While dictators must cultivate the support of those within the inner circle of the regime, they must also be concerned about society below. Some dictators are eventually overthrown by a popular revolution, like Mohammad Reza Pahlevi in Iran; or they may be forced to flee under an imminent threat of one, like Marcos in the Philippines.

Yet dictators must do more than just avert rebellion. They rule over states, and the task of governance is difficult. Even if dictators act merely in their own interest, if they are “predatory”, up to a point they benefit more when the country is militarily secure and the economy functions well (Levi 1988; McGuire and Olson 1996). Yet a functioning economy requires the regime to provide incentives for people to reveal their private information, to work, and to save. Hence, dictators must make concessions to induce the cooperation of groups within society which include professional societies, religious organizations, student groups, and business associations.

In exchange for their cooperation with the regime, domestic groups demand both rents and policy concessions for themselves. While authoritarian incumbents may distribute perks and privileges outside of institutional arenas, legislatures and parties are necessary for making policy concessions. For the dictator, legislatures are ideal because they allow for controlled bargaining but at lower cost. The dictator can select the groups to be granted access. Polish communists, for example, repeatedly sought participation of some Catholic groups: in a 1990 interview (translated from Rolicki 1990), the former first secretary of the Polish United Workers’ (Communist) Party, Edward Gierek, revealed that he “intended to introduce to the Sejm [Parliament] a significant group of 25 percent of Catholic deputies. [...] It would have permitted us [...]”, Gierek continued, “to broaden the political base of the authorities”. Encapsulating these groups within a legislature allows the dictator to negotiate over various policy realms without having to reconstitute his bargaining partner each time.

An assembly also serves as a forum for negotiations in which preferences and information can be revealed. As Jomo Kenyatta said in 1964 in a speech to the Kenyan House of Representatives:

What this House must contribute to the Republic is something far more than just machinery which can give the plans and requirements of the Government their lawful status. This must be our forum, for discussion and proposal, for question, objection, or advice. [...] serving as the place where the elders and the
spokesmen of the people are expected and enabled to confer. (Quoted in Stultz 1970, p. 325-326)

The manner in which these legislatures are selected and organized, varies considerably. Legislators may be appointed by the regime, as they were in Ethiopia under the early years of Haile Selassie or at various points under Sukarno in Indonesia. Or they may be elected directly by citizens. Dictators may allow for part of the assembly to be filled by election while keeping a proportion of seats under appointment. Even when elections are allowed, candidates must often be approved by government-controlled bodies. In Iran, for example, the Guardian Council, a conservative body of clerics, vets all candidates for elected office who also are required to run for office as independents. Table 1 shows the distribution of legislative arrangements by method of selection of members across regions.

Table 1 shows that in most dictatorships that permit legislatures, election is the primary method of selection. In 69.8 percent of cases in which a dictatorial legislature exists, elections determine its membership. In each region, well over the majority of dictatorial legislatures are selected by election. In states with a communist legacy, almost all legislatures are elected while the region that displays the most heterogeneity in legislative arrangements is the Middle East and North Africa.

Political parties are another means by which autocratic leaders can encapsulate groups within society. Within a regime party, “groupings”

<table>
<thead>
<tr>
<th>Region</th>
<th>Dictatorial legislatures</th>
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<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>356 76 1002 1434</td>
</tr>
<tr>
<td>Middle East/North Africa</td>
<td>275 65 379 719</td>
</tr>
<tr>
<td>Asia</td>
<td>146 101 619 866</td>
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<tr>
<td>Latin America/Caribbean</td>
<td>183 2 375 560</td>
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<tr>
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<td>7 30 53 90</td>
</tr>
<tr>
<td>Total</td>
<td>968 274 2875 4117</td>
</tr>
</tbody>
</table>

Listed in country-year units of observation
or “factions” may organize to stand for the interests of labor unions, professional associations, and other social organizations. When outside groups are strong enough to demand more autonomy, the regime may have no choice but to allow for a multiparty system. Even when candidates are allowed to adopt partisan labels, however, a common method of maintaining control is to force parties to join a regime-supportive front. A front is constituted by a single electoral list presented to voters even if parties are allowed to maintain their identities within the legislature. In 251 country-years, fronts were formed. Fronts are common in most, but not all communist countries, and elsewhere, such as Madagascar and Syria.

Dictatorships with multiple political parties range from Brazil in which the regime created official “government” and “opposition” parties to Algeria where the Islamic party, the Front Islamique du Salut (FIS), exerted its independence so strongly that voters almost gave it the majority of seats in 1991 legislative elections. These cases may appear to be qualitatively different so that their combination within one category appears objectionable: a party created by the regime is not the same as a challenger that emerges from the outside. Yet the independence of these parties is a matter of degree that is difficult to classify ex ante. While FIS emerged independently, for example, it was ultimately shut down by the military government. Conversely, while Brazil’s two legislative parties were set up by the military regime, they both ended up challenging it. Because ex ante judgment of which parties exhibit true autonomy are ad hoc, it is better to rely on observables to determine whether the effects of these parties on outcomes can lead to inferences on how independent they truly are.

