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ABSTRACT

**Title of dissertation: DEMOCRATIZATION AND ECONOMIC GROWTH:
THE CONTRIBUTION OF ACCOUNTABILITY
INSTITUTIONS**

Joseph T. Siegle, Doctor of Philosophy, 2001

**Dissertation directed by: Professor Carmen M. Reinhart
School of Public Affairs**

There has been a dramatic increase in the number of countries taking steps towards democracy over the past 20 years. However, the economic performance of these newly democratizing countries has varied widely. This fuels a debate over the efficacy of simultaneously pursuing democratization and economic reform. Conventional theory has held that democracies can only take root and flourish after a minimum level of economic development has been achieved. In fact, of the 78 countries that have moved towards democracy since 1980, 46 have realized better than average economic growth within their respective regions in the 1990s. What distinguishes these 'prospering democratizers' from those that are growing relatively more slowly? This study hypothesizes that the prospering democratizers are characterized by their stronger institutions of accountability. These include (1) constraints on the chief executive, (2) separation of political party and state

structures, (3) separation of economic and political power, (4) an independent judiciary, and (5) information accessibility. Such institutions foster enhanced transparency as well as a more balanced distribution of power in a society. They thus serve as checks against the misuse of public authority and as a corrective mechanism for detrimental policies, leading to more productive economic outcomes. This hypothesis is tested through multivariate analysis using panel data over the 1980-1998 timeframe for the 78 contemporary democratizing states. Analysis is conducted within eight separate regions to better capture their distinctive economic and political experiences. The results indicate that the strength of accountability institutions is the most consistently significant explanatory factor for economic growth across regions. Moreover, the strengthening of accountability institutions commonly occurs across multiple sectors as part of a complementary process. There is substantial variation between regions as to which accountability features are most significant indicating that there are multiple institutional mechanisms through which democratizers can enhance their growth. A policy implication is that enhancing accountability in a democratizing society, especially information access, is a strategic mechanism through which economic performance can be augmented. Within a context of expanding accountability, simultaneous support for democratization and economic reform is warranted.

**DEMOCRATIZATION AND ECONOMIC GROWTH: THE CONTRIBUTION
OF
ACCOUNTABILITY INSTITUTIONS**

by

Joseph T. Siegle

**Dissertation submitted to the Faculty of the Graduate School of
the University of Maryland, College Park in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy
2001**

Advisory Committee:

**Professor Carmen Reinhart, Chair/Advisor
Professor Esther Brimmer
Professor Paul Collier
Professor Ted Robert Gurr
Professor Kori Schake
Professor Rob Sprinkle
Professor Ernest Wilson**

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ACRONYMS

CBI - Central Bank Index
DFI - Domestic Fixed Investment (Gross)
FDI - Foreign Direct Investment
FSU - Former Soviet Union
DPI - Database of Political Institutions
ICRG - International Country Risk Guide
LAC - Latin America and the Caribbean
OLS - Ordinary Least Squares
PCI - Political Constraints Index
SSA - Sub-Saharan Africa
UNDP - United Nations Development Program
WDI - World Development Indicators (World Bank)

CHAPTER 1. INTRODUCTION

1.1 Focus of Research

The close association between democracy and economic prosperity is widely recognized. Virtually all of the world's most advanced economies are based in well-established democratic political systems. Democracies¹ have mean per capita incomes that are \$5,300 higher than the global average. This distinctiveness transcends geographic area with democracies in every region exceeding the incomes of their less democratic neighbors. Despite this strong relationship, an academic and policy debate regarding the interrelationship and sequencing of democracy and economic development continues, particularly in relation to the appropriateness of pursuing democracy in relatively poor states. The conventional belief for much of the past 40 years has been that certain prerequisites, such as a minimum level of economic development, urbanization, and literacy must be in place in order for democracy to take root and be sustained. This line of reasoning has contended that nondemocratic political systems, given their insulation from political pressures, are more capable of charting a technically-based economic program and achieving these minimum thresholds. Nations that embarked on a democratic path prior to reaching this stage were thought to be prone to instability and economic decline. The countervailing argument has been that it is the over-centralization of power that constrains development. From this perspective, political pluralism fosters the free flow of information, checks on the abuse of power, and broader access to capital leading to more efficient economic growth. Empirical analysis on the question of sequence has thus far

¹

Categorized as scoring 8 or more on the 0-10 Polity IV democracy index, which is based on institutional features of democracy including processes for the selection of leaders, constraints on the chief executive, and structures for political participation.

yielded ambiguous results. Consequently, the theoretical and empirical challenge is to identify linkages between the prosperity of the full-fledged democracies and the mixed economic performance of countries in the process of democratizing. Framed in this way, the on-going debate can be more specifically characterized as over the relationship between *democratization* and economic performance.

Most of the empirical attention given to the linkages between democratization and economic performance has focused on the question of sequence – and the methodological challenge of separating endogenous effects. Consequently, other potentially valuable dimensions of this relationship have been less fully recognized. To better explore some of these, this research approaches the topic with an emphasis on identifying associations between democratization and economic performance. To what extent and in which context are the two processes compatible? Consonant with this emphasis, this study examines the sub-sample of democratizing countries that have realized superior economic performance. Of the 78 countries that have made democratic gains in the last two decades, as measured by a single digit improvement on the Polity IV democracy index, 46 have realized better than average economic growth² within their respective regions (see table 1.1). In other words, questions of sequence aside, on-the-ground experience is demonstrating that democratization and economic development can occur simultaneously. Identifying

²

Based on regional median GNP/capita aggregate growth from 1993-98.

Table 1.1 Classification of Prospering and Lagging Democratizers³

C. Europe (9.5%)	FSU (3%)	S. S. Africa (2.5%)	Asia (East-8%; South-15.5%)	L. America (9%)	M. East (5.5%)	W. Europe (8.5%)
Albania (7) ⁴ Hungary (10) Poland (10) Slovakia (9) Slovenia (10)	Armenia (6) Estonia (7) Georgia (6) Latvia (7) Lithuania (10)	Benin (6) Burkina (2) Ethiopia (3) Ghana (3) Guinea (1) Kenya (2) Malawi (7) Mali (4) Mauritius (6) Mozambique (6) Tanzania (2) Togo (1) Uganda (1)	Bangladesh (6) India (9) S. Korea (8) Philippines (7) Taiwan (9) Thailand (9)	Argentina (7) Bolivia (8) Brazil (8) Chile (7) Dominican Rep (8) El Salvador (7) Guyana (6) Nicaragua (9) Panama (7) Trinidad (10) Uruguay (9)	Iran (4) Jordan (2) Tunisia (2)	Portugal (10) Spain (10) Turkey (8)
(n=5)	(n=5)	(n=13)	(n=6)	(n=11)	(n=3)	(n=3)
Bulgaria (9) Czech Rep (9) Macedonia (6) Romania (7)	Kazakhstan (1) Kyrgyzstan (5) Moldova (6) Russia (5) Tajikistan (2) Ukraine (6)	Angola (1) Cameroon (1) CAR (6) Chad (1) Comoros (1) Madagascar (6) Namibia (6) Niger (6) S. Africa (9) Zambia (3)	Cambodia (3) Mongolia (10) Nepal (7)	Guatemala (6) Haiti (6) Honduras (7) Mexico (6) Paraguay (6)	Algeria (1) Yemen (1)	France ⁵ (9) Greece (10)
(n=4)	(n=6)	(n=10)	(n=3)	(n=5)	(n=2)	(n=2)

Note: Burundi, Djibouti, Indonesia, Israel, Liberia, and Nigeria have been excluded due to insufficient years of observations.

³ Based on regional median aggregate growth between 1993-1998. Figures in heading parentheses represent regional growth medians. Countries in top half of chart are growing faster than the median.

⁴ Figures in parentheses for each country indicate Policy TV democracy score in 1999 based on a scale of 0-10.

⁵ While France and the other countries listed in the West European sample are full democracies, they are considered democratizers in this study since they have realized improvements in their democracy scores between 1980 and 1999. Their inclusion also provides a high-income democratizing sub-sample.

distinguishing traits from these cases may therefore generate further insights into the larger political-economic relationship. In short, this research addresses the question: What are the distinguishing characteristics of those recently democratizing states that have also realized better than average economic growth in their respective regions?

This study hypothesizes that democratizers that have established stronger structures of accountability are more likely to have realized comparatively rapid growth. In other words, democracy in itself has limited direct impact on economic growth. Democracy's contribution comes from the strengthened systems of checks and balances it embodies. These accountability structures, in turn, make the more direct contribution to accelerated and consistent growth. Five facets of institutional accountability are considered: (1) checks on the executive branch, (2) separation of political party and state processes, (3) separation of political from economic power, (4) an independent judicial system, and (5) the degree of information access.

1.2 Implications from the Study of Democratization and Economic Growth

Understanding the relationship between democratization and economic performance has taken on heightened importance since the decline of communism as a global ideology and the large-scale shift towards democratic governance structures. This has been coupled with a near-universal acceptance of free market economic principles and the rapid growth of a number of newly democratizing states. However, the high-profile foundering of some recent democratizers (e.g. Russia), the apparent economic success of certain authoritarian governments (e.g. Singapore and China), and evidence of

backtracking to authoritarianism or semi-authoritarianism in formerly more democratic countries that have struggled economically (e.g. Venezuela, Ecuador, Pakistan, Cote d'Ivoire, and Zimbabwe) have sharpened the debate over the effects of governance structures on growth. The perceived economic and political struggles of democratizing states foster uncertainty over whether democratization and economic growth are congruent – and whether national and international policymakers should pursue both simultaneously.

The extent to which these democratizers are able to find a viable path forward will greatly affect the sustainability of the contemporary democratization trend. With nearly half of all states currently engaged in some form of democratization, the outcomes from these efforts will have substantial implications on global political norms and economic well-being. Similarly, if the democratization process heightens the risk of conflict, as some have argued, then a period of greater political instability can be expected. Alternately, given the lower propensity of democracies to fight one another, successful democratization would enhance prospects for international peace and security. In sum, a deeper understanding of the relationship between democratization and economic growth can guide policy within and towards democratizing states as they undertake this transition.

1.3 Methodology Employed to Test Research Question

A number of persuasive though conflicting theoretical constructs regarding the relationship between democratization and economic growth currently shape the debate. Given this intellectual canvass, a large sample cross-sectional analysis has the potential to

add value to the existing literature by identifying which aspects of the existing theories bear the most viability for generalization. This approach is also well suited to address the central research question posed by this study.

This research employs three primary quantitative tools. Each is undertaken on a regional basis across the eight regions in which democratization has occurred since 1980. Approaching the analysis on an intra-regional basis allows for more meaningful comparisons of democratizing states – and excludes potentially obscuring effects from widely varying growth rates, political histories, geographic considerations, neighborhood effects, starting income levels, and cultural differences between regions. That is, distinctions that emerge from countries of similar background characteristics are even more noteworthy. Moreover, this approach captures the modest economic advances made by a democratizing country in a poorer region that would be overlooked in a global analysis of all democratizing countries. In total, 78 democratizing countries over the 1980-1998 time period are considered.

The first technique is a bivariate analysis that highlights the background differences between the prospering and lagging democratizers. The two categories of democratizers are compared across various individual institutional, political, demographic, and economic factors to assess the extent to which they are markedly different. This process provides a first glance at the commonality of the two groups as well as insight for the multivariate analyses.

Second, a logit analysis is undertaken to identify distinguishing characteristics of

prospering democratizers. This technique allows associations with this category of democratizers to be undertaken while controlling for multiple explanatory factors. In this way, the logit estimation process builds on the bivariate analysis to assess the comparative strength of the institutional, demographic, and economic factors linked with prospering democratizers.

Third, ordinary least squares (OLS) is undertaken to identify factors that explain economic growth⁶ among democratizers in each region. As in the logit analysis, institutional, demographic, and economic factors will be jointly considered. The relative importance of accountability institutions as significant explanatory factors for growth among democratizers can thus be ascertained. Lagged institutional variables are included in each set of regional estimates to assess the extent to which institutional history has a bearing on economic growth. Results are checked for robustness using alternate measures of growth as well as a fixed effects model that assesses associations of variables within individual countries over time rather than cross-sectionally.

Results from the logit and OLS analyses are compared by region to assess which factors are significant in explaining both prospering democratizers and economic growth. The co-associational factors generated from these estimates indicate whether the characteristics distinguishing prospering democratizers also are instrumental in their growth.

⁶ This research will focus on economic growth as the key development variable. This is consistent with the existing political-economy literature on this subject. This recognizes the possibilities of deviations in economic growth and social welfare, as have been debated elsewhere (see for e.g. Daly and Cobb; UNDP 1996; Dollar and Kraay).

