

Democracy or Dictatorship:  
Does It Make a Difference?

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

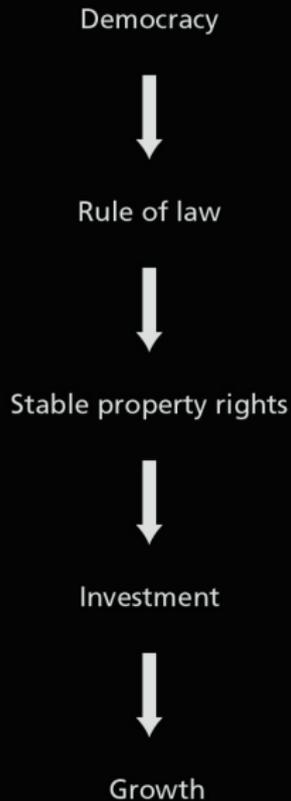
Do democracies produce higher economic growth?

## Do democracies produce higher economic growth?

1. Property rights story
2. Consumption vs. investment story
3. Dictatorial autonomy story

**FIGURE 9.1**

## **A Hypothesized Causal Path between Democracy and Economic Growth**



The empirical support for the property rights story is weak.

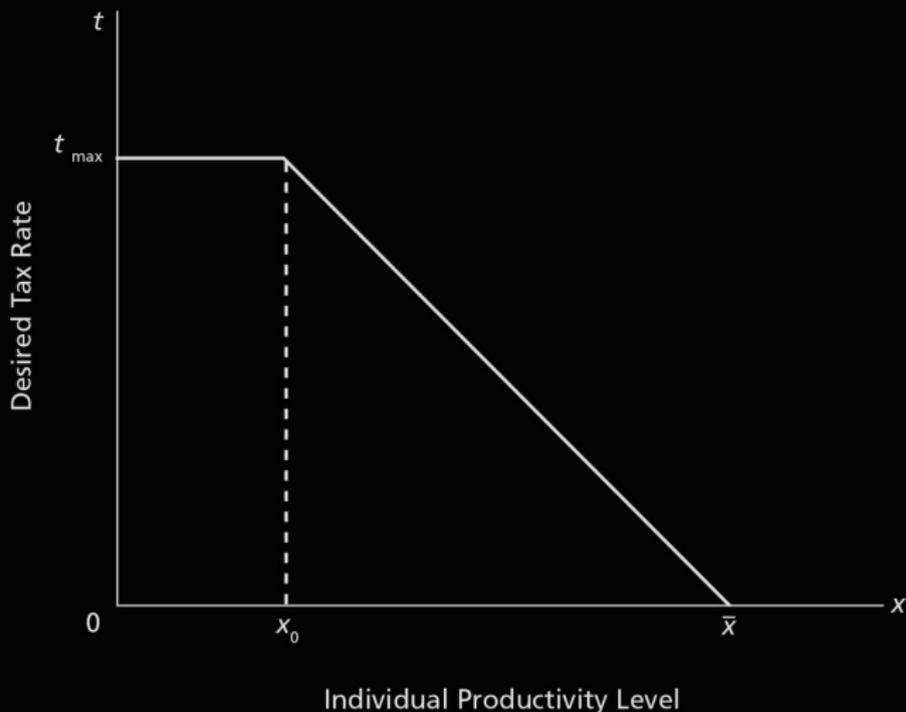
- Although rule of law is linked with economic growth, democracy is not associated with rule of law.

**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.

**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.

## Regime type

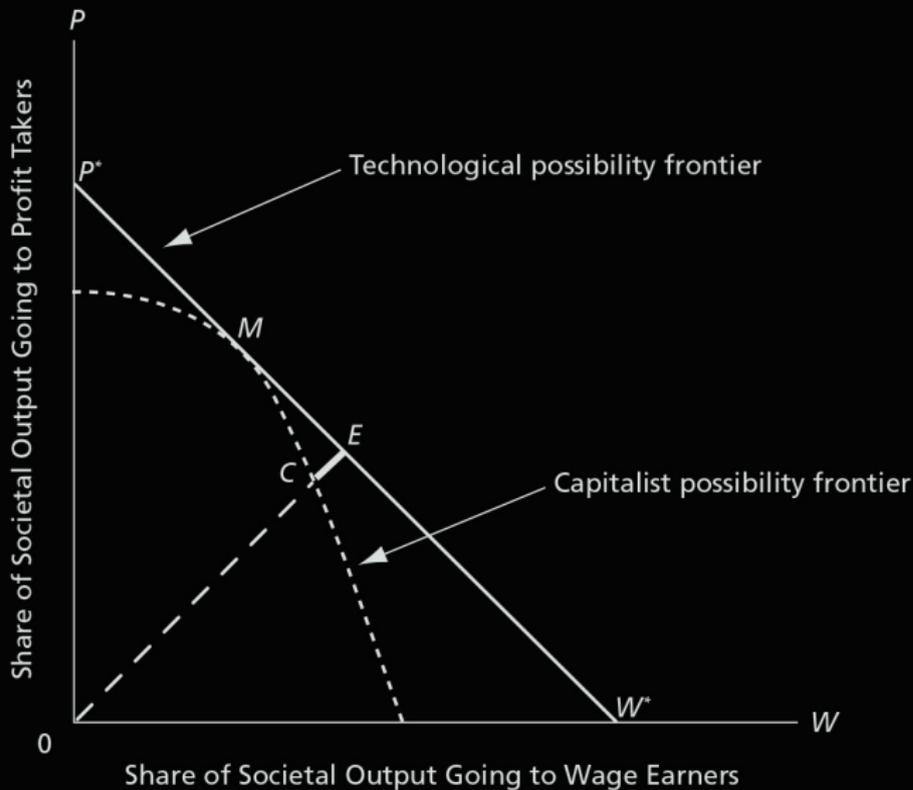
- Democracies tend to represent a wider portion of society than dictatorships.
- Suppose that dictatorships tend to make tax policy to benefit the rich and that democracies tend to make tax policy to benefit the poor.
- A democratic transition will lead to higher taxes and a redistribution of wealth 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.

