

Selectorate Theory

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Notes

Material Well-Being

Does regime type make a difference to material well-being?

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Material Well-Being

Does regime type make a difference to material well-being?

Do democracies produce higher economic growth?

- Property rights.
- Incentives to consume versus invest.
- Dictatorial autonomy

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FIGURE 9.1 Hypothesized Causal Path between Democracy and Economic Growth



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Material Well-Being

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."

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TABLE 9.1 Countries with Large Gaps between Rule of Law and Electoral Rights Indexes

a. High Rule of Law Relative to Electoral Rights in 1982		
Country	Rule of law index	Electoral rights index
Burkina Faso	0.50	0.00
Chile	0.83	0.17
Ethiopia	0.50	0.00
Guinea	0.50	0.00
Hong Kong	1.00	0.50
Hungary*	0.83	0.33
Myanmar (Burma)	0.50	0.00
Niger	0.67	0.00
Poland*	0.67	0.17
Singapore	1.00	0.50
Somalia	0.50	0.00
Taiwan	1.00	0.33

c. Low Rule of Law Relative to Electoral Rights in 1982		
Country	Rule of law index	Electoral rights index
Bolivia	0.17	0.83
Colombia	0.33	0.83
Cyprus*	0.33	1.00
Dominican Republic	0.50	1.00
Greece	0.50	1.00
Honduras	0.17	0.83
South Africa	0.50	1.00
Uruguay	0.50	1.00

Source: Barro (2000), from Political Risk Services.

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Material Well-Being

Why might democracies fail to protect property rights?

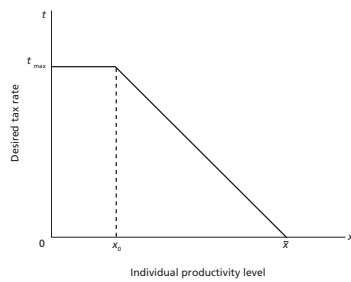
Meltzer-Richard Model

- 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.

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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_{max} = the maximum desired tax rate.

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Material Well-Being

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.

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Material Well-Being

Two potential criticisms of the Meltzer-Richard model

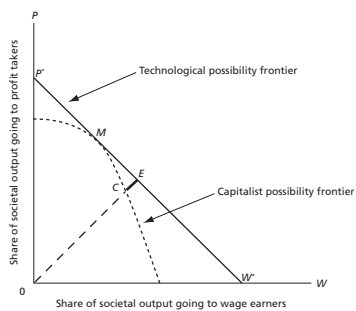
- 1 Poor people are less likely to vote, and so the tax rate in a democracy may not be that much higher than it would be in a dictatorship.
- 2 The **structural dependence of the state on capital** suggests that capitalists have a veto over state policies in that their failure to invest at adequate levels can create major problems for state managers.

These criticisms suggest that democracies may not be as bad for investment and growth as the Meltzer-Richard model would suggest.

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FIGURE 9.3 The Potential Trade-off between Growth and Equality



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Material Well-Being

Consumption vs. Investment

- The poor cannot afford to direct their assets away from immediate consumption – they need to eat and pay the rent today.
- Since workers get to vote in democracies, they encourage government policy to redistribute assets away from investment to consumption.
- If dictators are future-oriented, they can force people to save, thereby launching economic growth.

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Material Well-Being

Consumption vs. Investment

- 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?

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Material Well-Being

Dictatorial Autonomy 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?

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Material Well-Being

Dictatorial Autonomy 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?

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Material Well-Being

The theoretical arguments are not entirely convincing.

What does the empirical evidence say?

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Material Well-Being

The theoretical arguments are not entirely convincing.

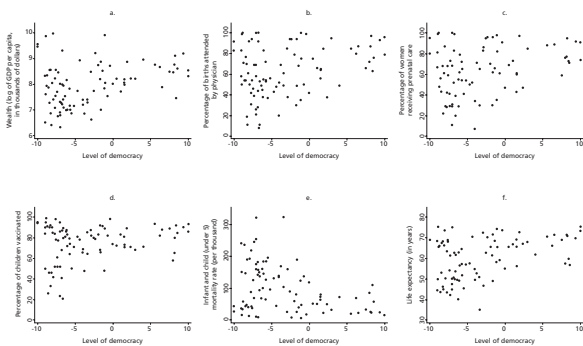
What does the empirical evidence say?

Przeworski and Limongi

- Eight results show that dictatorships grow faster.
- Eight results show that democracies grow fast.
- Five results show that regime type has no effect on economic growth.

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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.

Notes

Material Well-Being

The triangular data indicate:

- 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?

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Selectorate Theory

All leaders are motivated by the desire to gain and maintain office.

If all leaders have the same goals, why do we get variance in outcomes?

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Selectorate Theory

All leaders are motivated by the desire to gain and maintain office.

If all leaders have the same goals, why do we get variance in outcomes?