Because rules or norms generally do not exist for how dictators should organize political life, authoritarian regimes exhibit a plethora of institutional arrangements. Legislative candidates may be forced to run as non-partisan agents if the regime allows for a legislature, but no political parties. Or they may be forced to stand as representatives of the single regime party if more independent groupings are not allowed. Alternatively, many dictators have allowed for autonomous organization from the regime in the form of an official “opposition” party or several groupings. Table 2 shows again by region the distribution of party arrangements.

Party systems in dictatorships exhibit much more variation across regions than legislatures. The dominance of a single party state is apparent not just in communist Eastern Europe, but also in sub-Saharan Africa. Dictatorial regimes in Latin America are much more
likely to allow multiple parties to operate; in some cases, these parties are newly formed, but at other times, they are parties that operated during previously democratic periods. In Asia, single party and multiple party regimes are almost equally present. Finally, the Middle East and North Africa is the only region in which dictatorships are most likely to ban parties completely.

For the dictator, opposition demands and concessions made within a closed forum such as a legislature or a party are better than their expression on the street. Within the halls of an assembly, demands do not appear to be acts of resistance and concessions do not seem like capitulations. Compromises can be hammered out without undue public scrutiny, and the resulting agreements can be dressed in a legalistic form and publicized as such. In Jordan, for example, once King Hussein offered the Muslim Brotherhood some influence over educational and religious policies, the group shifted from denouncing the regime on the streets to articulating its demands within the legislature (Schwedler 2006).

For domestic groups, collaboration with the regime may be driven by pursuit of narrow interests or a desire to transform the dictatorship from within. When dictatorship seems likely for the foreseeable future, outside groups may prefer limited influence to interminable waiting. Having an institutional forum in which they can learn the regime’s intentions and voice their own demands without precipitating punishment is beneficial. Participation within a legislature also

<table>
<thead>
<tr>
<th>Region</th>
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<td>64</td>
<td>448</td>
</tr>
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<td>Western Europe</td>
<td>7</td>
<td>57</td>
<td>26</td>
<td>90</td>
</tr>
<tr>
<td>Total</td>
<td>877</td>
<td>1738</td>
<td>1482</td>
<td>4097</td>
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</table>

Listed in country-year units of observation
somewhat reduces uncertainty over whether the incorporated groups will be included in future bargaining with the regime.

Parties under dictatorship, of course, do not offer the resources and reputational benefits necessary for winning elections as they do under democracy. Yet even within dictatorial legislatures, parties reduce the transaction costs among members of forming new coalitions over successive legislative issues (Aldrich 1995). Large and stable coalitions have a better chance of challenging the dictator and extracting more concessions. In Brazil, for example, the Movimento Democrático Brasileiro (MDB), constituted as the voice of the opposition in parliament, successfully rejected a government-sponsored tax bill, an international trade bill, and an effort to lift the immunity of a parliamentarian whom the military wished to prosecute for insulting the armed forces during a speech.

In the exchange of cooperation for policy concessions, dictatorial legislatures and parties have an asymmetric effect in the degree to which they reduce the costs of bargaining. The dictator still maintains the upper hand because he retains the power to close these institutions. As a result, institutions under authoritarianism do not completely resolve problems of time inconsistency and uncertainty for participating groups as much as they do for the dictator himself. Yet even in the shadow of this potential arbitrary power, institutions still reduce some of the insecurity and costs of bargaining for incorporated groups (even if these costs are not zero) since dictators cannot close institutions without some costs. When the Algerian military, for example, closed the legislature due to FIS’ imminent victory in elections, even members of the regime party, the Front de Libération Nationale (FLN), protested and the country was plunged into civil war. Because closing institutions entails some costs, dictators cannot so easily renege on bargains.

Consequently, when dictators need to incorporate larger groups, such as unions, professional associations, and religious organizations, they use legislatures and political parties. Legislatures provide information about the preferences of these groups, a safe forum in which the regime can negotiate with them, and an efficient mechanism by which to target spoils and policy concessions. If outsiders cooperate within these institutions, the dictator expands the social basis of the regime. He insures that some parts of the population have a vested economic ones: one side always retains the power to coerce the other (Moe 1990).

\[\text{\footnotesize \textsuperscript{2}}\] In fact, even in democracies, institutions never reduce transaction costs symmetrically since political exchanges are unlike voluntary economic ones: one side always retains the power to coerce the other (Moe 1990).
interest in the maintenance of his rule. But it is important to note that not all dictators will make concessions. The disbursement of rents and the degree of policy compromise depend on the size of the threat authoritarian rulers face and the degree to which they need cooperation from the rest of society. But if the threat is large and they need cooperation, they will make concessions to maintain power.