1.4 Overview of Manuscript

A review of the most pertinent theoretical and empirical work that has shaped thinking on the relationship between democratization and economic growth is provided in chapter two. Due to the political economy nature of this field, the bodies of literature that are relevant are necessarily broad and inter-disciplinary. Consequently, the literature review does not attempt to be comprehensive. Rather, it is intended to be indicative of the diversity, complexity, and confluence of interests that surround the processes of democratization and economic performance. For each of the streams of literature considered, emphasis is given to works focusing on democratization since 1980. In addition to coinciding with the study time period, analysis during this era is more apt to capture the global political and economic dynamics that reflect the realities of the early 21st century.

A first segment of literature considers the debate over the causal sequence between economic and political development. This reviews the arguments that economic growth, best led by nondemocratic political systems, is necessary before political pluralism can be considered. The perspective that it is the overly-centralized nondemocratic political systems that constrain economic growth is then outlined. Empirical support for each line of reasoning is also cited. A stream of literature linked to the question of sequence and directly relevant to the question of compatibility pertains to the relationship of democratization and conflict. While there is a general acknowledgement that instability inhibits short and long-term economic growth, there is disagreement over whether

democratization makes a country more or less conflict prone.

The review then turns to a summary of the political democratization literature. This body of work examines the factors that contribute to successful democratization, democratic backtracking, and the emergence of semi-authoritarianism. This stream considers questions of how political history, attitudes, global political forces, and domestic political influences have shaped democratization outcomes.

The final stream of literature considered involves the importance of institutional foundations to long-term economic performance. The introduction of the institutional perspective has gained considerable importance in the economics discipline during the 1990s. The attention garnered by this work has broadened the consideration of factors that are influential in explaining growth. The rise in prominence of institutional considerations has also provided a valuable segue bridging research undertaken in the field of economics with that of other social sciences interested in questions of socio-economic development. To conclude this review, chapter two highlights some of the gaps in the current literature that have bearing on future study of the relationship between democratization and economic growth.

To provide a foundation for the subsequent empirical analysis, chapter three explores certain descriptive statistics relating to the recent movements towards democracy. Global and regional trends in the level of democracy are compared, underscoring the diversity in the democratization experience. Results from conditional probabilities are reviewed to explore whether patterns in the sequential relationship

between democratization and economic performance can be determined. This section then broadly assesses the recent economic performance of democratizers in comparison to other states in their respective regions. As part of this, a descriptive assessment of the composition of contemporary democratizers is provided including comparative demographic, economic, and political characteristics. Finally, given the frequent association made between democratization and conflict, with its debilitating impact on growth, conditional probabilities are undertaken to assess the propensity of democratizers to become embroiled in conflict.

Chapter four describes the methodology applied in analyzing the distinguishing characteristics of the prospering democratizers. This begins with an articulation of the theory shaping this analysis and the hypotheses to be tested. The chapter then reviews and discusses each of the quantitative analytical tools employed to test the hypotheses. A listing of the datasets used in this analysis is provided including a description of the process by which the accountability measure was constructed.

Chapter five documents the results generated from the analysis. Distinguishing characteristics of prospering democratizers are discussed on a region by region basis highlighting the key findings obtained from the bivariate, logit, and OLS estimations. A review of the results generated from the overall sample is also undertaken for comparative purposes. The final section of this chapter provides a cross-regional comparison of the estimates in order to facilitate the identification of commonalities.

Chapter six analyzes the most prominent findings generated from the empirical

analysis. Institutional qualities that distinguish prospering and lagging democratizers are examined to assess patterns that support their importance in explaining variations in economic performance.

Chapter seven summarizes the key conclusions gleaned from this research, including policy implications stemming from the findings and a listing of potential avenues for subsequent research.

1.5 Value Added From This Research

This research adds value to the current base of knowledge on the relationship of democratization and economic growth in the following areas:

FRAMING THE ISSUES

- This research constructs and employs an institutional measure for accountability with annual observations from 1980-1998 for all democratizing countries. This measure - encompassing political, civil liberty, and private sector contributions to checks and balances – is broader than the focus on legal considerations taken by most previous institutionally-oriented studies.**
- A criticism of Douglass North’s classic work on the relationship between institutions and economic performance is that while he acknowledges the superiority of liberal democratic political systems for generating growth-enhancing institutions, he does not explain how the process occurs. By putting forth the hypothesis on accountability institutions, this research suggests a linkage between the process of democratization and institutional development.**

- **By framing this analysis intra-regionally, a more meaningful comparison of the economic performance of democratizers can be ascertained than the global perspective typically taken. This technique draws attention to democratizers that are realizing modest though sustained economic growth within their regions – experiences that are overlooked in a global analysis.**
- **Since this topic has largely been examined on a global basis, overarching generalizations of the political-economic relationship have been put forward and applied across regions. The regional approach taken in this study more fully captures the unique political, economic, and social processes affecting each area – generating more contextualized policy implications.**

CONTEMPORARY DEMOCRATIZATION

- **By focusing on contemporary democratizers, this research is exploring the dynamics of democratization in poor countries, a combination that conventional theory has indicated is not viable.**
- **By focusing on the recent democratization trend, this research will be less influenced by the experience of the western democracies that has shaped much of the early theory in this field. Given the still unfolding nature of this phenomenon, this research benefits from having access to nearly a full decade of post-Cold War data.**

METHODOLOGICAL APPROACH

- **To the author's knowledge, there has not been a study that has looked specifically**

at democratizers as a sub-sample to assess factors associated with their growth.

Similarly, this study is unique in investigating the distinctive attributes of prospering democratizers. Insights gained by exploring these experiences may provide useful input to the broader political-economic debate.

- Most studies examining the relationship of democracy and growth have tested this linkage directly. This research theorizes that democracy works through accountability and that it is these accountability features that have the more direct impact on economic performance.
- Most empirical studies assessing the institution-growth dynamic have been cross-sectional. This research analyzes this relationship with panel data. This approach offers a greater opportunity to capture the effects of political-economic changes within a country over time as well as take into consideration the importance of global influences during particular eras.
- There is currently a theoretical and empirical gap between democracy and democratization, particularly in terms of their relationship with economic performance. By focusing on democratizers, this research can improve understanding of the democratization-growth dynamic and therefore contribute to a better map of how a country moves from one category to the other.
- This research can help bridge understanding of regime type influence on growth by identifying features (i.e. accountability) that explain why certain countries with authoritarian governance systems have realized rapid economic performance.

CHAPTER 2. LITERATURE ON THE RELATIONSHIP BETWEEN DEMOCRATIZATION AND ECONOMIC GROWTH

Discussion of the relationship between governance structure and economic performance can be traced back to Aristotle who struggled to balance the moral appeal of political pluralism while ensuring state decisions were made by trained technocrats. In contemporary times, the capacity of stable democracies to generate and sustain high income levels is widely recognized. However, questions remain over the conditions and sequence between democratization and economic growth. Given the extensiveness of both the democratization and growth literatures, this review will not attempt to provide a comprehensive listing. Rather, attention will be drawn to those works that have been most influential in shaping the current understanding of the relationship between democratization and economic growth.

2.1 The Linkages Between Economic Growth and Democracy

For much of the past 40 years, the conventional wisdom has been that economic development is a prerequisite to democratization. This thesis is based on the rationale that economic growth, education, and urbanization are mutually reinforcing processes that create the cosmopolitan and enlightened attitudes in a country that allow democracy to take root. Premature democracy (i.e. political pluralism in a society marked by poverty and low levels of education) is considered to be a recipe for elite domination and instability (Lipset 1959, 1960).

Democracies have been considered more susceptible to pursuing inefficient policies that serve particularistic interests at the expense of the larger society (Olson 1982).

Similarly, by politically empowering workers, democratizing countries are expected to face greater wage and spending pressures resulting in higher costs for firms, lower returns for investors, and lower reinvestment and capitalization within the economy (Dornbusch and Edwards). A pluralist political structure also risks becoming deadlocked over policy considerations - preventing actions that could be taken to improve economic efficiency. This outcome is considered particularly likely in ethnically diverse societies where cooperative outcomes are more difficult to reach and distributional struggles more apt to lead to economic inefficiencies (Easterly and Levine). The democratic inefficiency view argues that since authoritarian⁷ governments are sufficiently insulated from populist pressures (especially labor unions), they are better able to undertake painful economic reforms (Callaghy; Dick; Bhagwati in Borner et. al). Furthermore, they have the advantage of being able to take quick, decisive, technically-guided action without having to spend the time building consensus and making compromises inherent in a pluralistic political environment (Clague 1999; Rodrik). Simultaneously, nondemocratic governments have the coercive power to disregard corporate rent-seeking that creates distortions in the economy and inefficient use of available capital (Clague 1999). Underlying this line of reasoning is the assumption that a strong autonomous government is more capable of creating political stability in fractious and poverty-ridden countries, thereby establishing an essential prerequisite for investment and capital accumulation.

Huntington emphasizes the preeminent importance of the construction of stable

⁷ This document uses the term authoritarian in a broad sense so as to encompass totalitarian, military, autocratic, fascist, and monarchical governments where the public does not have a systematic influence over the selection, term lengths, and policies of its leaders (Dahl 1989). In this way, the term is used synonymously with nondemocratic systems.

political parties for economic development (Huntington, 1968). A strong political structure provides the integrated mechanism in a society through which information can be communicated, concerted action organized, and resources mobilized for development. In most developing societies, he argues, there is normally only sufficient capacity for a single party to emerge. He cites party development in the Soviet Union, Turkey, and Mexico as examples of the integral influence political consolidation can have on development.

While this segment of the literature emphasizes the advantages of nondemocratic governance for economic growth, there is relatively little written that specifies the economic benchmarks at which democratization should begin or how this process unfolds. Huntington acknowledges this in stating that over time the consolidated political process may become more participatory. However, democratization is not an inevitable outcome of economic growth (ibid). Historically, relatively few countries fit this authoritarian growth-democratization pattern. Rather than leading to democratization, some have argued the key value of economic growth is in maintaining democracies once they are established (Przeworski et al 1996).

Of the authors that write on authoritarian transition, Haggard and Kaufman argue that military governments have an advantage in the early stages of transition since they can more readily ensure the stability necessary for political and economic consolidation. Moreover, in many developing countries, militaries are one of the few institutions with the resources, organizational capacity, and coercive power to implement policy decisions throughout a society. Therefore, they are particularly well-suited for political leadership at

early stages of a country's political transition (Haggard and Kaufman 1995).

Empirical support for the growth to pluralism thesis largely relies on the experiences of Taiwan, South Korea, and Chile, which have gradually opened their political systems after extended periods of economic growth led by nondemocratic governments. In fact, much of the debate on the authoritarian advantage has focused on the experience of East Asia. In a study of Taiwan, Robert Wade concludes that Taiwan was successful in producing growth because it did not face pressure to preserve jobs in failing industries and so was not significantly opposed either by labor unions or by uncompetitive industrialists (Wade). Using similar arguments, Lee Kuan Yew in Singapore and Mohammad Mahatir in Malaysia have led a campaign to delineate the tenets of Asian exceptionalism and the weaknesses to a society stemming from democracy and excessive concern with individual rights (Mahatir and Shintaro; Mabubani; Naisbitt). The resonance of this line of reasoning has elicited at least tacit support by some in the international community, including the World Bank's controversial 1993 report *The East Asian Miracle*. The authoritarian advantage perspective has held less sway since the mid-1990s and especially since the Asian financial crisis of 1997-8, however.

Some scholars believe that political pluralism and economic growth are incompatible policy choices for today's transitioning countries. That is, policymakers in poor countries must make a 'cruel choice' between democracy and development (Kohli). The two processes are necessarily competitive for developing countries that are often marked by fractious ethnic groups and fragile political institutions. Pursuing democracy in

this environment is inevitably subject to governmental paralysis and heightened confrontation. From this perspective, international actors create unrealistic expectations by simultaneously promoting both democracy and economic reforms in a given transitioning country. This leads to disillusionment and potentially increased social unrest (Kaplan; Callaghy).

Commonly cited quantitative studies supporting the growth-democracy direction of causality include Barro (1997) and Helliwell (1994). In a study of 100 countries over three time periods between 1965 and 1990, Barro (1997) estimates models with both economic growth and democracy as dependent variables. He finds both to be significant though concludes that growth is a stronger predictor of democracy than vice versa when conditional convergence considerations are included. He finds a squared democracy term improves the growth regression suggesting that too much democracy can be harmful for growth. Writing in the mid 1990s, he cites Chile, Taiwan, South Korea, and Taiwan as countries where democracy had gone too far. His results indicate that Mexico and Malaysia represent the ideal levels of democracy to promote growth. In a sample of 125 countries from 1960-1985, Helliwell finds a significant effect in the growth to (the dichotomously defined) democracy linkage and an insignificant relationship in the opposite direction. Log of GDP/adults and education levels among a limited set of independent variables are found to be significant in predicting democracy.

