

POLITICAL COMPETITION AND GROWTH IN GLOBAL PERSPECTIVE: EVIDENCE FROM PANEL DATA

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Submitted April 2014; accepted May 2016

The present paper investigates the relationship between political competition, its components (executive versus legislature), and economic growth in international panel data. The results suggest the presence of a statistically significant nonlinearity between political competition (overall and in the executive) and growth in the form of a U-shape. In contrast, political competition variables do not exert statistically significant effects on growth in linear specifications. These results withstand an array of extensions and robustness checks, and provide international panel data evidence complementing work conducted for national and cross-sectional contexts.

JEL classification codes: C23, E02, O43, P48

Key words: economic growth, market power, panel data, political competition

I. Introduction

An international perspective on the link between political competition and economic growth appears more than warranted. Political competition is a global phenomenon which is by no means restricted to democratic polities where free and fair elections take place on a regular basis, see Mulligan and Tsui (2006). Political competition can be broadly defined as a non-violent contest for political influence and power, see Marshall and Jagers (2009), or as competition by leaders for citizens' allegiance, see Pinto and Timmons (2005). The awarding of the 2015 Nobel Peace Prize to the National Dialogue Quartet of Tunisia - the Jasmine nucleus of the Arab Spring - has also focused public attention on the importance of non-violent contests for power.

* Email: plumplor@yahoo.com. I wish to thank Professor Jorge M. Streb, the Co-editor of the Journal of Applied Economics, as well as anonymous reviewers for valuable comments and suggestions.

Existing work mostly focuses on national contexts for the Western Democracies, e.g. Besley et al. (2010), or Alfano and Baraldi (2011). Taking existing theoretical research as the point of departure, the present study is an empirical exercise pursuing the following agenda: Firstly, it asks whether there is a statistically significant and economically important link between political competition and aggregate economic growth in international, country-level panel data. The panel perspective is important as it can deal with a range of econometric issues encountered in international data. Secondly, I ask whether statements about the relationship between competition and growth at the international level can form the basis for recommendations relating to institutional design.

Because political competition is a complex concept, the present study not only considers the impact on growth of overall political competition but also of different components of competition. When it comes to preparing a successful and economically viable institutional reform, it matters a great deal which aspect of political competition affects the economy, how exactly, and how much. I use for analysis the major components of political competition relating to the different political sub-systems of a polity, namely the executive versus the legislature.¹ The aim is to get a nuanced picture of which specific aspects of political competition matter, opening a black box.

Besley et al. (2010) investigate the impact of political competition on growth in the United States: The authors first develop a theoretical model of political competition through elections. Competition induces business-friendly economic policies (tax cuts and infrastructure spending) and prevents the support of small, special interest groups at the expense of the general economy. These policies translate into faster growth. The predictions are tested with panel data on the US states; for most specifications, the authors consider the period 1929-2001 and estimate a fixed effects model. Political competition is operationalized via a measure which utilizes the vote share.² Besley et al. (2010) find that political competition leads to more pro-business policies and has a positive and sizeable effect on growth.

Alfano and Baraldi (2011) analyze the impact of political competition on economic growth for 20 Italian regions in the 1980-2008 period. Political

¹ Elements of these sub-systems are also taken into account, e.g. checks and balances.

² Namely, an estimate of the model parameter κ is used which captures the composition of the electorate, based on the average vote share of the Democrats; higher values of κ stand for more political competition.

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