**Implications for Economic Growth**

With similar motivations and complete information, dictators who face a weak threat of opposition from domestic groups and do not need the support of outsiders, make no concessions to society. As a result, they do not need to govern with the institutional apparatus that is necessary to make concessions to coopt outside groups. Potential opposition will be pacified, but the regime is unlikely to have the active cooperation of substantial portions of the population.

In contrast, other dictatorships that face potentially strong threats to their rule and need the support of outsiders have institutions so that they can make compromises necessary to neutralize these threats and to solicit cooperation. Institutions, however, do more than just quell the potential opposition. They provide a framework through which the regime and interest groups can cooperate. The mere existence of a legislature with semi-autonomous parties implies both that the dictator at least announces his current wishes and that there are some internal rules that regulate the prerogatives of respective powers.

Individuals have incentives to collaborate with the regime, and cooperation may come in many forms. It may involve agreement to desist from strikes and other forms of open protest that could hurt investment incentives. Workers and entrepreneurs in Ecuador, for example, would not have organized general strikes against the military regime had the dictatorship not closed the National Assembly and banned several parties and unions (Isaacs 1993; Neuhouser 1996). With institutionalized access to decision-making, even if outside groups disagree with the regime on particular policies, they are broadly committed to political peace and economic stability.

A more active form of collaboration occurs because institutions transmit information, provide a forum for negotiations, and allow the dictatorship to align incentives with effort. Both legislatures and
parties can serve as conveyor belts of information between the regime and society. Of the Tanganyika African National Union (TANU), Julius Nyerere once said:

> It is also necessary to have a strong political organization active in every village, which acts like a two-way all-weather road along which the purposes, plans and problems of government can travel to the people at the same time as the ideas, desires and misunderstandings of the people can travel to government. This is the job of the new TANU. (Quoted in Bienen 1970, pp. 165-166)

This type of cooperation between the regime and society (i.e., more than the absence of political violence and instability) is not only unique to institutionalized dictatorships, but also necessary to overcome market failures that may impede development.

In addition, when outside groups have some access to decision-making – even if limited – they may be more willing to make costly and longer-term investments. Firms, making these investments and developing technological spillovers, need reassurances that their efforts are not made in vain. Domestic owners of capital in Ecuador protested against the military dictatorship even though the generals were willing to enact policies in their interests precisely for this reason:

> Without access to decision making […] although other economic policies clearly were beneficial to industrialists, the regime had shown that it could impose policies that capitalists were unable to shape or stop. Despite official rhetoric, there were no guarantees that their interests were secure […]. (Neuhouser 1996, pp. 646-647)

While institutions under dictatorship do not constitute completely credible commitments, they can still lower uncertainty for domestic groups participating within them.

Due to political stability or somewhat credible commitments that encourage investment or due to informational flows that increase allocative efficiency, dictatorships with higher levels of institutionalization should experience higher rates of growth than authoritarian regimes with fewer institutional foundations. The following sections will proceed to empirically assess this claim.

### Data

The dependent variable is GDP Growth, the annual rate of growth of real GDP measured in PPP dollars, 1985 international prices. YG is
constructed from data provided by Penn World Tables (Summers and Heston 1991) and Easterly and Sewadeh (2001). Data are available for dictatorships in 114 countries during the period 1951 to 1996.

The independent variable of primary interest is Institutions, coded 2 if the dictatorship has a legislature with multiple political parties (i.e., broadened dictatorship), 1 if the regime has a legislature and/or single party (i.e. narrow dictatorship), and 0 if otherwise (e.g. non-institutionalized dictatorship). Dictatorships are identified by the dichotomous regime classification of Przeworski et al. (2000). Within authoritarian regimes, a legislature is a body with formal legislative powers. As defined, legislatures under dictatorship do not include: 1) juntas due to their fusion of executive and legislative powers, 2) consultative councils due to their lack of formal legislative power, and 3) constitutive assemblies if they do not consider ordinary legislation. Political parties here are defined by their de jure existence. If the regime formally bans political parties, they are considered non-existent even if some may still operate underground. Alternatively, the regime may create its own single party. “Groupings” or “factions” within the regime party do not constitute a multiparty system. In addition, when multiple political parties are allowed, but are forced to join a “front” with the regime party, the arrangement is considered to be a single party. There may be other parties outside of the regime party, but they are not strong enough to resist the regime’s demands that they stand together on electoral lists. In the barebones model, growth of output, GDP Growth, is determined by growth of two productive inputs, capital stock (Capital) and labor force (Labor), lagged by one year. Both variables are constructed with Penn World Tables data with missing values of the former filled by imputation (details are in Przeworski et al. 2000). Both factors are expected to have a positive effect on GDP Growth. Table 3 shows descriptive statistics for these variables which will be used in a bare-bones model of economic growth.