2.2 Democratization and Conflict

Complementary to the authoritarian advantage position is the view that

democratizing countries are more susceptible to political instability. The reasoning is that domestic political competition precipitated by a move towards democratic governance highlights the ethnic or regional divisions in a society. These group differences become fissures that are instinctively settled through violence in countries without democratic norms and traditions. A widely cited study examining democratizing countries from 1811-1980 argues that elites exploit their power in societies with weak institutions to control political agendas and shape the content of media in ways that promote belligerent pressure group lobbies in the population as a whole (Mansfield and Snyder; see also Snyder). Once mobilized, these supporters are difficult to control. In short, the argument is that democratization unleashes centrifugal forces with the likely end result of a more polarized population than that which existed when societal differences were overshadowed by autocratic rule. A challenge in replicating tests in this field is the lack of a uniform definition of democratization. Some scholars use the terms 'post-communist' and 'democratizing' interchangeably, potentially contributing to inconsistent findings.

Other studies have found that democracies are particularly prone to instability in their first five years after which they become increasingly stable such that long-term democracies are the most stable governance structure in place today (Esty et. al.; Gurr et. al. 1990; Dahl 1989). This is complementary to the extensive research on the concept of a democratic peace (Russett; Doyle). This research finds that democracies are less prone to fight one another due to the moderating effects a voting public has on political leaders, the affinity shared by democracies, the culture of compromise learned in a democratic society,

and the greater likelihood for democracies to be a part of international organizations and therefore share common interests.

Another dimension of the democratization and conflict literature examines the role of ethnic diversity. Ethnic diversity has commonly been considered as a contributing factor to internal conflict as it provides a readily available mechanism on which societal differences can emerge and fractures be exploited by political leaders (Easterly and Levine). Recent research contests the validity of this assertion. The alternate view argues that the ethnic diversity-conflict relationship is not linear. In fact, highly diverse and highly homogenous societies are particularly stable. Ethnic divisions are more common in societies where the largest ethnic group constitutes between 45-60 percent of the population (Collier 2001). This research also finds that democracies are substantially more capable of fostering stability in ethnically diverse societies than authoritarian political systems. This is partly due to latter's need to rely on military support to maintain power. Under such conditions, militaries are often comprised from a narrow base from within a multiethnic population fostering predatory behavior and social antagonisms (ibid).

There has been widespread acknowledgment of the importance of instability⁸ for economic growth owing to the loss of capital and discouragement of future investment (Knack and Keefer 1997a; Haggard and Kaufman 1995; Ozler and Tabellini; Barro 1991; Easterly and Rebelo). In a similar vein, conflict is more likely to occur in countries in economic decline. Each percentage point off the growth rate of per capita incomes raises the risk of conflict by around one percentage point (Collier 2000). Given that poor

⁸ Most commonly measured in the literature by civil conflict and frequency of executive turnover.

countries are particularly prone to instability, they face the risk of falling into a vicious circle (Alesina and Perotti 1994; Collier 2000). There are some exceptions to the political instability and declining growth relationship, however. Specifically, in Sub-Saharan Africa, while long-term predatory regimes have been very stable they have not contributed to economic growth, with many demonstrating negative growth rates during their entire terms (Esty et. al.; Borner et. al). On a hopeful note, the frequency of civil conflict has been on the decline since the mid-1990s (Gurr 2000). Therefore, despite its debilitating effects, conflict may be less central to the debate on democratization and economic performance in the future.

2.3. Political Openness Contributes to Growth

An alternative to the growth to pluralism theory argues that economic performance is severely constrained unless some degree of openness and political pluralism exists. That is, this position argues that democratization fosters economic growth. The reasoning is that democratic processes, involving shared power, build horizontal checks and balances within a political structure thereby reducing opportunities for abuse by a chief executive or party in power. By supporting transparency, democracy reduces patronage and fosters greater adherence to the rule of law. Moreover, through periodic elections voters maintain some form of vertical accountability on the chief executive to pursue policies that encompass the priorities of the median voter in a polity. Amartya Sen draws on this point when noting that the best early warning system for famine is a free press and that there has not been a major famine in a democracy (Sen 1981, 1989).

A major plank in the authoritarian advantage argument is that nondemocratic governments are better able to mobilize savings and foster capital accumulation. However, empirical evidence on investment reveals another perspective. Results suggest that, in fact, civil liberties are conducive to growth and capital accumulation (Isham et al; Barro 1991; Ozler and Rodrik), as well as being a dominant factor in explaining investment (Kormendi and Meguire). Investment is also strongly and positively correlated with the Gastil and Polity Indexes measuring democracy (Clague et al 1996). This relationship holds at low levels of development - poor democracies attract more investment than poor authoritarian systems (Przeworski et al. 1996). Furthermore, as Mancur Olson has noted, only durable democracies have realized high levels of capital accumulation over successive generations (Olson 1997). According to Olson, the conditions for democracy are the same as those for economic growth: individual rights, freedom of speech, security of property and contract rights, and an impartial court system (Olson 1993).

Some scholars argue that democracy's most important economic contribution is its effect on the stability of growth. High growth countries have high growth to volatility ratios. Plotting growth trends for democracies finds they grow more consistently than any other regime type. Meanwhile, high growth volatility countries are all non-democracies (Quinn and Woolley).

Democracies have also shown greater resiliency in the face of financial crises as measured by the extent of currency depreciation and stock market values, than nondemocratic systems (Lanyi and Lee; Johnson et. al.; Rodrik). They have responded

earlier and have rebounded more quickly than authoritarian governments, mitigating the impact of these events on the population at large as well as investors (Rodrik). This may reflect democracies' relative strength in accessing, processing, and analyzing information compared to authoritarian governments. This result may also demonstrate the greater confidence in political stability, credibility in disclosure, and overall legitimacy granted democratic leaders (Lanyi and Lee). This responsiveness runs counter to the commonly perceived advantage of speed of action attributed to authoritarian systems. Rather, Maravall argues that authoritarians may *disadvantage* themselves, through their repressiveness, by becoming insulated from the sources of information they need to make good economic decisions (Maravall).

Another line of thought supportive of a democracy to economic growth causal linkage centers on innovation. Innovation is considered to be closely related to the free flow of information and competition (Schumpeter; Murrell 1997, 1990; Rodrik). Some argue that democratic competition is inherently effective as a mechanism for revealing information (Wittman; Babba). Information flow is also facilitated by horizontal linkages in a society, which are more commonly associated with democracies. Autocratic systems, by contrast, are more often hierarchical relying on a vertical flow of information. Furthermore, research from the former Eastern bloc countries cites the concentration of political and economic decision-making in the same entity as a primary factor for economically inefficient policies (Ericson). This system effectively neutralizes the politically marginalized entrepreneur.

Innovation is particularly valuable in a dynamic economy where most growth comes from new sectors and firms. Having an institutional environment that supports this evolution as well as a social system that has the suppleness to adapt distinguishes successful economies (Murrell 1990; Cadwell; Schumpeter). Authoritarian systems are generally considered less adaptable, instead demonstrating capacity in industries that have set production patterns that can be organized efficiently over a longer time horizon (Murrell 1990; Kornai). In a related stream, democracy is closely correlated with higher educational levels (Alesina and Perotti 1994) contributing to the strengthened human capital base needed to support a thriving economy. This human capital depth, combined with information accessibility, allows for greater sophistication in economic policy analysis and debate - features frequently absent in former communist societies (Murrell 1997).

Proponents of the pluralism to growth theory also challenge the view that democratizers are more prone to instability. They counter that democracies promote stability by providing a systematic means through which leaders can be changed. As Olson has noted, even in long-term autocracies there is an inherent political instability involved with the succession of leadership (Olson 1993). In addition to promoting stability, elections and public scrutiny over policy provide mechanisms by which a democracy can correct for bad policies thereby minimizing damages at an earlier stage than is likely to occur in a nondemocratic system.

Proponents of democratization's contribution to economic growth also challenge the perceived authoritarian advantage in East Asia. Pei argues that this advantage has

never been demonstrated, only asserted. In a survey of Asian states, he concludes that the economic growth in East Asia occurred in spite of rather than because of predominantly autocratic governments (Pei, 1995). Other factors such as entrepreneurial societies, ethnic Chinese business networks, readily accessible Japanese capital, availability of borrowed technology, and access to western markets are more influential in explaining growth than autocratic governance system (ibid.). This view is supported by Krugman, who argues that there has been no Asian 'miracle'. The economic performance observed in this region is only the solid and predictable growth of the sort that will occur whenever an economy combines high investment rates, rapidly improving education and training for the work force, and the mobilization of large numbers of underemployed peasants into the modern sector (Krugman, 1994). Consistent with authoritarian advantage writings, Krugman notes that authoritarian governments are effective at mobilizing resources. However, he adds, they are inefficient in employing these resources and this puts limits on their prospects for continued growth (ibid).

In short, critics of the economic growth to political pluralism thesis challenge both elements of the argument: that authoritarian governments are better able to foster economic growth and that those that do are more likely to move towards democracy (Geddes).

2.4 Challenges of Quantitative Research on the Sequence of Democracy and Growth

A number of empirical studies examining the sequence of democracy and growth

have not found any relationship. The inconclusive results are due to the heterogeneous experience of authoritarian governments (Alesina and Perotti, 1994). East Asian authoritarians have performed well economically. However, virtually all others have not. Democracies have been more homogeneous in their economic growth. They perform far better than most authoritarians, though not as well as some of the most successful authoritarians (ibid).

In a review of 18 studies, Przeworski and Limongi find inconclusive results. While these researchers find there is ample evidence suggesting that politics affect growth, they conclude that regime type classifications do not capture that relationship. They note a trend in the studies they reviewed, however. Of the 11 studies published before 1988, eight found authoritarian systems grew faster, while none of the nine studies published after 1987 supported this finding. Given the close relationship between democracy, income, and stability they highlight the importance of addressing potential endogeneity biases in subsequent analyses attempting to explain sequence.

Another definitional barrier to understanding a governance-development relationship is in regards to the concept of democracy. There is a tendency to categorize government regimes dichotomously (democratic or authoritarian) based on whether or not they hold elections (Przeworski and Limongi 1993; Zakaria). This approach glosses over the many gradations in governance regimes. Furthermore, by not distinguishing the impartiality of elections, a dichotomous measure undervalues the effects of checks and balances typical of a full democracy. These include the substantive processes of free

speech, association, press, formation of political parties, popular participation, etc. that characterize liberal democratic governance. This has given rise to the concept of 'illiberal democracies' - those systems that hold elections though do not ensure civil and political liberties (Zakaria). Treating such political regimes as democracies naturally introduces significant biases into a quantitative analysis - and confounds relationships between governance type and development.

Consideration of the relationship between democratization and growth segues with the economic concept of convergence. This is the theory that countries with lower starting levels of income are predisposed to grow faster than the norm. This property derives from the assumption of diminishing returns to capital. Economies that have less capital per worker tend to have higher rates of return and therefore higher growth rates (Barro and Sala-i-Martin 1991). Since many of the democratizing countries are relatively poorer, convergence theory would predict that they should grow more quickly. Empirically, convergence has not been readily apparent. Relatively few poor countries have been able to close the gap in income levels and growth in poorer countries is typically erratic. Meanwhile, wealthy countries are commonly able to post consistently high growth rates. This outcome is more consistent with endogenous growth models that base predicted growth on levels of human capital in a society. Countries with higher levels of education and health will be better able to create and absorb new technology, maintain high levels of productivity, and therefore realize steady growth over time. A subsequent reformulation of the convergence thesis has generated the concept of conditional convergence. This

revision maintains the nucleus of convergence theory that poorer countries should grow more quickly. However, this is contingent on relatively homogeneous levels of human capital, government policies, and the diffusion of technology among countries under consideration (ibid; Barro 1997).

2.5. Democratization

While not directly focused on economic growth, scholarship on the precipitating causes and factors in successful democratization has also generated insights that provide important theoretical background to this research. Discussion in this literature often categorizes democratization into three stages: challenges to the nondemocratic structure, the transition, and democratic consolidation. These are touched on in each of the works discussed in this section.

Of the precipitating causes for transitions from authoritarianism, economic decline is most commonly cited. That is, rather than authoritarian leaders giving way to democratizers after a minimum level of economic development has been realized, democratization efforts are more likely to be born in times of economic crisis. Challenges to a nondemocratic structure, however, must overcome the disincentives for collective action. As Haggard and Kaufman observe from their 12 country case study of democratic transitions, potential beneficiaries of democratic change face high uncertainty over future payoffs and substantial barriers, whereas those who have benefited from the previous policies are certain about their preferences. Economic protest and civilian opposition (reflecting divisions within the ruling elite) are the two key factors that weaken the

commitment of military leaders to maintain authoritarian rule (Haggard and Kaufman 1995). In the four countries in which military governments withdrew in good economic times - Chile, Korea, Turkey, and Thailand – external pressures played a significant role. United States military, economic, and political aid was a factor prompting the reforms that led to pluralist political participation, export-oriented growth, and delegation of economic management to independent technocratic agencies (ibid.)