**FIGURE 9.3**

**The Potential Trade-Off between Growth and Equality**



## 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

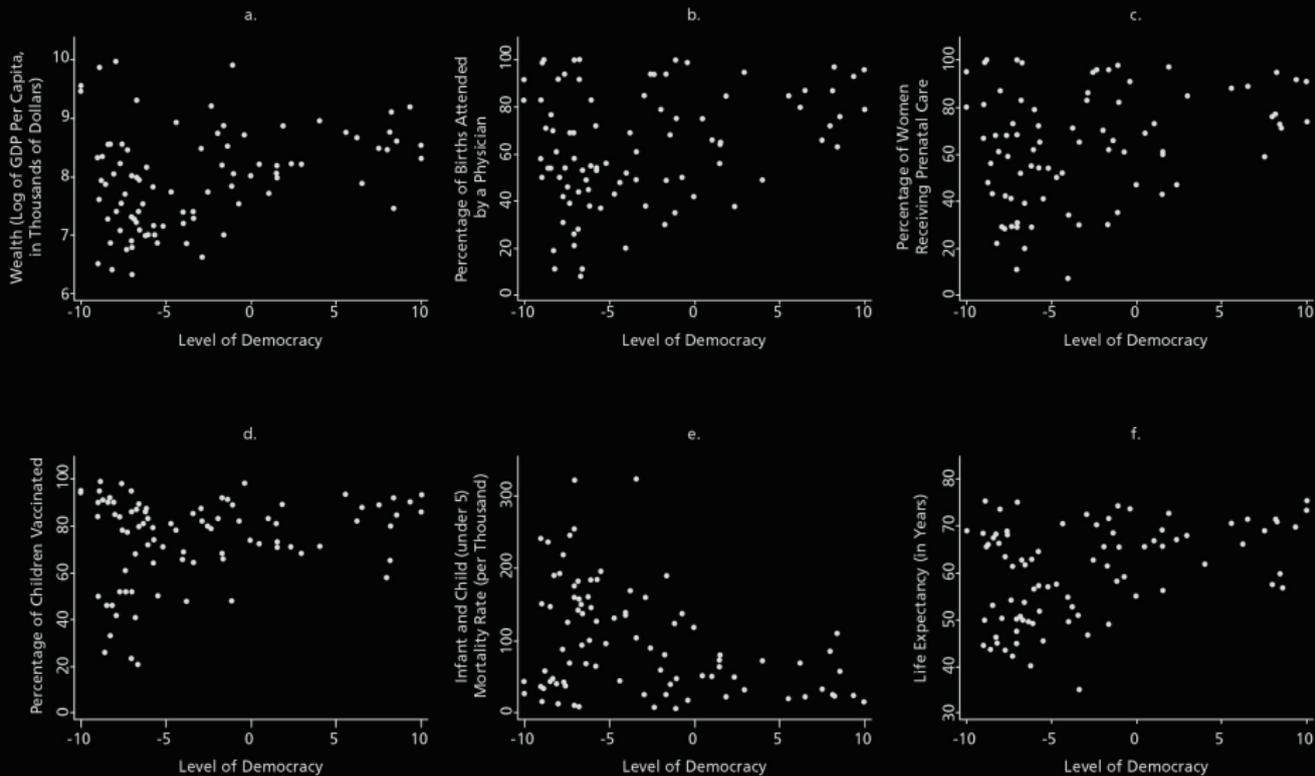
- Dictators are not subject to as many pressures from special interests as democratic leaders.
- Because the dictator is autonomous, he will act in a predatory way and elites will not invest.
- But why would democracy protect property rights any more than dictatorships?

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**

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?