3 The 260 observations in which multiple parties exist without a legislature are considered non-institutionalized since in many of these cases, the “parties” are factions to a civil war or residual parties remaining after the emergency closing of a legislature. In addition, this is meant to be a systematic way of thinking about all the various combinations of institutions under dictatorship, not a formal classification of these regimes which would require a much more extensive set of rules that take into account institutional arrangement, type of dictator, changes in heads, and possibly other factors.
History does not produce political institutions randomly, and as a result, the statistical estimation of their effect on outcomes is prone to various pitfalls (King and Zeng 2007; Przeworski 2005; Vreeland 2003). The problem is one of generating correct counterfactuals (Fearon 1991; Jervis 1996) where “correct” is the subject of dispute.

Recall Brazil in 1974 when Geisel spoke to the cabinet about gradual political and economic development under military rule. In that year, the legislature contained the opposition MDB and the regime’s party, Aliança Renovadora Nacional (ARENA). Total output in 1974 Brazil grew at 9.61 percent. Observing the growth rate of 1974 Brazil without institutions would be the ideal match to determine the effect of institutions on economic performance. Yet this counterfactual is impossible since history generates only one Brazil in 1974, and it existed with institutions.

Since no observation will have its perfect match, one strategy would be to just compare those regimes with institutions against those that rule without them. Jean-Bedel Bokassa ruled the Central African Republic without institutions, and the average growth rate under his tenure was 3.15 percent. In neighboring Congo, Alphonse Massamba-Debat governed with a regime party and a legislature, and average growth was 4.74 percent. The with-without approach, then, measures the effect of institutions as the difference between the average growth of regimes with institutions and the average growth of regimes without them. Dictatorships without institutions experienced average growth of 3.80 percent (s.d. = 8.18; N = 329) while those with a single institution grew on average 4.66 percent (s.d. = 7.18;
N = 738). The average growth rate of broadened dictatorships is 4.28 percent (s.d. = 7.91; N = 503). The differences in average growth rates across institutional arrangements are small while the standard deviations are relatively large. As a result, it seems that institutions under dictatorship do not have a significant impact on economic growth. The assumption, however, is that the conditions of regimes that have institutions match exactly the conditions of those regimes that do not.

Another alternative is to exploit the variation in institutional arrangements within the spell of a single regime. During his nineteen years in power, Mathieu Kérékou in Benin steadily institutionalized after initially governing without institutions for two years. Without institutions, average growth was 5.28 percent. With a legislature and a single party, Benin’s economy experienced average growth of 1.77 percent. Once he allowed for multiple legislature parties, growth was 3.50 percent. For the before-after approach, the sample includes only those dictatorships that changed institutions, and the effect of institutions is measured as the difference between the average growth of regimes before and after the introduction of institutions. Without institutions, these dictatorships grew on average 4.20 percent (s.d. = 7.41; N = 300). Once they became narrow dictatorships, their average growth rate was 4.02 percent (s.d. = 6.48; N = 687) while under a full set of institutions, average growth was 4.88 percent (s.d. = 6.56; N = 423). Here the differences-in-means are even smaller than in the with-without comparison, indicating little significant effect of institutions on economic performance. The assumption of this approach, however, is that conditions over time have not changed.

Both the with-without and the before-after approaches make strong assumptions about the randomness of outside conditions whether they are regime- or period-specific. Since the observable conditions of regimes that have institutions may be different from those that forsake them, the institutional effect on growth is estimated by separating the difference due to observed regime conditions from the difference due to the institutions. Once the observed conditions have been accounted for, the effect on growth is assumed to be the remaining difference between the average rates of growth for regimes with and without institutions.

Table 4 shows the results of a regression of annual rate of growth of per capita income on institutions, controlling for the growth rates of capital stock and labor force. The coefficient on Institutions is positive.
and statistically significant even after controlling for observable conditions related to capital and labor.

Dictators, however, do not govern with institutions randomly. The decision to establish institutions is a strategic one made when the dictator faces strong potential opposition and needs cooperation from outside groups. He, then, governs with institutions because they facilitate the exchange of policy concessions for support from domestic groups. To control for the non-randomness of institutions, the observable factors that determine institutionalization can be included in the regression analysis. The results are also shown in Table 4. The barebones growth model, augmented with variables known to affect

\[ \text{Table IV} \]