Successful transitions are affected by subsequent economic growth. From 1960-1990, 97 percent of democratic governments with positive economic growth survived. This figure drops to 81 percent with two years of negative growth. However, this relationship between survival and economic performance fades in the 1980s and 1990s. Despite the deepest crisis in the developing world since the Great Depression, only 2 of 24 Latin American democratic breakdowns occurred during this period (Rueschemeyer et al). Evidently other factors were helping to sustain democracy. Haggard and Kaufman speculate these factors include the decline of the Soviet Union and the end of the Cold War, the lack of support for authoritarian rulers from the west, and fresh memories of authoritarian governance within democratizing states. These authors observe from their case studies that successful economic outcomes during transitions require leaders who have personal control over economic decision-making, a cohesive reform team, and political authority to override bureaucratic and political opposition to policy change. Fragmented party systems make it difficult for democratizers to pursue stable macroeconomic policy. Two party or moderate multiparty systems work best for

economic cohesion in democratic transitions. Consolidation of reforms requires checks and balances on the executive to mitigate predatory behavior. Reformers must also appeal to effective networks of support from new beneficiaries (ibid).

In a review of the democratization experience in Africa, Bratton and Van de Walle cite the importance of both external and internal forces for the precipitation and ultimate outcomes of democratization efforts. The end of the superpower rivalry provided the opening for the adoption of a dominant capitalist-pluralist model. Reduced military pressures and funding to a number of long-time hotspots created opportunities for reconciliation and political reconstruction. The sudden pull back of French economic support from the CFA union also precipitated an economic crisis that undermined the credibility of long-time autocrats. After the success of political reformers in Benin in toppling their autocratic system in 1991, the prospects for change caught on elsewhere on the continent. Within four years 35 countries in Africa adopted some degree of political reform. The extent and consolidation of these changes has varied widely. Factors found to be significant in shaping outcomes include strength of trade unions (and the organizational capacity they brought), wiliness of autocrats – a number of whom were able to maintain power after agreeing to superficial political reforms, and lead time of democratization (countries that struggled for political change over a period of years were more likely to sustain the changes enacted compared to countries where this change, largely precipitated by external events, occurred rapidly). Complementary to this list, Bingen finds that the strength of farmers' associations was a vital factor in Mali's democratization process.

Given the high percentage of the population that remains in rural areas in Africa, this factor may have even greater import for this continent. In a separate eight country survey of attitudes toward democratization, Bratton finds that level of education is actually negatively associated with favorable views towards democracy. This observation, running contrary to the conventional thesis, reflects skepticism on the part of these elites regarding the capacity of their less educated compatriots to vote responsibly, as well as a concern over how democracy might affect their self-interest.

In a four country case study of democracy promotion, Carothers (1999) argues that while external events provide openings for change, the extent of democratization is largely driven by internal forces. Efforts to promote democratic change from the outside are likely to only make a marginal contribution unless the values in a society have also shifted toward democratic norms. He concludes that factors affecting successful transitions include: (1) non-monolithic political forces with a significant number of pro-democracy adherents; (2) few powerful anti-democratic forces; (3) some historical exposure with political pluralism; (4) a peaceful regional setting where democracy is spreading; (5) economic dynamism, or at least stability, that is relatively dispersed.

Olcott and Ottoway review the substantial number of democratizing efforts that have stalled or gravitated back toward authoritarianism. However, they argue that the term, backtracker, is inappropriate since most of the countries considered backtrackers were never really committed democratizers to begin with. These countries have persisted with the same leadership they have had in place all along. The emerging and more

sophisticated authoritarian governance structure, which they label 'semi-authoritarian', does allow a degree of civil liberties. However, power remains firmly in the hands of the established party and leaders who simultaneously emphasize the risks of instability inherent in political competition. The elections that are undertaken, parliaments created, and judiciaries established do not upset this equilibrium (ibid.) This democratic retrenchment is less the spreading of Asian-style authoritarianism advocated by proponents of 'strong government' as a variation of the old, unproductive patterns of authoritarianism (Carothers 1997).

2.6. The Importance of Institutions for Long-Term Growth

The work by Douglass North has focused attention on the importance of institutions to economic development. According to North, institutions are the formal and informal rules of the game in a society that reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction. Institutions affect the performance of an economy through their effect on the costs of exchange and production. Therefore, institutional differences between societies impact their varying levels of economic growth. Those societies that adopt institutions that reward productive activity and reliability of transactions grow more quickly and consistently.

North emphasized the importance of the respect for contracts as a determinative factor in fostering economic growth. Transactions can thus extend beyond familiar relations – broadening the geographic coverage and volume of trade thereby possible. He argues that the foundation for the legal conventions that evolve are the norms and values

originating in a society itself – primarily that of honesty. The transplanting of institutions from a society with a productive economy and shared values of trust are unlikely to be effective in a society with traditions of misrepresentation and impunity. Consequently, he concludes that the institutional structures in place in a given society are largely path-dependent and slow to change except at the margins.

A criticism of North's work by democracy scholars is that he does not draw a clear link between democracy and institutional development (Przeworski et. al. 2000). He cites democracy only once in his classic *Institutions, Institutional Change and Economic Performance* noting that liberal democracies are the political regime type most likely to produce institutions that enhance economic performance. However, he does not expound on just how democracies contribute to the substantive institutional development required to enhance economic performance.

In his work on social capital, Putnam arrives at conclusions congruent to those of North. In his study of developmental differences between northern and southern Italy, he finds that societies with higher levels of civic attitudes, trust, and reciprocity have notably more effective governance institutions as well as faster economic growth. Putnam's study concludes that the level of civic strength in 1900 is a better predictor for economic growth and development (child survival) in 1985 than either of these two dependent variables predicted themselves over the course of the century.

The subsequent research spawned by North's work has focused on assessing the impact of institutions that directly impact economic performance including rule of law,

bureaucratic efficiency, independent financial institutions, and decentralization.

RULE OF LAW⁹

Keefer and Knack find that rule of law and contract enforcement are significant in explaining the average rate of growth in a cross-sectional study of 97 countries over the 1960-1989 timeframe. Furthermore, they find that poor institutions account for the observed divergence in the affected countries' economic performance. Countries with stronger institutions did exhibit economic convergence. Countries that constrained their executives grew three and a half times faster (per unit of income gap with the United States) than countries that did not (Keefer and Knack, 1997)

Similarly, Olson, Sarna, and Swamy (1998) find that productivity growth is strongly correlated with the quality of governance (defined by legal institutions). In their study of 51 countries, governance institutions explained as much as 47 percent of the variation in the rates of growth of productivity across countries. Improvements in quality of governance institutions raise the rate of growth of productivity by as much as two percent per year in some countries (ibid.).

Using a broader set of institutional indicators (voice and accountability, political instability, government effectiveness, regulatory burden, rule of law), Kaufmann, Kraay, and Zoido-Lobaton find that a one standard deviation improvement in governance indicators leads to between a 2.5 to 4 fold increase in development outcomes

9 Rule of law is characterized by (1) rules that are known in advance, (2) the enforcement of rules, (3) monitoring, (4) mechanisms for resolving conflicts in terms of the laws and moral principles of society, and (5) the timely amendment of rules (Picciotto; Olson 1997). Consequently, the existence of the rule of law limits arbitrary actions by the state or powerful entities in a society (Clague et al 1997b).

(GDP/capita, infant mortality rate, and adult literacy) for a sample of 178 countries using 1997 data.

BUREAUCRATIC EFFICIENCY

Some scholars have speculated that the effectiveness of a governance regime to promote economic growth is more a function of the efficiency of its civil service than the type of political system it represents (Rodrik; Gourevitch). A well trained, honest bureaucracy contributes to economic growth through the effective implementation of policies taken by the political leadership and through the reduction of transaction costs in both the public and private sectors. The extent of autonomy exerted by the civil service allows it to undertake activities based on technical considerations rather than particularistic interests. Bureaucratic efficiency also encompasses the extent of corruption in public agencies. Empirically, countries with corrupt bureaucracies tend to exhibit low growth (Levi and Sherman). Building on Olson's stationary vs. roving bandit scenario, research into corruption has emphasized the consistency and reliability of corruption in a given country. When corruption is inconsistently applied and extortionary, investors with the flexibility to move their capital elsewhere typically do so (Borner et. al.) An advantage democracies have in this regard is that they create a higher level of transparency and likelihood of exposure of grievances and injustices (Lanyi and Lee). The largely docile majority in an authoritarian regime, not habituated to asking questions and challenging policies, is more easily manipulated (Rodrik).

INDEPENDENT FINANCIAL INSTITUTIONS

The ability to raise capital and direct it to the most productive sectors in a society is a necessary prerequisite for modern economic growth. This requires a competitive banking sector with the ability to examine and assess the investment risk of individual firms, common standards of financial reporting, and a publicly traded stock exchange. Such institutions foster the efficient mobilization of private savings and investment. This allows productive firms to grow more rapidly and provides higher returns to domestic and foreign investors than would be realized otherwise. This, in turn, encourages capital accumulation. More fundamentally, investment is critically dependent on a stable macroeconomic environment. This requires credible government policies and capacity for implementation. The institutional separation of macroeconomic responsibilities such as the creation of a central bank can augment this credibility by building protections against politically motivated (i.e. narrowly interested) actions that have negative consequences on social welfare (Maxfield; Lanyi and Lee). A 72 country study covering four decades by Cukierman, Webb, and Neyapti find that an aggregate index of central bank independence is inversely related to inflation in industrialized countries and to the turnover rate of the chief executive officer of the central bank in developing countries. Meanwhile, banking crises fostered by inadequate supervision and perceptions of poor credibility are a leading cause of currency crises (Kaminsky and Reinhart).

The degree to which firms can move into and out of the market affects the dynamism of an economy and sets parameters on the magnitude to which innovation is

rewarded in a process of 'creative destruction' (Schumpeter). This feature of an economy directly impacts the intensity of private sector competition realized. Given that much of new growth for an economy occurs in new and small firms, the extent to which a facilitating environment for these firms exists will affect the economy's overall health (Cadwell). Barriers such as high registration fees, onerous filing requirements, inaccessibility of capital, asymmetries of information, and over-regulation shape this aspect of the economy. In a cross-sectional analysis of 75 countries using data from the late 1990s, Djankov et. al. find a significant relationship between political openness and less restrictive regulations relating to firm entry, controlling for GDP/capita. Conversely, they find a strong positive relationship between autocracy and regulation. Their results are consistent with the 'toll-booth' theory of regulation: entry is regulated because doing so benefits the regulators. The privatization experience of the former Soviet Union cautions against interpreting this result too narrowly, however. An emphasis on privatization without adequate attention to ensuring competition can result in simultaneous contractions in output and equality in a society (Stiglitz 1998).

DECENTRALIZATION

The conventional belief is that the more decentralized a political system, the greater opportunity there will be for local accountability and therefore government responsiveness to the interests of the affected population (Khan; Owens; Lillienthal in Stiglitz 1999). While there may still be corruption, it's per unit scale may be less and the local consequences more apparent, provoking community action (ibid). Important

considerations for the effectiveness of decentralization include whether or not local taxes are collected and used for local initiatives and whether municipal and district leaders are appointed or selected through more representative processes. The flipside of this argument is that local elites have more opportunities to siphon off local resources without some measure of accountability at the regional or national level.

2.7 Gaps in Current Literature

The democratization-growth debate is dominated by several compelling if competing theories. Each theoretical strand can point to at least a few historical examples that support their respective line of reasoning. However, there have been comparatively few cross-national quantitative analyses of these theories to assess the extent to which these cases can be generalized. Similarly, the early theoretical work in this field, developed prior to the current democratization wave, is heavily influenced by the European democratization experience. It nonetheless continues to hold considerable resonance among scholars and policymakers today.

A preponderance of the quantitative analyses that have been undertaken have used cross-sectional rather than panel data – primarily due to data limitations, especially for institutional factors. This necessitated holding institutional, economic, and policy variables constant – at times for 20-30 year time periods. However, given the remarkable political and economic changes that have occurred globally during this time, such an approach is susceptible to generating spurious results. Therefore, taking time period into consideration will greatly enhance understanding of the relationship between democratization and

economic performance.

The use of cross-sectional data has also limited the detection of possible interactions between institutional, economic, and social factors as they change over time within a given country. Some of the more recent studies undertaken, in the mid- and late-1990s, still had access to only a few years of post-Cold War data – significantly limiting the extent to which the results obtained can be generalized to contemporary democratizing states. However, in the decade since North’s work, there has been a substantial increase in the availability of datasets measuring various institutional traits, some on an annual basis. This increases the potential for more comprehensive empirical analysis within this field.

