



The good, the bad, and the civil society[☆]

Jiahua Che^a, Kim-Sau Chung^{a,b,*}, Xue Qiao^c

^a Department of Economics, Chinese University of Hong Kong, Hong Kong

^b Department of Economics, University of Minnesota, USA

^c School of Economics and Management, Tsinghua University, China



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ABSTRACT

There are three signature features of autocracies. First, there is a wide variety across autocracies in terms of economic performance: some do much better and some much worse than democracies. Second, economic performance of a given autocracy is more sensitive to leader quality, and exhibits higher volatility. Third, all autocracies, good or bad, tend to have weaker civil societies than democracies do. We attribute these features to the core of the autocratic political institution: the incumbent leader selects the future leader as opposed to citizens at large selecting the future leader under democracy. We deliver our analysis in an overlapping-generations model where two kinds of dynamic free-riding problems arise. The first arises among different generations of citizens in implementing far-sighted policies. Political leaders come in two types, good ones aim to correct this first kind of dynamic free-riding problem, while bad ones do not care and only aim to steal public assets. Both types need a weak civil society to achieve their goals, but a second dynamic free-riding problem arises among different leaders when it comes to weakening the civil society. The autocratic leader-selection mechanism helps resolve this second dynamic free-riding problem, results in a continuously weakened civil society, and generates large variations of economic performances both within a given autocracy and across different autocracies. A rich set of comparative statics is derived.

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1. Introduction

Almost half of the world is still governed by autocracy regimes. Some are failing, while some have been attaining remarkable economic progress. Although the literature studying autocracies remains disproportionately small compared with that studying democracies, a number of salient empirical patterns have come out of this emerging literature.

First, there is no systematic and robust evidence either in cross-country comparisons or in within-country studies that democracy brings about better economic performance than autocracy does (Przeworski and Limongi, 1993; Barro, 1996; Mulligan et al., 2004; Glaeser et al., 2004; Giavazzi and Tabellini, 2005; Aghion et al., 2007; Besley and Kudamatsu, 2008). Some autocracies do much better and some much worse than democracies. Second, however, economic performances of autocracies tend to be more volatile than those of democracies (Rodrik, 2000; Quinn and Woolley, 2001; Mobarak, 2005). Related to this extra volatility is the fact that political leaders exert a more powerful impact on economic

performance in autocracies than in democracies (Glaeser et al., 2004; Jones and Olken, 2005). Third, what could serve as restraints over political leaders, such as freedom of speech and civic activism, are more likely to be suppressed in autocracies than in democracies (Mulligan et al., 2004).

While some previous models take (some or all of) these empirical patterns as fundamentals, and explore their implications,¹ we seek to explain them as endogenous phenomena, and hopefully with a unified theory.

Most individual components of the above picture have been explained as endogenous phenomena before, but often with specialized theories that are incomplete. For example, it has been suggested that the economic performances of autocracies are more volatile and heterogeneous because leadership matters more in autocracies. But such a theory is incomplete because it overlooks the fact that leadership is endogenous. The fact that there are heterogeneous candidates available for office does not imply that leaders who are endogenously selected into office are also heterogeneous. If only a certain kind of candidates manage to get selected as leaders, then the economic performances of autocracies will not be volatile or heterogeneous no matter how much leadership matters. For another example, it has also been suggested that the worst performing economies are more often autocracies than

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* Corresponding author at: Department of Economics, University of Minnesota, USA.

E-mail addresses: jiahua@cuhk.edu.hk (J. Che), sau@umn.edu (K.-S. Chung), qiaoxue@sem.tsinghua.edu.cn (X. Qiao).

¹ For example, McGuire and Olson (1996) assume implicitly that democratic leaders are completely restrained (and hence incapable of wrongdoing in high office), and derive implications of that assumption. See Olson (1993) for a similar analysis. Similarly, Larsson and Parente (2008) assume exogenously that there is more uncertainty in leader quality under autocracy, and derive implications of that assumption.

democracies because rapacious autocratic leaders for various reasons try to continue to keep civil society weak in order to be able to extract more rents for themselves. But such a theory is also incomplete because it does not explain why the very same institution of autocracy equally often outperforms the supposedly good institution of democracy. For yet another example, it has also been suggested that some autocracies manage to outperform democracies only because of a streak of good luck, which blesses these economies with a succession of visionary leaders. But such a theory is also incomplete because it overlooks the fact that democracies are often blessed with visionary *candidates* as well, who nevertheless are rarely elected into office.

We shall demonstrate that these specialized theories can be “completed” within a theory that highlights (i) the role of the civil society, and (ii) a single distinctive feature of the autocratic political institution: incumbent leaders select future leaders as opposed to citizens at large selecting future leaders under democracy.

We deliver our analysis in an overlapping-generations model where two kinds of dynamic free-riding problems arise. The first arises among different generations of citizens in implementing far-sighted policies. Political leaders come in two types, good ones aim to correct this first kind of dynamic free-riding problem, while bad ones do not care and only aim to steal public assets. Both types need a weak civil society to achieve their goals, but a second dynamic free-riding problem arises among different leaders when it comes to weakening the civil society. The autocratic leader-selection mechanism helps resolve this second dynamic free-riding problem, and results in a continuously weakened civil society.

