Democracy or Dictatorship: Does It Make a Difference?
Does regime type make a difference to material well-being?
Do democracies produce higher economic growth?
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1. Property rights story

2. Consumption vs. investment story

3. Dictatorial autonomy story
It is common today for scholars to argue that democracies will enjoy higher levels of economic growth than dictatorships because democracies are characterized by the rule of law and the protection of property rights (North 1990; North and Thomas 1973). According to these scholars, democracy places limits on the ability of governments to engage in the arbitrary seizure of private property. As a result, democracy encourages investment and, in turn, growth. In Chapter 6, one of the arguments for the emergence of democracy—or, at least, limited government—focused on the role that democratic institutions can play in providing a credible commitment mechanism to asset holders who wish to invest in the economy but who worry that the government will later seize their investments. As you'll recall, we illustrated this argument by examining the emergence of limited government in England during the seventeenth century. Although the emergence of a democratic form of government in England at this time was not originally brought about with the specific intention of promoting economic growth, it does appear to have had precisely this effect. Indeed, the fact that England had a limited government in early modern Europe but France did not offers a potential explanation for why the English economy grew so much faster during this period than the French one. In effect, the causal logic of this “property rights” argument (Figure 9.1)
The empirical support for the property rights story is weak.

- Although rule of law is linked with economic growth, democracy is not associated with rule of law.
Robert Barro writes that “the electoral rights index (democracy) has no predictive content for the rule of law index” and, therefore, that encouraging democracy on the grounds that it will lead to economic growth “sounds pleasant, but is simply false.”
Why might democracies fail to protect property rights?
Meltzer-Richard Model

- Everyone pays a portion of their income as a tax, $t$.

- The government divides this tax revenue equally among all members of society.

- Those with above-average income are net contributors who like low taxes.

- Those with below-average income are net beneficiaries who like high taxes.
the downward-sloping line), however, depends on the distance between their productivity level and the societal average. Those with productivity rates very close to the societal average want tax rates close to zero, because they expect to benefit only slightly from the tax and transfer system, whereas those with low productivity rates want tax rates almost as high as do individuals that have left the labor market altogether, because they expect to benefit from the tax and transfer system a lot.

So far, we have used the Meltzer-Richard model to explain why some individuals might prefer a higher tax rate than others. In order to make predictions about what the tax rate will be, however, we need to say something about how policy is actually chosen. In general, democracies tend to represent the interests of a wider portion of society than dictatorships. This means that the interests of poor (low-productivity) people are given more effective representation in democracies than in dictatorships. If we assume that dictatorships make tax policy to reflect the preferences of individuals with above-average incomes but that democracies make tax policy to reflect the preferences of individuals with below-average incomes, then a change from dictatorship to democracy can be expected to lead to an increase in the level of taxation and, therefore, an increase in the amount of redistribution from the rich to the poor. Indeed, this increase in the level of taxation and redistribution

**Figure 9.2 Individual Productivity and Desired Tax Rate According to the Meltzer-Richard Model**

Note: \( x \) = an individual’s level of productivity; \( \bar{x} \) = the average level of individual productivity in society. Individuals with a productivity level below \( x_0 \) will choose not to work and to live entirely on government transfers. \( t \) = an individual’s desired tax rate; \( t_{\text{max}} \) = the maximum desired tax rate.
Regime type

- Democracies tend to represent a wider portion of society than dictatorships.

- Suppose that dictatorships tend to make tax policy to benefit the rich and that democracies tend to make tax policy to benefit the poor.

- A democratic transition will lead to higher taxes and a redistribution of wealth from the rich to the poor.

- Given the high taxes in democracies, the rich are less likely to invest and so economic growth will slow.
Two potential criticisms of the Meltzer-Richard model

1. Poor people are less likely to vote, and so the tax rate in a democracy may not be that much higher than it would be in a dictatorship.

2. The structural dependence of the state on capital suggests that capitalists have a veto over state policies in that their failure to invest at adequate levels can create major problems for state managers.
Producing. In Figure 9.3, this is point M. Because M is on the technological possibility frontier to the left of the egalitarian point, E, in this specific society, we are assuming that, in line with much of historical experience, profit takers will receive more of society's maximum output than wage earners. But why, you might wonder, is there only one division of societal output between profit takers and wage earners that maximizes total economic output? Why wouldn't any of the other possible divisions on the technological possibility frontier also maximize output?

The answer to this question has to do with the fact that individuals in a capitalist economy always have a choice about how to allocate their resources. For example, profit takers are always comparing what they could get from investing their capital against the enjoyment...
Consumption vs. Investment Story

• The poor cannot afford to direct their assets away from immediate consumption – they need to eat and pay their rent today.

• Since workers get to vote in democracies, they encourage government policy to redistribute assets away from investment towards consumption.

• If dictators are future-oriented, they can force people to save, thereby launching economic growth.
Consumption vs. Investment Story

• Do the poor really have a higher propensity to consume than the rich?

• Is economic growth primarily driven by capital investment?

• Why would dictators care about the future more than democratic leaders?
Dictatorial Autonomy Story I

• Dictators are not subject to as many pressures from special interests as democratic leaders.

• Because the dictator is autonomous, he does not need to spend money in an inefficient way to satisfy different constituencies.

• But why would a dictator promote economic growth?
Dictatorial Autonomy Story II

- Dictators are not subject to as many pressures from special interests as democratic leaders.

- Because the dictator is autonomous, he will act in a predatory way and elites will not invest.

- But why would democracy protect property rights any more than dictatorships?
The theoretical arguments are not entirely convincing.

What does the empirical evidence say?
Przeworski and Limongi

- Eight results show that dictatorships grow faster.

- Eight results show that democracies grow faster.

- Five results show that regime type has no effect on economic growth.
Figure 9.4 The Effect of Democracy on Various Indicators of Material Well-Being

Note: The horizontal axes measure a country's average level of democracy from 1960 to 1990 as coded by Polity IV. The measure ranges from –10 (most dictatorial) to +10 (most democratic). The vertical axes vary by graph.
The triangular data indicate that:

- Democracies generally perform quite well.

- Some dictatorships perform as well as democracies, but some perform much worse.

- Democracy seems to be sufficient, but not necessary, for success.
What explains the variation in the performance of dictatorships?