The quantitative literature assessing the relationship of democratization and growth has largely examined this question from a global perspective. This is also likely due to data constraints. However, this approach masks potentially profound regional differences in the democratization-growth experience. This is especially a possibility given the different time periods of democratization for each region as well as their variability in starting income levels, cultural factors, political histories, and demographic composition. Results obtained from these studies are nonetheless often generalized to a global basis on the assumption that the democratization-growth relationship is uniform¹⁰.

The quantitative analysis involving the role of institutions in growth undertaken thus far has substantiated the theoretical framework put forth by North. However, the institutions considered in this research largely include only economically-oriented systems – rule of law, property rights, contract enforcement. While important, they omit other

10 For example, Lipset’s bivariate analysis was largely based on 48 countries in Europe and Latin America. Yet, this has been the basis for much of the conceptual and policy understanding regarding

institutional categories that may potentially also add valuable insight (e.g. civil liberties, social capital, civil society, etc.) While limited data on other factors likely explains this omission, it is pertinent to keep them in mind lest the relationship of institutions and economic performance become conceptualized too narrowly.

the economic potential of democratizers since 1960.

CHAPTER 3. TRENDS IN THE RECENT DEMOCRATIZATION EXPERIENCE

3.1. Change in Levels of Democracy

The recent global democratization movement has dramatically changed governance norms. With nearly 80 countries exhibiting levels of democracy in 1999 that exceeded their levels in 1980, this change has affected virtually every region in the world. The global median level of democracy has jumped from zero to six on the 0-10 point Polity Index during this time period (see figure 3.1). While the breadth of this change is generally acknowledged and indeed is the reason for the heightened debate on democratization, the distinctive aspects of this change across regions are less well recognized. The contemporary movement toward democracy, starting with the transitions undertaken by the former autocratic states of southern Europe, has been labeled the Third Democratization Wave¹¹ (Huntington 1991). While helpful for distinguishing the current period of democratization from previous advances in democracy, the label has fostered a tendency to analyze the experiences of all contemporary democratizers as part of a single phenomenon. This categorization risks overlooking potential distinctive precipitating, historical, and geographic characteristics of these democratizing states. The figures below, comparing the trends in median levels of democracy across regions, demonstrate the variability of the recent democratization experience (see figures 3.2-3.8).

11 The first wave being the establishment of modern democratic systems in Western Europe in the 19th century through WWI and the second wave encompassing the emergence of new democracies after World War II.