Regression of annual growth rate of total output on observable factors

<table>
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<tr>
<th></th>
<th>Barebones model</th>
<th>Augmented model</th>
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</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.36*** (0.32)</td>
<td>9.41*** (1.09)</td>
</tr>
<tr>
<td>Institutions</td>
<td>0.48** (0.20)</td>
<td>0.64*** (0.23)</td>
</tr>
<tr>
<td>Capital</td>
<td>0.04*** (0.01)</td>
<td>0.03*** (0.01)</td>
</tr>
<tr>
<td>Labor</td>
<td>0.11 (0.07)</td>
<td>0.13* (0.08)</td>
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<tr>
<td>Resource</td>
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<td>Inherited parties</td>
<td>0.11** (0.22)</td>
<td></td>
</tr>
<tr>
<td>Leadership changes</td>
<td>−0.11** (0.05)</td>
<td></td>
</tr>
<tr>
<td>Purges</td>
<td>0.01 (0.14)</td>
<td></td>
</tr>
<tr>
<td>Other democracies</td>
<td>−14.08*** (2.58)</td>
<td></td>
</tr>
<tr>
<td>Religious difference</td>
<td>−2.42*** (0.64)</td>
<td></td>
</tr>
<tr>
<td>E[GDP Growth] [s.d.]</td>
<td>4.41 [0.69]</td>
<td>4.37 [1.24]</td>
</tr>
<tr>
<td>N</td>
<td>2443</td>
<td>2388</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>1.96</td>
<td>1.98</td>
</tr>
</tbody>
</table>

Standard errors in parentheses. *** indicates p < 0.01, ** p < 0.05, * p < 0.10.

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The model of institutionalization under dictatorship elaborated here is similar to those found in Gandhi (2008) and Gandhi and Przeworski (2006). The Appendix discusses briefly these factors influencing institutionalization.
the selection of institutions, shows an even stronger institutional effect on growth.

Methods that take into account only observable conditions, however, run squarely into the problem of unobserved heterogeneity among dictators. There are observable systematic reasons for why dictators have institutions, but the dictators with “enlightened” motives show that unobservable conditions may also influence both decisions to allow for somewhat pluralist institutions and to prioritize economic growth. In other words, dictators who allow multiple parties to operate within a legislature may be “unusual” in that they are also the rulers who care about economic development. If true, the effects of these unobservable motives must be separated from the effects of institutions to determine the true effect of institutions on growth.

Achen (1986) notes that the effects of selection bias can be avoided in regression analysis if, and only if, the unobserved factors influencing selection are uncorrelated with the unobserved factors influencing outcomes. This condition holds only if the decision to have institutions and the decision to prioritize economic growth are made independently. In other words, methods that rely on observable factors yield unbiased estimates only if dictators never have “tutelary” motives.

Because dictators may vary in their motives, with some “enlightened” more than others, a selection model can determine the extent to which the decisions to institutionalize and to facilitate economic growth are linked. Heckman’s two-step selection model is one way of modeling this relationship (Heckman 1979). It consists of first estimating

\[ \Pr(\text{Institution}_{it} = j) = \alpha Z_{it} + \nu_{it} \]  

where \( i \) stands for country, \( t \) for year, and \( j = 0, 1, 2 \) where \( j \) stands for the degree of institutionalization. \( Z \) is a vector of exogenous independent variables. The first-stage selection equation is estimated by ordered probit and produces the inverse Mill ratios, \( \lambda_{ij} \), which are included in the second-stage performance equation along with \( X \), another vector of independent variables affecting the outcome of interest:

5 The results of this first-stage equation for the sample considered here are in Table VI of the Appendix.
Equation 2 is then estimated separately for each \( j \) subsample. For example, for the subsample, \( j = 0 \), or dictatorships without institutions, we obtain an unbiased estimate of \( \gamma_o \) due to the inclusion of \( \lambda_{i0} \). The estimate, \( \hat{\gamma}_o \), is then applied to the entire sample to create \( \hat{Y}_{i0} = \hat{\gamma}_o X_{ii} \). For each observation, \( \hat{Y}_{i0} \) tells us what the value of \( Y \) would have been in that country-year, had \( j = 0 \), or had the dictatorship had no institutions. The average of all the values of \( \hat{Y}_{i0} \) is simply the average of these counterfactual observations, or the “average value of \( Y \) had all observations existed under no institutions”. The procedure is repeated for \( j = 1 \) and \( j = 2 \), producing average values of \( Y \) had all observations existed under those degrees of institutionalization, respectively. Table 5 provides the second-stage performance equations for each \( j \) subsample. The selection-corrected averages are at the bottom of the respective subsamples.

Once the conditions under which institutions exist are taken into account and control variables included, the selection-corrected
averages show that institutionalized regimes grow faster than their non-institutionalized counterparts. The results show that had all dictators relied on force or tradition alone, their economies on average would have grown at a rate of 3.64 percent. Had all dictatorships been narrowly institutionalized, they would have achieved a slightly higher average rate of growth: 5.09 percent. Yet the highest average growth would have occurred under broadened dictatorships. With a full set of institutions, dictatorships would have had economic expansion at the rate of 7.06 percent per year.

The results are robust to the inclusion of country and regime-fixed effects. The pattern of increasing growth with institutionalization remains even if the growth model is estimated with constrained coefficients\(^6\) and if wealthy oil-producing countries are removed from the sample\(^7\). Inclusion of various control variables, such as per capita income and cumulative years of schooling of the labor force, do not produce qualitatively different results.