Some environments encourage leaders to behave in ways that benefit society, whereas other environments encourage them to behave in way that benefit only themselves and a few others.

The key factor is how the leader is **selected**.

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Selectorate Theory

Selectorate theory characterizes all governments by their location in a two-dimensional institutional space.

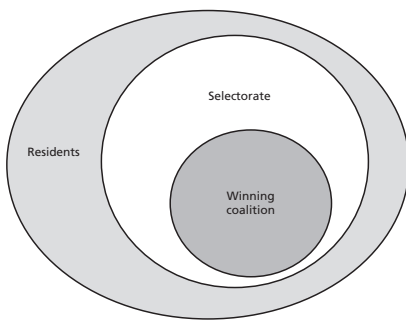
- 1 The **selectorate** is the set of people who can play a role in selecting the leader.
- 2 The **winning coalition** includes those people whose support is necessary for the leader to stay in power.

The **disenfranchised** are those residents who do not have a legal right to participate in choosing the government.

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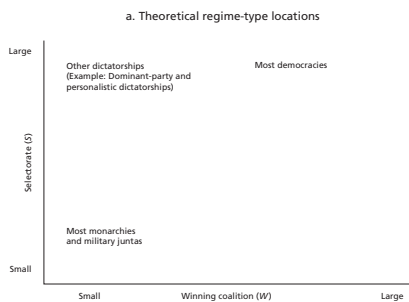
FIGURE 10.6 The Institutional Environment in Selectorate Theory



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FIGURE 10.7 Selectorate Theory and Regime-Type Locations



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Selectorate Theory

Leaders must keep their winning coalition satisfied to stay in power.

Leaders can distribute:

- ➊ Public goods, which can be consumed by everyone.
- ➋ Private goods, which can be consumed by the winning coalition.

The leader chooses a tax rate to generate revenue.

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Selectorate Theory

A **challenger** also makes an offer regarding public goods, private goods, and the tax rate.

Whoever makes the best offer obtains the support of the winning coalition and is selected as the leader.

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Selectorate Theory

A **challenger** also makes an offer regarding public goods, private goods, and the tax rate.

Whoever makes the best offer obtains the support of the winning coalition and is selected as the leader.

Two factors are key:

- 1 The loyalty norm, W/S .
- 2 The size of the winning coalition, W .

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Selectorate Theory: Loyalty Norm

Individuals in the winning coalition who are disgruntled must weigh the costs and benefits of defecting.

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Selectorate Theory: Loyalty Norm

Individuals in the winning coalition who are disgruntled must weigh the costs and benefits of defecting.

Defectors have no guarantee that they will be in the next leader's winning coalition and, thus, risk losing their access to private goods.

The probability of being in a leader's winning coalition is W/S .

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Selectorate Theory: Loyalty Norm

W/S generates a loyalty norm

- When W/S is small (dominant-party and personalistic dictatorships), members of the winning coalition are extremely loyal to the incumbent leader.
- When W/S is large (democracies, monarchies, military juntas), members of the winning coalition will be less loyal.

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Selectorate Theory: Loyalty Norm

The size of the loyalty norm affects the performance of leaders.

Society A

- Tax revenue = \$1 billion.
- Winning coalition = 1,000.
- Selectorate = 100,000.
- $W/S = 0.01$.

Society B

- Tax revenue = \$1 billion.
- Winning coalition = 1,000.
- Selectorate = 10,000.
- $W/S = 0.1$.

The leaders of both societies **could** give \$1 million to each member of their winning coalitions. **But ...**

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Selectorate Theory: Loyalty Norm

Society A

The probability of being in the challenger's winning coalition is $W/S = 0.01$.

$$\text{Expected payoff (Defect)} = (0.01 \times \$1,000,000) + (0.99 \times \$0) = \$10,000$$

While the leader could give \$1 million to each member of the winning coalition, he need only give them slightly more than \$10,000 to stop them defecting.

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Selectorate Theory: Loyalty Norm

Society B

The probability of being in the challenger's winning coalition is $W/S = 0.1$.

$$\text{Expected payoff (Defect)} = (0.1 \times \$1,000,000) + (0.9 \times \$0) = \$100,000$$

While the leader could give \$1 million to each member of the winning coalition, he need only give them slightly more than \$100,000 to stop them defecting.

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Selectorate Theory: Loyalty Norm

Leaders in small W/S systems with strong loyalty norms like society A have greater opportunities to engage in kleptocracy and corruption.

- **Corruption** is when public officials take illegal payments (bribes) in exchange for providing benefits for particular individuals.
- **Kleptocracy** is when corruption is organized by political leaders with the goal of personal enrichment.

Unlike leaders in large W/S systems who have to perform well to maintain the loyalty of their winning coalitions, leaders in small W/S systems have incentives to produce poor public policy.

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Selectorate Theory: Winning Coalition

Leaders always prefer to buy the support of the winning coalition with private goods.