Figure 3.1 **Timeline of Median Democracy Level Globally**

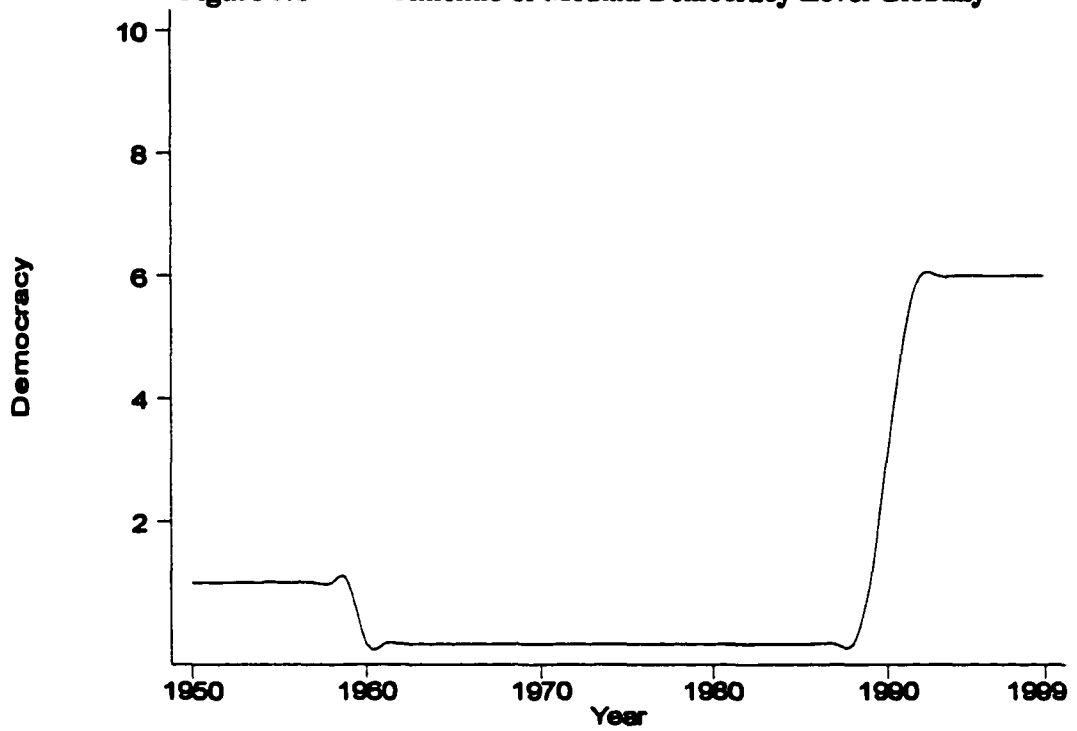


Figure 3.2. **Timeline of Median Democracy Level in Latin America**

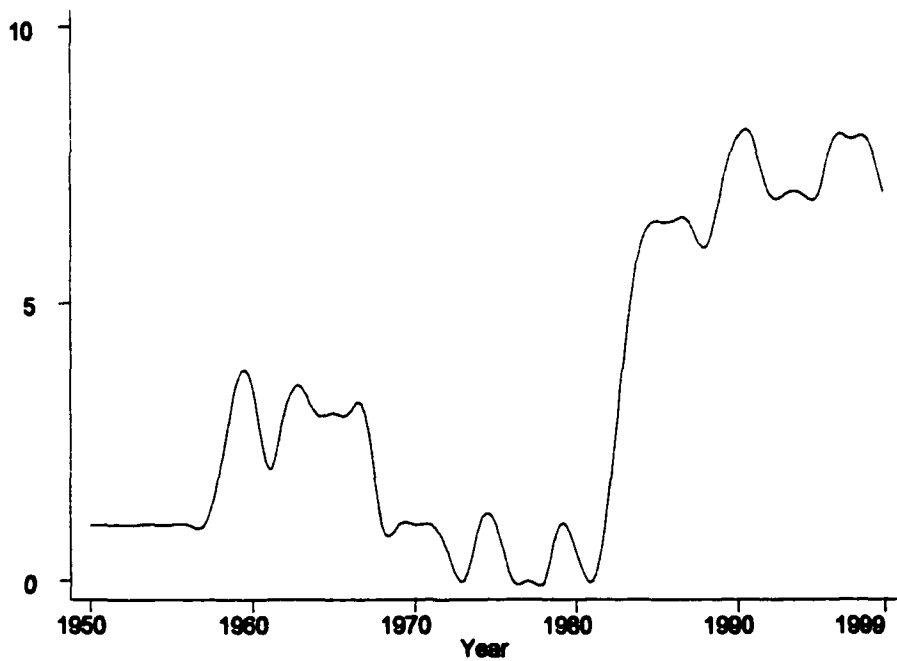


Figure 3.3 Timeline of Median Democracy Level in Sub-Saharan Africa

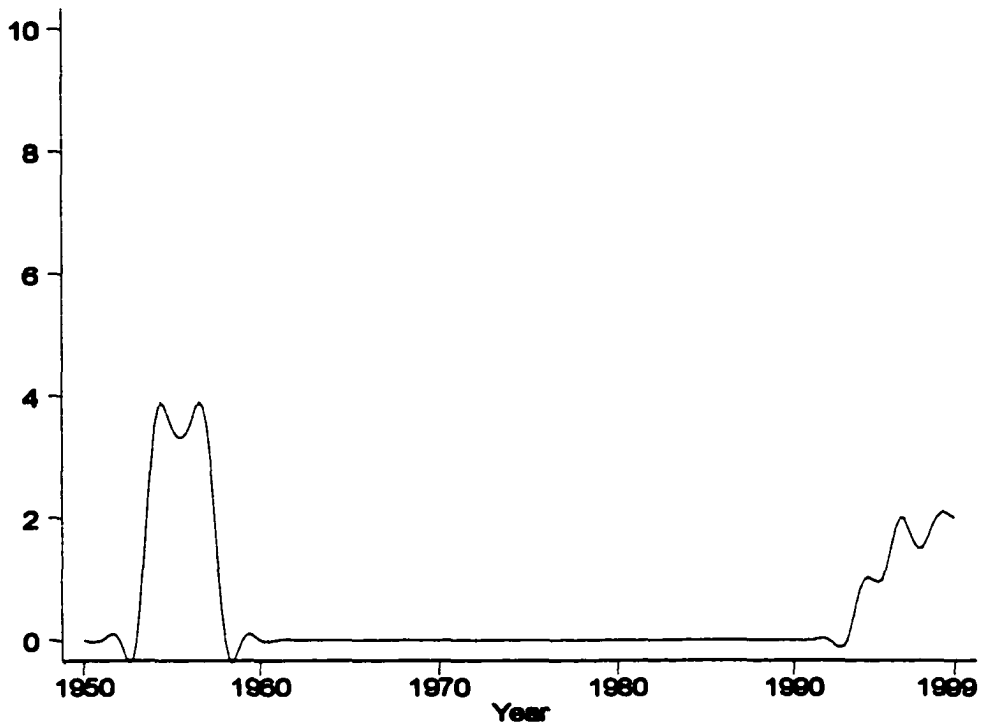


Figure 3.4 Timeline of Median Democracy Level in the Middle East

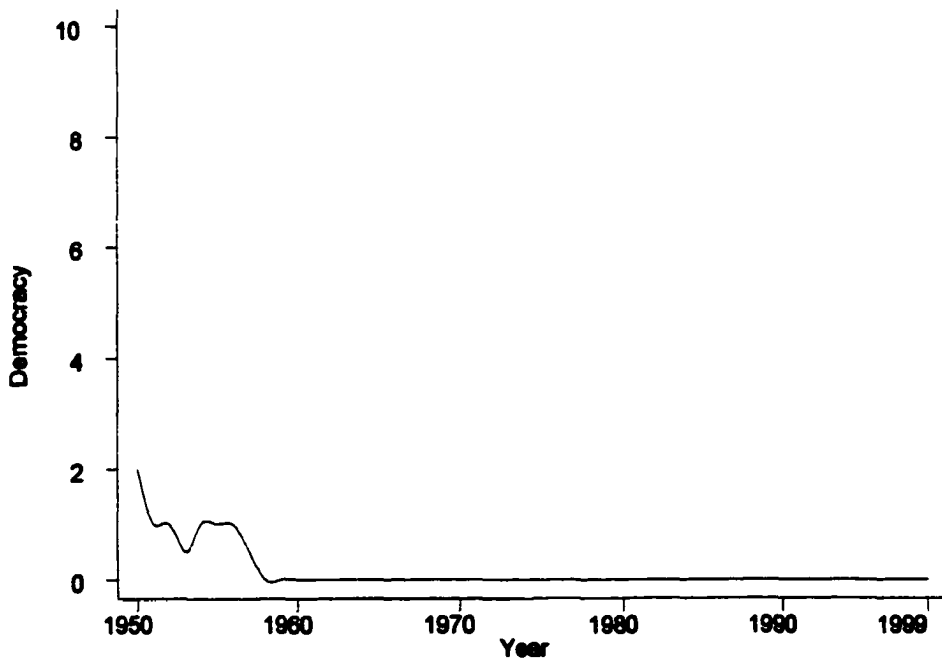


Figure 3.5 Timeline of Median Democracy Level in Central Europe

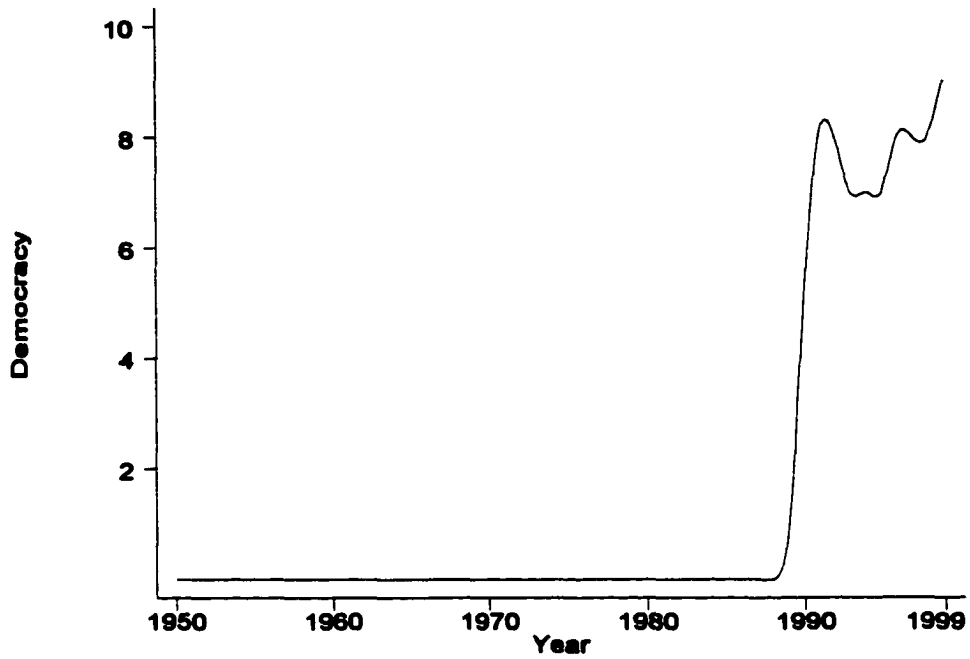


Figure 3.6 Timeline of Median Democracy Level in the former Soviet Union

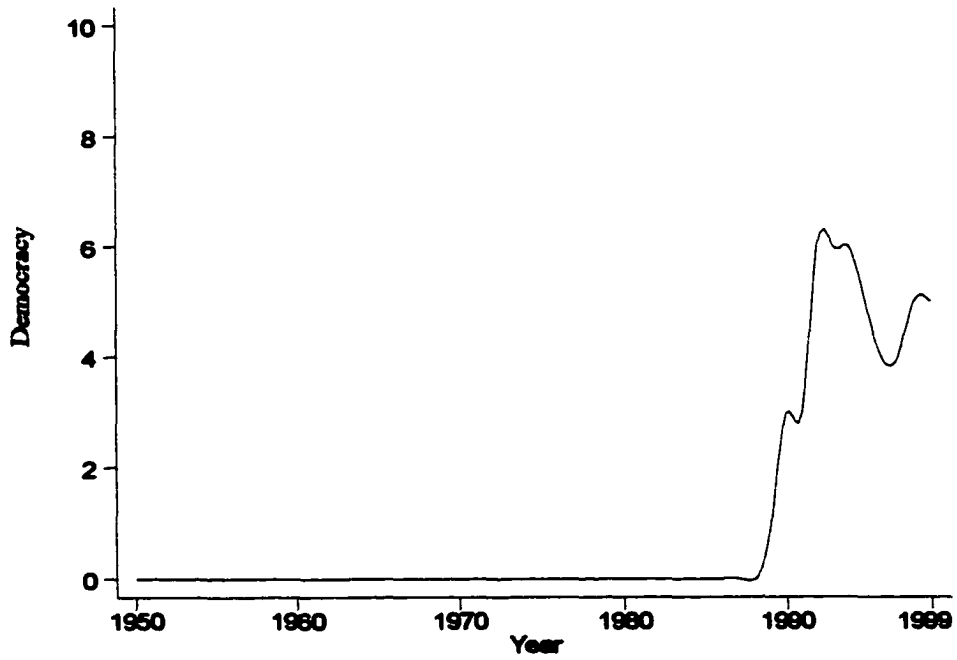


Figure 3.7 Timeline of Median Democracy Level in South Asia

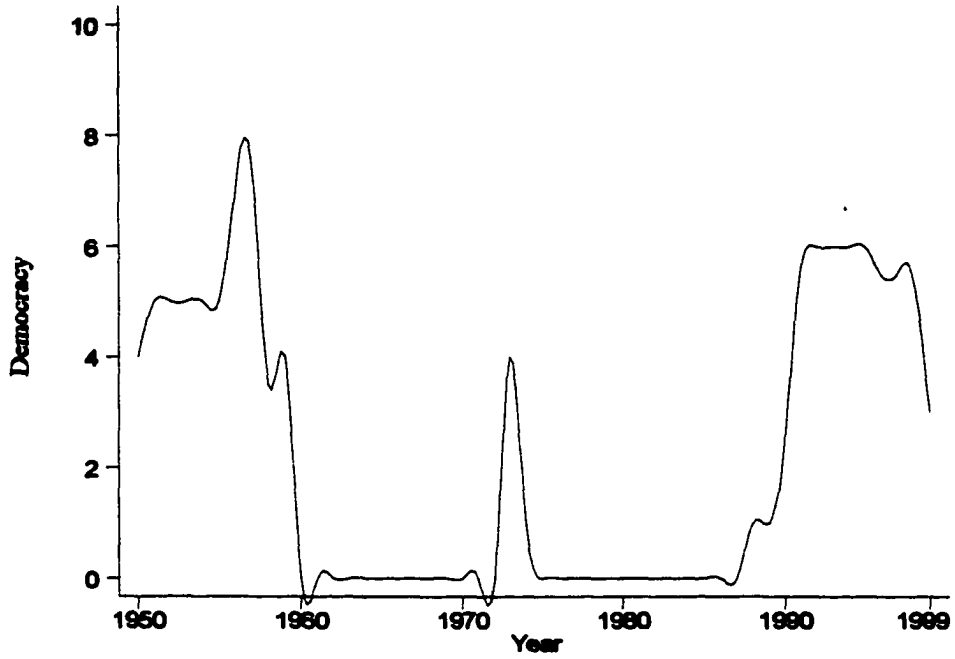
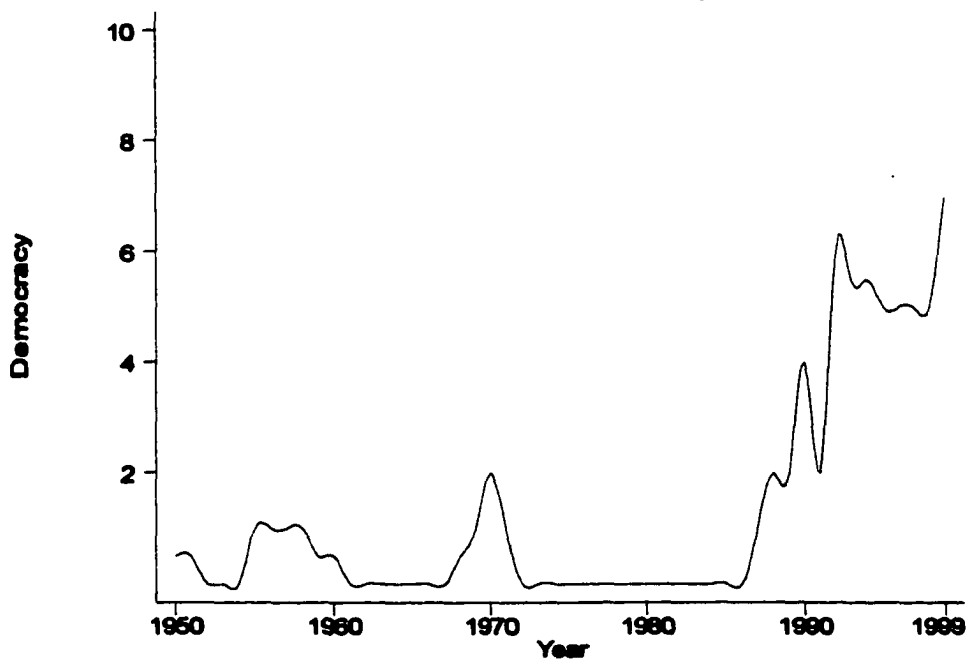


Figure 3.8 Timeline of Median Democracy Level in East Asia



The graphs reveal that no two regional democratization trends are alike. Each exhibits nuances in the timing, extent, speed, and consistency of its advance. Similarly, even though almost every region has started from a relatively low median level of democracy, important variability exists regarding previous democratic history. When considered in the context of the low levels that had previously prevailed in most regions, the swiftness and extensiveness of the recent democratization movement is particularly remarkable. Seen from this historical perspective, it is also understandable why scholars writing in the 1950s and '60s would have anticipated little change in political structures as they put forth theories explaining political-economy relationships of that era. Indeed, it may be that the early growth-democracy theories were accurate for that epoch, even if they do not hold up under current circumstances. The same need for caution against generalizing theoretical constructs too strongly applies to the present context. As scholars considering trends in democratic history over the past two centuries have noted, previous surges in democracy, each unique in its own right, have been followed by periods of decline in democracy levels (Gurr et. al 1990). The future trajectory of these regional trends fuels speculation regarding the timing and extent to which the recent advances in democracy will be consolidated, the depth of decline that can be expected, the possibility of continued upward advances, and the degree of influence external actors can have on the outcomes in individual states.

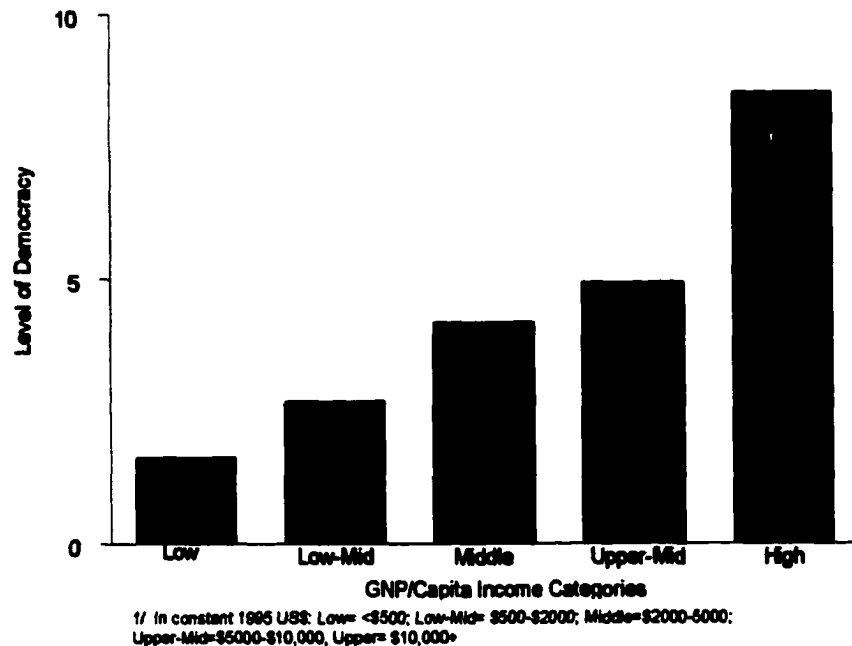
3.2 Relationship Between Democracy and Income

Virtually all of the world's most prosperous countries are also democracies¹². The

¹² In this document, a democracy is classified as a country with a democracy score of 8-10. All states

close relationship between democracy and prosperity is widely acknowledged by scholars on all sides of the sequence debate. The income-democratization relationship is captured by the monotonic pattern generated when mean levels of democracy are compared by income category (see figure 3.9).

Figure 3.9. Mean Level of Democracy by Income Category'' (All Countries, 1980-98)

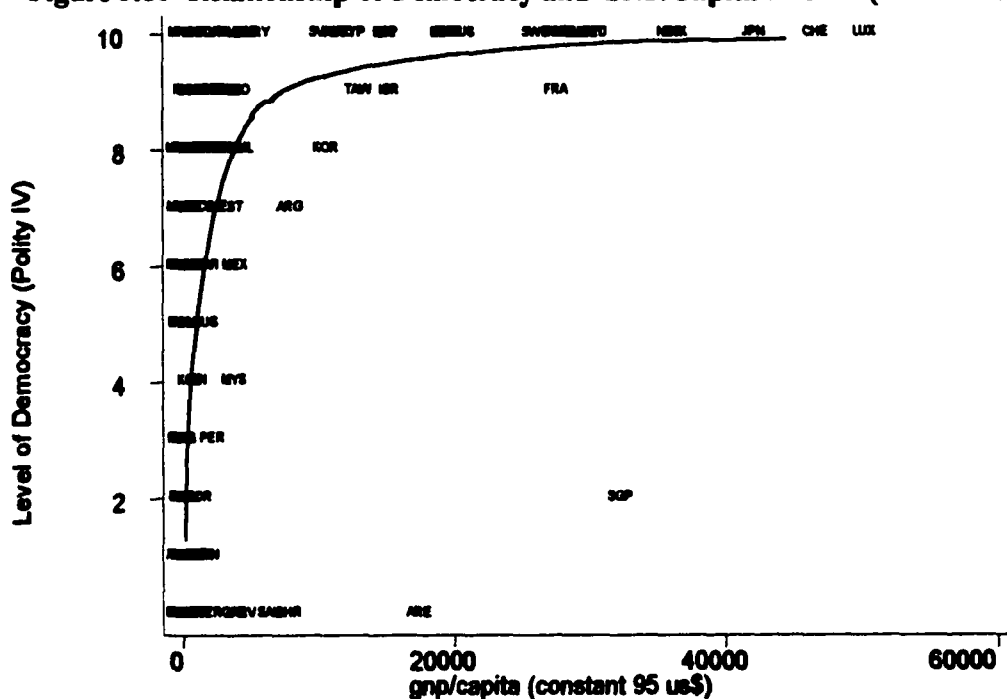


The close relationship between democracy and GNP/capita is similarly revealed by the sharp curvilinear relationship generated when the two factors are plotted against each other in continuous terms (see figure 3.10). The clustering on the left side of the graph reflects the preponderance of poorer countries in the global system. It also represents the relatively greater balance in levels of democracy than income. A country is more likely to

below this level are broadly considered 'non-democratic', even though they represent a wide range of democratic practices. By setting this *minimum standard*, the experiences of the mid-level 'democracies' do not confound observations of the full democracies.

be poor and democratic than rich and non-democratic¹³. The graph indicates that the democracy-income pattern is non-linear. There are few 'middle of the road' paths to medium or high income at mid levels of democracy. This pattern is consistent over the past 40 years for which data is available. However, as there were marked advances in the levels of democracy and wealth during this period, the density of observations has shifted in a clockwise direction.