**Discussion of Results**

Theoretically, the Heckman model should aid in accounting for possible heterogeneity among dictators in the form of “tutelary” leaders. For this reason, results of this model may be more appealing. Yet the instruments from the model are not always statistically significant, and the selection-corrected results just confirm the findings from the regression analysis based on observables.

Substantively, the finding that dictatorships with legislatures and multiple political parties on average experience better economic performance is interesting in two respects. First, the fact that broadened dictatorships experience higher rates of growth confirms that institutions are being used to facilitate predominantly policy concessions and not rents. If dictatorial legislatures and parties are only to lower the costs of exchanging support for the dictator for

\(^6\) Constraining the coefficients on \(Capital\) and \(Labor\) so that \(\alpha + \beta = 1\) assumes a Cobb-Douglas production function. In general, \(F\) tests indicate that the constraint should be rejected.

\(^7\) Przeworski et al. (2000) remove the wealthy, oil-producing states in the Persian Gulf from their analysis of regimes and growth on the grounds that per capita income is a poor indicator of development in these states.
spoils to domestic groups, then rent-seeking should be highest in broadened dictatorships. To the extent that rent-seeking is detrimental to growth (Mauro 1995; Bardhan 1997), we then should have observed lower growth under institutionalized dictatorships. This, however, was not the case.

Second, the findings refute both older and more contemporary ideas on the role of institutions in development. For “late developing” countries of the post-war period, the state was essential for creating economies of scale, essential markets, and linkages between industries. For many leaders of developing states and proponents of modernization theory, the single party was the apparatus through which the state could create these foundations of development. The single party “represent(ed) the efforts of leaders of ‘more modern’ social forces to suppress ‘more backward’ social forces on the way to modernity” (Kalyvas 1999, p. 328; see also Huntington 1970; Apter 1965). It would implement the bureaucracy’s plans and connect the regime to society, but also

[...] play an active entrepreneurial role in the formation of new ideas, in the establishment of a network of communication for those ideas, and in the linking of the public and the leadership in such a way that power is generated, mobilized, and directed. (Apter 1965, p. 186)

In order to direct citizens, however, the supervisory and coercive roles of the single party become paramount. The single party absorbs any preexisting organization, such as trade unions, or attempts at autonomous organization. In Mexico, for example, a direct Political Agreement in addition to informal links between the Partido Revolucionario Institucional (PRI) and the umbrella organization encompassing most major unions, the Congreso del Trabajo, enabled the regime to claim the support of almost 80 percent of the unionized labor force. In this case, the party can both claim to represent the interests of workers, but also coerce them to abide by the regime’s development plans. The party’s infiltration of society through factory, village, ward committees, or other local organizations enables its supervision and direction of citizens towards meeting the regime’s goals. The mobilization of resources, both physical and human, become possible only through the direct actions of the regime party, and in this case, we should observe higher rates of growth in dictatorships with a more controlled institutional setting, such as a single party.

Yet some scholars of the developmental state argue that dictatorships are more likely to experience growth if they can control interest
groups and their access to decision-making. Because state elites and institutions can not avoid being captured by special interests, the state can effectively intervene in the economy only by insulating itself (Biglais 2002; Haggard 1990; World Bank 1993). Haggard’s summary of the argument is worth quoting at length:

Since authoritarian political arrangements give political elites autonomy from distributionist pressures, they increase the government’s ability to extract resources, provide public goods, and impose the short-term costs associated with efficient economic adjustment. Weak legislatures that limit the representative role of parties, the corporatist organization or interest groups, and recourse to coercion in the face of resistance should all expand governments’ freedom to maneuver on economic policy. (Haggard 1990, p. 262).

Growth, then, is possible only if the pernicious influence of interest groups is eliminated, and the state is autonomous to intervene effectively in the economy. In this case, non-institutionalized regimes overall should have experienced the highest growth rates. 

Yet contrary to the implications of both the modernization and the state autonomy literatures, broadened dictatorships with legislatures and multiple parties, experience higher rates of economic growth. These findings are in line with more recent work that stresses the economic benefits of more inclusive regimes (Olson 1993; McGuire and Olson 1996; Bueno de Mesquita et al. 2003).

The mechanisms by which institutions facilitate growth are as yet unclear. One possibility is that when outside groups have some access to decision-making – even if limited – they may be more willing to make costly and longer-term investments because these institutions constitute somewhat of a commitment that even if not entirely credible, is better than nothing. Another possibility is that institutions facilitate the flow of information between the regime and domestic groups so that resources are mobilized and allocated more efficiently. Lastly, it may be that because institutions provide a forum in which the demands of domestic groups can be made, those demands are not likely to be made in the street. As a result, institutionalized dictatorships should experience less political instability than non-institutionalized regimes. Gandhi and Kim (2005) find evidence of fewer strikes.