- Challengers cannot credibly commit to give defectors access to private goods.

But using only private goods is not always possible.

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Selectorate Theory: Winning Coalition

As the size of the winning coalition, W , increases, the value of the private goods going to each member decreases.

Society A

- Tax revenue = \$1 billion.
- Winning coalition = 1,000.
- Maximum value of private goods = \$1,000,000.

Society C

- Tax revenue = \$1 billion.
- Winning coalition = 1,000,000.
- Maximum value of private goods = \$1,000.

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Selectorate Theory: Winning Coalition

At some point, it becomes more efficient to buy the support of the winning coalition with public goods rather than private goods.

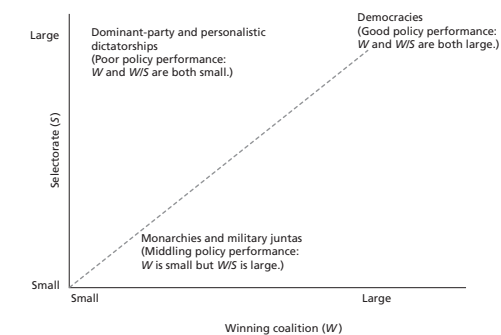
- Leaders in small W systems provide private goods.
- Leaders in large W systems provide public goods.

Public goods increase with the size of the winning coalition.

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FIGURE 10.8 Selectorate Theory and Government Performance



Note: W/S is large along the dotted line.

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Selectorate Theory

Civic-minded leaders are neither necessary nor sufficient to produce good economic performance.

- Civic-minded leaders confronted with a small W , small W/S system will produce poor public policy if they want to stay in power.
- Selfish leaders confronted with a W , large W/S system will produce good public policy if they want to stay in power.

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Selectorate Theory

Institutional preferences.

- Leaders like to set up political systems with small W and small W/S .
- Members of the winning coalition like to set up political systems with small W and large W/S .
- Members of the selectorate and disenfranchised like to set up political systems with large W and large W/S .

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Selectorate Theory: Empirics

TABLE 10.4 Effect of W and W/S on Six Indicators of Material Well-Being

a. Economic growth			b. Wealth		
Dependent variable: Economic growth rate			Dependent variable: Log of GDP per capita		
Independent variables	Model 1	Model 2	Independent variables	Model 1	Model 2
<i>W</i>	0.02*** (0.005)		<i>W</i>	2.30*** (0.22)	
<i>S</i>	-0.004 (0.005)		<i>S</i>	-0.67*** (0.17)	
<i>W/S</i>		0.02*** (0.004)	<i>W/S</i>		1.83*** (0.19)
Constant	0.01*** (0.004)	0.009*** (0.003)	Constant	6.97*** (0.15)	6.66*** (0.13)
<i>N</i>	3,772	3,772	<i>N</i>	3,813	3,813
<i>R</i> ²	0.0071	0.0067	<i>R</i> ²	0.35	0.32

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Selectorate Theory: Empirics

c. Education			d. Health care		
Dependent variable: Government spending on education as share of GDP			Dependent variable: Government spending on health care as share of GDP		
Independent variables	Model 1	Model 2	Independent variables	Model 1	Model 2
<i>W</i>	2.07*** (0.37)		<i>W</i>	4.09*** (0.61)	
<i>S</i>	-0.44 (0.27)		<i>S</i>	-0.35 (0.51)	
<i>W/S</i>		1.8*** (0.30)	<i>W/S</i>		3.95*** (0.49)
Constant	2.86*** (0.23)	2.63*** (0.21)	Constant	3.04*** (0.32)	2.80*** (0.33)
<i>N</i>	3,313	3,313	<i>N</i>	1,204	1,204
<i>R</i> ²	0.12	0.12	<i>R</i> ²	0.22	0.22

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Selectorate Theory: Empirics

TABLE 10.4 Effect of <i>W</i> and <i>W/S</i> on Six Indicators of Material Well-Being (Continued)					
e. Infant mortality			f. Life expectancy		
Dependent variable: Infant mortality (deaths per 1,000 live births)			Dependent variable: Life expectancy at birth (in years)		
Independent variables	Model 1	Model 2	Independent variables	Model 1	Model 2
<i>W</i>	-101.5*** (8.3)		<i>W</i>	24.6*** (1.9)	
<i>S</i>	10.1 (6.3)		<i>S</i>	-2.6* (1.4)	
<i>W/S</i>		-96.4*** (7.2)	<i>W/S</i>		23.1*** (1.5)
Constant	113.1*** (6.7)	119.4*** (6.4)	Constant	49.0*** (1.3)	47.5*** (1.3)
<i>N</i>	3,365	3,365	<i>N</i>	2,692	2,692
<i>R</i> ²	0.33	0.33	<i>R</i> ²	.34	.33

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Selectorate Theory

- [Selectorate Theory Podcast](#), click [here](#)
- [Selectorate Data](#), click [here](#)

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