Figure 3.10 Relationship of Democracy and GNP/Capita in 1998 (All Countries)



The clustering of countries with low democracy scores in the lower left corner of figure 3.10 indicates that to better understand the contemporary democratization-growth process is a matter of understanding democratization among poor countries. In fact, 65

13 Comparing countries with per capita incomes below \$2,000 and democracy scores of 8-10 against countries with incomes of more than \$5,000 and democracy scores from 0-2, generates a statistically significant result $\chi^2=32.6$ ($p=0.00$).

percent of the current democratizers have annual per capita incomes below \$2,000¹⁴ (see Appendix A for a listing of contemporary democratizers by income category).

These graphs also underline the point that the debate over the relationship between democracy and economic performance is specifically a question about democratization and growth. It is among poor countries that issues regarding the capacity to establish and maintain democratic institutions arise. Conversely, it is in reference to countries increasing their levels of democracy that there is debate over how participatory political structures may be detrimental to economically efficient policies.

3.3 Contemporary Democratizers

The regional democratization trends highlight the variance in the depth and breadth of this process between regions. Exploring these regional differences further reveals wide variations in the background economic and demographic characteristics exhibited by the contemporary democratizers at the onset of the democratization process (see table 3.1). In terms of per capita income, the regions range from a low of \$317 in Africa to a high of \$3,887 in Central Europe. Similarly, while each region started its transition from near the bottom of the democratization scale, with a base year democracy mean of 1-1.5, the extent of democratic change realized (through 1999) differs substantially (see table 3.2). Central Europe, East Asia, and Latin America have all experienced changes in their democratic median ranging from 5.5-8 points. Change in Africa¹⁵ and South Asia has been much more marginal. Africa's mean democracy score in 1999 is virtually unchanged from 1994 when the region's median level of democratization moved from zero. However, this

14 All dollar figures are in constant 1995 US\$.

15 Africa refers to Sub-Saharan Africa throughout this study; North Africa is included in the Mid-East.

should not obscure the wide diversity of change within African democratization. Twenty-seven African countries have higher democracy scores in 1999 than the early 1980s, with advances ranging from 1-7 points.

Table 3.1. Socioeconomic Characteristics of Regions at Start of Democratization

Region	Base Year of Democratization	Median Level of Democracy in 1st Year of Democratization	Median Level of GNP/Capita (\$)	Median Level of Primary School Enrollment (%)	Median Level of Urbanization (%)
East Asia	1987	1	1,462	96.1	46.1
S. Asia	1988	1	340	70.5	21.2
Africa	1994	1	317	57.3	30.4
FSU	1989	1	2,090	98.6	56.8
C. Europe	1989	1	3,887	97.4	54.9
Lat. Amer.	1982	1.5	1,900	92.6	51.6

Table 3.2 Changes in Levels of Democracy During Democratization

Region	Year Prior to Democratization	Median Democracy Score		Mean Democracy Score	
		Starting Yr	1999	Starting Yr	1999
East Asia	1986	0	7	2.8	5.5
South Asia	1987	0	3	2	3.5
Africa	1993	0	2	2.7	2.8
FSU	1988	0	5	0	4.1
C. Europe	1988	0	9	0.5	7.6
Lat. America	1981	0	7	3.3	7.1

While comparisons between prospering and lagging democratizers are undertaken in depth in the results section of this paper, some general observations can be made here. First, a review of global medians reveals that democratizers as a group were slightly poorer than the global norm in 1980 (see table 3.3). Similarly, the lagging democratizers

started at lower income levels than the prospering democratizers, (though this difference is not statistically significant). Note that when median levels of GNP/capita are used, global per capita income levels actually declined over the past 20 years.¹⁶ The prospering democratizers buck against this trend by showing a jump in incomes from 1990 to 1998, bringing them close to the global median level. Meanwhile, the lagging democratizers maintain a stable income level in the 1980s, though they experience a dramatic drop in median per capita incomes during the 1990s. It is the sharply negative economic performance of the lagging democratizers that pulls down the overall democratizer rates in 1998. Nonetheless, the decline in median GNP/capita levels for democratizers from 1980-1998 is similar to that of all states during this time period.

Table 3.3 Income and Democracy Comparisons for Democratizers

Year	Median Level of GNP/Capita				Median Democracy Level	
	All States	Democrtzrs.	Prospering Democrtzrs.	Lagging Democrtzrs.	Prospering Democrtzrs.	Lagging Democrtzrs.
1980	\$1886	\$1558	\$1569	\$1329	0	0
1990	\$1884	\$1348	\$1348	\$1332	3	3
1998	\$1524	\$1205	\$1490	\$756	7	6

Prospering and lagging democratizers can also be distinguished in terms of their propensity to backtrack during the democratization process. For the purposes of this discussion backtracking is classified as a country having fallen back by a point or more in its democracy score at some point in a given five year interval once it has started the democratization process. Of the 78 democratizers considered, 36 (or 46 percent) have

16 Global mean per capita incomes grew from \$5,692 to \$6,253 from 1980-1998.

experienced at least one episode of backtracking during the 1980-1999 study period. Therefore, backtracking is a common characteristic of democratization. Backtracking has occurred in 60 percent of the lagging democratizers as compared to 36 percent of the prospering democratizers. The numbers of lagging backtrackers exceed the prospering backtrackers in every region (even though there are more prospering democratizers) except for Latin America where there are six prospering backtrackers as compared to three from the lagging category. Importantly, 13 of the 36 backtrackers made a full or partial recovery in their level of democracy during the study timeframe. These were equally distributed between the prospering and lagging categories. (Consistent with the definition of democratizers used, none of the 36 backtrackers have declined in their level of democracy below that in place before they initiated the democratization process). These observations indicate that the democratization process is often uneven, typically marked by forward surges and backward slips.

3.4 Democratization and Growth

While the relationship between democracy and wealth is well established, the association with growth is more ambiguous. The correlation between democracy and GNP/capita is 0.49, whereas the correlation between democracy and growth in per capita GNP is only 0.07. Growth is notoriously difficult to predict due to the many interrelated factors that influence it as well as its relative volatility. While income levels remain relatively stable from one year to the next, growth rates are constantly fluctuating.

A first look at the democratization-growth relationship suggests that the two

phenomena are compatible (see table 3.4). Democratizers exhibit annual GNP/capita growth rates that are 0.3 percent lower than the global norm when considered in aggregate terms. When examined by income categories, a more nuanced pattern emerges. Democratizing countries continue to lag behind in the lower-middle and middle income categories of countries. However, democratizing countries post higher than average growth in the low, upper-middle, and upper income categories.

Considering the relationship of democratization and growth at the regional level, one sees that democratizers typically realize higher than average or comparable annual per capita growth rates across regions – with the notable exception of the former Soviet Union (see table 3.5). Democratizers in Africa and East Asia post substantially higher growth rates. When only the post Cold War period is considered, however, even the former Soviet Union democratizers perform at the same level as other countries in their region.

Table 3.4 Comparison of Democratizer Annual Growth^{1/} Rates by Income Level^{2/}

Category	Annual Growth Rates, Overall 1980-98	Growth Rates, Democratizers 1980-1998	Annual Growth Rates Overall, 1990-1998	Growth Rates, Democratizers 1990-1998
All States	0.98	0.68	0.76	0.44
Low Income	0.41	0.80	0.35	0.99
Lower-Middle	0.33	-1.97	-0.27	-1.60
Mid Income	1.65	1.30	1.17	0.95
Upper Middle	1.69	3.86	2.19	4.44
High Income	1.74	2.68	1.92	2.69

1/ Based on mean gnp/capita levels – all figures in %'s ; 2/ Low income includes < \$500; Low-Middle= \$500-\$2000; Middle=\$2,000-\$5,000; Upper-Middle=\$5,000-\$10,000; Upper=\$10,000+

Table 3.5 Mean Levels of GNP/Capita Growth By Region

Region	Growth Rates, Overall 1980-1998	Growth Rates, Democratizers 1980-1998	Growth Rates, Overall 1990-1998	Growth Rates, Democratizers 1990-1998
Latin America	1.15	1.84	1.96	2.6
Cent. Europe	-0.25	-0.43	-0.88	-0.45
FSU	-1.58	-5.5	-6.2	-6.0
Africa	0.13	1.4	0.29	1.16
South Asia	3.33	2.82	3.14	3.14
East Asia	2.71	4.28	2.09	3.5
Middle East	0.20	0.20	1.33	1.06
West Europe	2.25	2.06	2.09	2.13

Growth based on mean GNP/capita rates – figures in %'s

When the global annual growth rate is recalculated excluding the former Soviet Union, the post-1979 and post-1989 means rise to 1.28 and 1.46, respectively (see table 3.6). This compares to 0.98 and 0.76 in table 3.4. (Note that this not only causes the means to increase but that the post-1989 growth rate now exceeds the post 1979 rate). Meanwhile, when the accompanying democratizer growth rates are calculated excluding the former Soviet Union, the differences are even more remarkable: 2.03 and 2.09 compared to 0.68 and 0.44 previously. On this basis, then, democratizers have performed better economically than the global norm since 1980. Similarly, excluding the former Soviet Union from the lower-middle income category calculations changes these results to 0.93 and 1.2 respectively, for the two time periods. The democratizer growth rates for these income categories increase to 0.88 and 0.75, respectively. With this alteration, democratizers in the lower-middle income category still grow more slowly than

nondemocratizers, however, the rates are much more comparable than when the former Soviet states are considered. Excluding the FSU from the middle income category produces democratizer growth rates that exceed the global norm. In sum, these simple comparisons of means indicate that outside of the FSU, democratization does not damage (and may help) a country's growth prospects. These descriptive statistics also highlight the pertinence of considering regional and income variations in subsequent multivariate analyses.

Table 3.6 Annual Growth Rates Excluding the Former Soviet Union

Category	Overall 1980-98	Democratizers 1980-1998	Overall 1990-98	Democratizers 1990-1998
All States	1.28	2.03	1.46	2.09
Lower-Middle	0.93	0.88	1.2	0.75
Middle Income	1.75	1.78	1.67	2.00

Growth based on mean GNP/capita rates – all figures in %'s

3.4.1 Changing Relationship Between Democracy and Growth

Aside from the respective changes in the level of democratization and growth, the relationship between two processes may have changed over the course of time, (see table 3.7). These figures reveal that the level of democracy among those states growing faster than the mean has increased steadily since the 1970s. By the 1990s it exceeds the democracy score of those states growing at a slower than mean rate. For the previous three decades, slower growing states had a higher mean democracy score. While overall democracy scores have increased in the 1990s and growth rates have steadily declined since 1960, the reversal in the democracy-growth pattern in the 1990s suggests fundamental changes in this relationship may have occurred over the last 10-20 years. It

may be that the faster growing nondemocracies have begun to democratize and while maintaining their rapid rates of growth have shifted the advantage to the democratizer category. Another possible explanation is that the increasing integration of the global economy and the expanding importance of high technology and telecommunications services during this time period favor those political systems that foster relatively greater levels of openness. While the cause for this shift cannot be gleaned from these descriptive statistics, they do reveal apparent changes in the relationship between democracy and growth over time that caution against inter-temporal generalizations.

Table 3.7 Charting Democracy Levels for Different Categories of Growth

Period	Mean/Median Level of Growth (%)	Mean Democracy Level for States Growing Faster than Mean	Mean Democracy Level for States Growing Slower than Mean
1960-1969	3.09/3.07	2.8	3.3
1970-1979	3.17/2.98	1.8	3.8
1980-1989	1.21/1.41	2.7	3.1
1990-1998	0.76/1.21	5.3	4.3

3.4.2 Democratization and Poor Countries

Conventional democratization theory indicates that democratization in poor countries is untenable. Exploring the historical experience of poor democratizers on a descriptive level suggests low starting income level is not prohibitive to successful democratization. In fact, 27 countries with annual per capita incomes below \$3,000 have realized democracy scores of 8 or more during the study time period (see Appendix B for a list). Of these, six have 'graduated' to higher income levels. The average annual

GNP/capita growth rate since 1960 for these poor democracies has been 1.7 percent, which compares with 1.5 percent for all countries in this income range during this time period. Therefore, while level of income (and human capital) may contribute to successful democratization and growth, historical observation indicates that this is not a requisite factor.