A continuously weakened civil society then leads to two kinds of variability in economic performance. First, *within* a given autocracy, a weakened civil society allows the leader's quality to have a larger impact. To the extent that leader's quality fluctuates, the country's economic performance fluctuates with it.

Second, a weak civil society makes the choice of future leader more relevant, and hence this choice becomes more sensitive to the primitive parameters of a given country. To the extent that these parameters vary across countries, the (endogenous) types of leaders being selected vary across countries as well.

These cross-country variations are captured in our model by the fact that, while there is only one kind of equilibrium in democracy, there are several possible kinds in autocracy, depending on the primitive parameters of a given country. The within-country variability is captured by the fact that most of the possible equilibria in autocracy are accompanied by a stationary distribution of economic performance that exhibits more volatility. Either of these two kinds of variability could explain Besley and Kudamatsu's (2008) empirical finding that the distribution of economic performances among autocracies tends to be more diffused than that among democracies and has a longer tail on both sides. However, it is still important to conceptually distinguish the two, because the existence of within-country variability suggests that Besley and Kudamatsu's (2008) result will not completely go away even if we control for all country-specific characteristics.

While we build our theory on autocracy's leader-selection mechanism, and argue that this mechanism alone can already account for many important differences between autocracies and democracies, the importance of other mechanisms should not be dismissed.

One particular mechanism that has been emphasized by previous studies is the reelection mechanism: autocratic and democratic leaders face different incentives to implement good policies because they face different reelection mechanisms. Implications of this difference have been studied by, for example, Robinson (2001), Bueno de Mesquita et al. (2003), Maskin and Tirole (2004),² Shen (2007), Miquel (2007), and Besley and Kudamatsu (2008). According to Besley (2005), this mechanism “has been studied at length”, while the leader-selection

mechanism “has received far less attention” despite the fact that the “past 200 years of political history justify an emphasis on selection”.

Indeed, we make a deliberate effort to make sure that our analysis is driven purely by the leader-selection mechanism. In particular, we assume that each leader can serve at most one term (in both democracy and autocracy), and hence makes policy choices without the reelection consideration.

There are also studies that, like ours, emphasize the importance of the leader-selection mechanism. Notable examples include Acemoglu et al. (2010), who study political selection of a broad range of political institutions that include democracy and autocracy as two extremes. Their model, however, does not generate enough variations either among or within autocracies to match the data. In particular, autocracies universally sink to the bottom, and are dominated by democracies. This is due to two assumptions made in their model: (1) there is no conflict of interest among voters (who in turn always elect the best possible leader under democracy), and (2) there is no term limit in political office (so that, under autocracy, eventually a bad incumbent will remain in power forever after eliminating other, better candidates). Our model eschews these two assumptions, and manages to generate more variations both across autocracies and within a given autocracy.

A less related study is Caselli and Morelli (2004), who examine the determination of leadership quality. Their focus is on the decision of individuals with different qualities in joining the government, rather than on how different leader-selection mechanisms affect economic performances.

Our study also extends a number of existing studies in the political economy literature. Our first dynamic free-riding problem (the one arising among different generations of citizens) echoes the inefficiency in the representative democracy analyzed by Besley and Coate (1998). Our overlapping-generations model of leadership succession bears resemblance to that of Rauch (2001), although Rauch's (2001) interest is not on autocracies, but rather on the question of whether a bureaucratic structure can help the incumbent leader select a good successor.³

Our study is also related to but different from the literature on political transitions (Acemoglu and Robinson, 2000, 2001, 2006). In our model, the political institution (i.e., autocracy vs. democracy) is exogenous, and only policies and leadership are endogenous. However, careful studies of what happens under an exogenously given institution are instrumental to studies of political transitions. For example, by studying why some autocracies perform poorly while some perform better than democracy, our model also sheds light on how the demand for democratic transition varies across autocracies.

The rest of this paper is organized as follows. The next section introduces the model. Section 3 studies six special cases, and sheds light on the roles different components of the model play. Section 4 analyzes first the equilibrium outcome under democracy, followed by a characterization of various equilibrium outcomes brought by autocracy. Section 5 discusses the intuition of, and draws implications from, the analytical results obtained in the previous section. Section 6 concludes.

2. The model

Consider an overlapping-generations economy. At the beginning of each period t , a unit mass of young citizens are born. Each citizen lives for at most two periods. With a probability of $\varepsilon > 0$, a typical citizen dies prematurely after one period. Therefore, in each period t , the economy is populated by a unit mass of young and a $1 - \varepsilon$ mass of old citizens. The role of ε is to break the symmetry between the sizes of the young and old populations, making the young citizens the majority. Throughout this paper, we shall hence simplify algebra by treating ε as arbitrarily small while remaining non-zero.

² Maskin and Tirole (2004) do not explicitly relate their study to autocracies, but their framework is general enough for readers to make such a connection.

³ Rauch (2001) assumes that an incumbent wants to select a good successor. In our model, an incumbent's preference over successors is endogenous.

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