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8 The literature on “embedded autonomy” is admittedly more subtle. As Evans explains: “[E]mbedded autonomy depends on the existence of a project shared by a highly developed bureaucratic apparatus with interventive capacity built on historical experience and a relatively organized set of private actors who can provide useful intelligence and a possibility of decentralized implementation” (Evans 1989, p. 575). Yet the links between the state and this “relatively organized set of private actors”, however, never occurs through institutions, such as legislatures and parties.
under broadened dictatorships, suggesting the importance of political stability in inducing growth. Regardless of the mechanism, institutions under dictatorship improve economic performance.

Conclusion

Much of the work on political regimes and economic development has focused on the differences between democracies and dictatorships. In theory, authoritarian regimes may be better able to mobilize the physical and human inputs for development. They can compel savings and investment through various means, including the suppression of wages. Democracies, however, may have an advantage in allocating resources more efficiently due to the accountability of public officials and the rule of law which allows for the protection of property rights and stable policies. The empirical record is somewhat mixed with many studies proclaiming the superior performance of democracies while some dissenting work yields null findings or points out notable outliers⁹. Findings vary significantly depending on definitions or measures of regime type, sample sizes, and methodological approaches.

The empirical inconsistencies in the literature may stem from the fact that each regime type has different advantages (e.g. mobilizing resources versus allocating them efficiently) so that in the aggregate, the difference across democracies and dictatorships washes out. Or it may simply be that the variance in economic performance across democracies and dictatorships is small and likely to not be captured by large differences in institutional structure. The small degree of variance in economic growth across democracies and dictatorships is especially apparent when we begin comparing the performance of non-democracies. Indeed, one of the contentions of this paper is that this is the more interesting empirical puzzle to analyze. But for this, an understanding of the systematic differences across non-democratic regimes is required.

Here I argue that one important difference across dictatorships is in their institutional structure, particularly their legislative and partisan arrangements. When non-democratic leaders govern with assemblies and parties, they do so to make policy concessions to

⁹ The work on this topic is voluminous. For illuminating summaries of the literature, see ARON (2000) and PRZEWORSKI and LIMONGI (1993).
groups outside of the regime. In exchange for policy concessions and distributive benefits that accrue from participation within these institutions, outside groups lend their support and cooperation with the ruling apparatus. Rather than strike, rebel, or take other actions that might disrupt production, outside groups can make their demands known within an institutional forum. In addition, these institutions serve as a forum through which state and society might exchange information, leading to greater allocative efficiency. Finally, these institutions suggest that some constraints, even if not entirely binding, exist on the discretion of state policymakers. For all of these reasons, dictatorships with legislatures and parties experience better economic performance than their non-institutionalized counterparts.

Whether these findings suggest a trade-off between freedom and growth is unclear. Since the comparisons in performance are among strictly non-democratic regimes, they do not speak to whether institutionalized dictatorships grow faster than democracies. As a consequence, it is not possible to conclude whether economic growth must come at the expense of freedom in the form of citizens’ ability to choose their public officials through elections. If looking just at dictatorships, the findings would suggest freedom and growth are compatible in that non-democratic regimes with more inclusive institutional structures also experience better economic performance.

The more difficult issue is whether these institutions create trade-offs in the long-run. Legislatures and political parties within dictatorships may allow for outside groups to participate in some realms of policymaking and may result in material benefits for citizens in the short-run. Yet these institutions also help dictatorial rulers build their bases of support, consolidate power, and survive in office longer (Brownlee 2007; Gandhi and Przeworski 2007; Geddes 1999). As a result, the political and economic benefits that are the products of nominally-democratic institutions under dictatorship may come at the expense of more durable authoritarianism for the future.

More generally, these results comport with the broader idea that politics in authoritarian states is less idiosyncratic than usually portrayed. Autocratic rulers are not free to govern by whim alone, but must deal with key constituencies who can threaten their rule or make governance exceedingly difficult. The key implication, then, is that incentives, constraints, and institutions structure the behavior of political actors within authoritarian regimes as much as they do for their democratic counterparts. The behavior of authoritarian incumbents in
interstate conflict (Lai and Slater 2006; Peceny et al. 2002), for example, provide further examples of these systematic effects.

Much work on authoritarian politics focuses on the role of elites in structuring the behavior of autocratic rulers (e.g. Brownlee 2004; Bueno de Mesquita et al. 2003; Geddes 1999). What the findings in this paper emphasize, however, is that while members of the ruling elite clearly require cooptation, so do larger groups within society. We can understand the actions of authoritarian governments only if we consider the incentives and constraints posed by the wider citizenry along with the elite. Hence, the importance of institutions such as legislatures and political parties in incorporating these larger groups within society.

Appendix

Institutionalization under Dictatorship as First Stage of Heckman Selection Model

Heckman’s two-step selection model is used to correct for selection on unobservables. The first stage selection equation models the choice of dictatorial institutions which depends on systematic reasons: namely, how badly the dictator needs cooperation from outside groups and the strength of the potential opposition of these domestic groups. Proxies for these factors are discussed briefly here and in greater detail in Gandhi (2008) and Gandhi and Przeworski (2006).

