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Markus Brückner* and Mark Gradstein**

Abstract

This paper studies the effects of growth in countries' national incomes on political risk. To address causality, we use the annual growth rate of the international oil price weighted with countries' average oil net-export GDP shares as an instrument for national income growth. Our instrumental variables analysis yields two main results: (i) income growth has on average a significant negative effect on countries' political risk; (ii) the marginal effect of income growth on political risk is significantly decreasing in cross-country differences in ethnic polarization, so much so that at high levels of ethnic polarization income growth increases political risk while at low levels of ethnic polarization income growth reduces political risk.

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