The dictator’s need for cooperation is proxied by:

- the type of dictator (Civilian, Military): because they cannot rely on the armed forces or familial networks to gain cooperation, civilian dictators rely on parties to govern and are expected to build more institutions. Military is a dummy variable coded 1 if the effective head is or ever was a member of the military by profession, 0 if not. Civilian is a dummy variable coded 1 if the effective head of government is neither a member of the military nor a monarch.

- whether he has control over natural resources (Resource): dictators who cannot generate rents through the sale of natural resources must use institutions to obtain the cooperation of private agents who can work, save, and invest to increase national income. Resource is
The strength of the potential opposition is proxied by:

- the number of institutions inherited from the previous dictator (*Inherited parties*): when some segments of society are already organized and capable of using pre-existing structures, such as previous parties, to mobilize, the potential opposition is stronger and likely to extract more institutional concessions. *Inherited parties* is coded 0 if the previous dictatorship was non-institutionalized, 1 if it was a narrow dictatorship, and 2 if it was a broadened dictatorship.

- the accumulated number of leaders within a dictatorial spell excepting those dictators who died naturally (*Leadership changes*): the fewer the past changes of leaders, the more stable is the dictatorship, the less likely is opposition strength to be high, and the fewer institutions will emerge.

- the number of purges (*Purges*): a higher number of purges indicates higher capacity and propensity to repress diminishing the strength of the opposition and resulting in fewer concessions from the dictator.

- the percentage of other countries in the world that are democracies (*Other democracies*): external pressure for countries to liberalize may help the opposition mount a challenge and create obstacles for regimes trying to answer with repression. This pressure increases when more other countries are democratic, leading to greater opposition strength and more concessions from the dictator.

- religious differentiation (*Religious difference*): when the dictator and opposition are less polarized along some dimension, the opposition is more likely to obtain institutions from the dictator. This index of religious fractionalization is calculated as $1 - \sum p_i^2$ where $p_i$ indicates the share of the population that is Catholic, Protestant, Moslem, or of “other” religions.

The dependent variable is *Institutions* which is coded 0 if there are no institutions, 1 if there is a single, tightly controlled institution such as a regime party, and 2 if there are multiple parties within a legislature. Table 6 presents the results of the ordered probit used to estimate *Institutions* as a function of the indicators discussed above.
First-stage ordered probit of degree of institutions under dictatorship from Heckman selection model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.92*** (0.18)</td>
</tr>
<tr>
<td>Resource</td>
<td>-0.37*** (0.06)</td>
</tr>
<tr>
<td>Military</td>
<td>-0.34*** (0.09)</td>
</tr>
<tr>
<td>Civilian</td>
<td>0.38*** (0.09)</td>
</tr>
<tr>
<td>Inherited parties</td>
<td>0.49*** (0.04)</td>
</tr>
<tr>
<td>Leadership changes</td>
<td>0.05*** (0.01)</td>
</tr>
<tr>
<td>Purges</td>
<td>-0.09*** (0.03)</td>
</tr>
<tr>
<td>Other democracies</td>
<td>3.85*** (0.43)</td>
</tr>
<tr>
<td>Religious difference</td>
<td>-0.38*** (0.11)</td>
</tr>
<tr>
<td>μ</td>
<td>1.62*** (0.04)</td>
</tr>
</tbody>
</table>

Standard errors in parentheses below coefficients. *** indicates p ≤ 0.01, ** p ≤ 0.05, * p ≤ 0.10

Frequencies of actual and predicted outcomes

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<tr>
<th>Actual</th>
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<th>2</th>
<th>Total</th>
</tr>
</thead>
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<td>0</td>
<td></td>
<td>89</td>
<td>338</td>
<td>36</td>
<td>403</td>
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<tr>
<td>1</td>
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<td>11</td>
<td>420</td>
<td>258</td>
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<tr>
<td>Total</td>
<td></td>
<td>155</td>
<td>1841</td>
<td>392</td>
<td>2388</td>
</tr>
</tbody>
</table>

Predicted values are those with highest probabilities.

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Résumé
Les régimes dictatoriaux varient notamment selon la menace que des groupes d’opposants peuvent représenter et selon leur besoin de coopération de la part de la population. À ces deux fins, certaines dictatures font des concessions aux institutions démocratiques de façade maintenues: parlement et partis politiques. La croissance économique s’en trouve favorisée par rapport aux autres régimes dictatoriaux plus durs.

Zusammenfassung
Diktaturen unterscheiden sich, je nachdem ob Regimegegner eine Bedrohung darstellen und ob die Mitarbeit einheimischer Bevölkerungsgruppen notwendig ist. Unter diesem Druck können z.B. Parlamente und Parteien entstehen, selbst wenn es sich um demokratische Scheininstitutionen handelt. Die Zusammenarbeit zwischen Regime und Randgruppen führt anders als bei härteren Diktaturen zu einem wirtschaftlichen Wachstum.

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