3.4.3 Direction of Causality

The descriptive statistics presented above suggest that democratization and growth are simultaneously possible. However, these statistics do not shed light on the question of sequence. As referenced in the literature review, empirical analysis on this question has yielded mixed results. A simple method to assess the direction of this relationship involves conditional probabilities. By comparing the aggregate probability of an event (e.g. growth) with the conditional probability of that event given a certain factor (e.g. democracy), insights may be gained. Specifically, if the conditional probability of an event is greater than the aggregate or unconditional probability of that event, then there is an enhanced likelihood that the condition does play a causal role in explaining that event. A conditional probability between growth (five year aggregate growth greater than 20%) and democracy (Polity score of 8 or above), finds little persuasive evidence in either direction. Table 3.8 summarizes these relationships on a regional basis. While conditional probabilities do emerge for certain regions – Latin America, Africa, South Asia - they generally occur in both directions at comparable ratios. A similar pattern is found for the sample of democratizers. In other words, the conditional probabilities are inconclusive on the

question of sequence. They do support the impression that democracy and growth are linked and generally reinforcing, however.

Table 3.8 Conditional Probabilities of Economic Growth* and Democracy (in %)

Sample Category	P(20%)	P(20% Dem)	P(Dem)	P(Dem 20%)	n
Overall	27	24	28	24	4760
All Countries 1998	20	22	33	37	174
All Countries 1990-98	18	19	44	47	1116
All Countries 1980-98	17	17	40	38	2177
Lat. America 1990-98	19	22	64	74	163
Lat. America 1980-98	14	15	52	56	349
Cent. Europe 1990-98	15	13	76	67	59
FSU 1990-1998	3	6	19	33	86
Sub-S Africa 1990-98	13	33	17	43	315
Sub-S Africa 1980-98	12	39	13	40	626
South Asia 1990-98	27	44	31	50	52
South Asia 1980-98	27	36	26	34	107
East Asia 1990-98	56	27	37	18	111
East Asia 1980-98	52	18	33	12	212
Democratizrs 1990-98	14	23	43	68	544
Democratizrs 1980-98	14	20	31	45	1024

* Growth is defined as a 20% or greater increase in GNP/capita from 1993-1998; Shaded areas represent categories where conditional probabilities exceed aggregate probabilities by more than 10 percent; the Middle East and West European regions are omitted from this table due to insufficient variance: there were not any democracies that grew at this rate in the Middle East and there were only democracies in Western Europe.

3.4.1 Democratization and Conflict

Conflict is commonly recognized as a major mitigating factor to economic growth.

Calculating aggregate means since 1960 reveals that countries in conflict grow at an annual rate 2.5 percent slower than the global norm. This deviation has increased to 3.5

percent in the post-Cold War largely due to the economically devastating conflicts in the former Soviet Union.

As discussed in the literature review section, conflict has often been associated with democratization. To the extent that conflict does unfold in the process of democratization, assessing its impact on economic performance will be integral to understanding differences between prospering and lagging democratizers. As a first step in exploring the extent to which conflict affects the economic performance of democratizers, the conditional probability of democratizers entering into conflict is examined (see table 3.9). Conflict is defined as episodes of political violence resulting in 1,000 or more directly-related deaths in a given year¹⁷. Conditional probabilities comparing the probability of war for an overall population relative to a sub-group of democratizers, are calculated to determine the extent to which democratizers are more or less likely than the norm to fall into conflict. The unit of observation used is a country-year (i.e. was a given country experiencing a conflict in a given year). Similarly, democratization is delineated as those years after which a country initiated its democratization process. Observations are included for two different timeframes post-1979 and post-1989.

17 Data on conflict are drawn from the Center for Systemic Peace (CSP) and State Failure Task Force Internal Wars and Failures of Governance Codebook. While CSP assembles a 1-10 point measure of magnitude of conflict, only the directly-related deaths factor is used to delineate conflict here.

Table 3.9 Conditional Probabilities of Democratization and Conflict

Sample Category	Probability of Conflict P(C)	Probability of Conflict Given Democrtzn P(C Dmz)	Sample Size (All; Dmctzrs)
For 1980-1999:			
Latin America & Car.	0.06	0.09	852; 225
Central Europe	0.06	0.00	263; 91
Former USSR	0.08	0.10	327; 121
Sub-Saharan Africa	0.11	0.04	1039; 170
South Asia	0.28	0.03	186; 33
East Asia and Pacific	0.08	0.07	651; 68
All States	0.08	0.06	4764; 829
For 1990-1999:			
Latin America	0.05	0.06	432; 154
Central Europe	0.11	0.00	133; 88
Former USSR	0.10	0.11	167; 110
Sub-Saharan Africa	0.10	0.04	539; 162
South Asia	0.26	0.04	96; 24
East Asia and Pacific	0.02	0.03	331; 58
All States	0.07	0.06	2414; 684

These conditional probabilities indicate that democratization is not more likely to be associated with conflict than the norm. Only in Latin America, the former Soviet Union, and East Asia is the probability of conflict among democratizers comparable to the probability of conflict in the region. These differences are not statistically significant. Central Europe, Africa, and South Asia have substantially lower probabilities of conflict

under democratization for both time periods than for states in the region overall. These differences are significant¹⁸. Central Europe stands out in that none of the democratizers have experienced conflict. South Asia is the region that exhibited the greatest probability of strife. However, these were independent of the democratization process.

18 In Africa, for example, the $\chi^2=12.9$ ($p=0.00$) for the 1980-1999 timeframe.

CHAPTER 4. METHODOLOGY

This chapter begins with a brief overview of the theoretical context in which the analysis is set and a restatement of the central hypotheses. The discussion then turns to the methodological techniques used to test the hypotheses. The chapter concludes with a description of the dataset employed for these analyses.

4.1 THEORY/HYPOTHESES

The theory guiding this analysis is that the principal positive impact democracy has on economic development is through the features of accountability inherent to democratic systems. Accountability in this sense refers to mechanisms that foster checks on monopolized power, fairness of public institutions, and responsiveness to the general public. These may involve forms of vertical accountability (i.e. the electorate can replace an ineffective leader) as well as horizontal accountability (i.e. checks and balances within the public sphere or between government and civil society that mitigate against arbitrary decision-making and abuse of power). As put forward in the writings of Olson, North, and Putnam institutions based on norms of transparency, fairness, and consistency will be less susceptible to the sclerotic effects created by the disproportionate influence of entrenched particularistic interests. This reasoning theorizes that such societies will realize a more efficient allocation of resources, generating a higher return on their human and physical capital investment.

With its focus on accountability, this theory builds on North's institutions-growth linkage by explicitly drawing out institutional mechanisms through which democratization

can contribute to economic performance. This theory is based on the fact that democracies exhibit stronger systems of checks and balances. Therefore, democratizers that have constructed relatively stronger accountability institutions are more apt to realize more robust economic outcomes. In short, institutions fostering accountability contribute to economic performance and democratization strengthens the likelihood of these institutions evolving.

This research complements recent empirical work that has emphasized the importance of institutions to economic growth (Knack and Keefer; Kaufmann et. al.; Olson et. al.; Clague 1997). However, whereas these analyses focused on institutions with primarily an economic function (e.g. contract protection, protection from expropriation, corruption, etc.), this research takes a broader approach to institutions incorporating political, social, and civil facets of public accountability.

Institutional features are a meaningful level of analysis since they have widespread implications for economic and social outcomes while being stable enough to facilitate a detection of patterns in cross-sectional analysis. Moreover, they exhibit characteristics that can be changed through sustained policy choices or social events over time. That is, they vary enough to be useful in an analysis of panel data. The institutional features that are considered are intended to represent an intermediate level of analysis between structure and agency to assess avenues for change.

The working hypothesis to be tested is that those democratizing countries that have established relatively stronger institutions of accountability realize more rapid economic

development. If the hypothesis is accurate, then the prospering democratizers will possess relatively more extensive capacity in their accountability institutions than other democratizers, holding other common growth factors constant. Furthermore, this study hypothesizes that stronger institutions of accountability have a positive impact on economic growth.

4.2 METHODOLOGICAL TECHNIQUES

There are five methodological techniques employed in this analysis to test the hypotheses posed. These are undertaken for each of the eight regions considered over the 1980-1998 timeframe in which the recent democratization movement has occurred.

Particular attention is given to the explanatory value of accountability at each stage of analysis. The methods are:

- Accountability Trends and Growth Correlations
- Bivariate Analysis
- Logit Analysis
- Ordinary Least Squares (Growth) Analysis
- Fixed Effects Analysis

4.2.1 Accountability Trends and Growth Correlations

This stage makes an initial assessment of the differences between the prospering and lagging democratizers in their levels of accountability. Trends in levels of accountability for prospering and lagging democratizers are compared as a means of visually assessing whether accountability captures an ongoing difference between the two groups. Differences observed in the aggregate accountability trend are linked to variations in the mean levels of individual accountability features between the two groups.

Correlations between the individual accountability features and growth are then compared to assess the relative importance each may have in explaining growth among democratizers in that region. In this way, direct associations between growth and strength in a particular accountability feature by one category of democratizer can be ascertained. The insights gained from this stage can then be used to guide and complement the subsequent multivariate analyses.

4.2.2 Bivariate Analysis

This stage is the first step that assesses the statistically meaningful differences between prospering and lagging democratizers on common demographic, economic, and institutional factors. In this way, it aims to generate clues as to which factors offer the greatest potential for explaining differences between prospering and lagging democratizers. A simple t-test is conducted comparing the means of the prospering and democratizing sub-groups to assess, given their respective levels of variance, whether the differences are significant. (See Appendix C for details).

The null hypothesis is that the difference in means is zero. A larger t-score is evidence of significant differences between the two populations. Using a 0.05 level of significance, a t-score of 1.96 or larger is considered statistically significant. This technique treats the two sub-groups as separate populations and therefore does not assume equal variances. Overall, since this technique does not control for other explanatory factors, it is merely intended to be indicative of the primary factors that may account for the differences between the two groups.

4.2.3 Logit Analysis

A logit analysis is a multivariate estimation technique used to assess dichotomous dependent variables. (See Appendix C for the equation and description of the logit technique). It is often employed when a qualitative dependent variable, not easily represented in continuous terms, is the factor of interest. In this study, the dependent variable is represented by a one for prospering democratizers and a zero for lagging democratizers. Therefore, employing logit analysis in this research can facilitate the identification of characteristics that significantly distinguish prospering democratizers from the larger group of democratizers while controlling for other potential explanatory factors. The coefficients produced by the logit estimates in this study represent the log odds in favor of being a prospering democratizer. The unwieldy interpretation limits the attention given to the coefficients generated in this research. Rather, consistent with the focus on identifying distinguishing characteristics, emphasis is aimed at identifying the relative significance of the variables considered.

The shortcomings of this technique revolve around the dichotomous dependent variable. The R^2 , that is the goodness of fit for the entire regression, is of limited value with the logit technique since all of the predicted Y values are necessarily either 0 or 1. This generates insufficient variance from which a reliable goodness of fit statistic can be estimated. For this reason, the use of the coefficient of determination (i.e. R^2), is discouraged as a summary statistic (Aldrich and Nelson). However, since in this analysis the emphasis is on the significance of individual coefficients, this constraint does not

present a major problem. Another disadvantage is that when categorical explanatory variables are included in a logit estimation using relatively few observations, they are prone to predicting success or failure perfectly. This outcome effectively reduces the number of observations in play and may generate estimates dominated by certain explanatory factors compared to what would otherwise be the case.

The estimation process and variables considered in the logit and OLS estimates are similar. Therefore, please see the next section for a description of this procedure.

4.2.4 Ordinary Least Squares Growth Regressions

The fourth stage of the analysis involves multivariate regressions on growth using ordinary least squares (OLS). In addition to providing insights into explanatory factors for growth among democratizers at the regional level, the results generated from these regressions can be compared with the factors found to be significant in the logit estimates. Regressions are undertaken on a regional basis for the 1980-1998 timeframe, including all respective democratizers¹⁹. An analysis using a full sample of democratizers is estimated after the regional regressions have been undertaken. Data is considered on a pooled basis so as to maximize the use of the available observations. This allows for cross-sectional analysis using the yearly observations for each country as individual data points. In this way, differences in factors contributing to growth between countries over time can be highlighted.

Economic growth is the dependent variable employed in the OLS regressions. This

19 Ideally, estimates would be undertaken for the post-1979 and post-1989 periods for every region in order to better assess the effects of era. However, limited observations prevent this except in Africa. Estimates in Central Europe and the FSU are only undertaken for the post-1989 period due to the nascence of many of the countries in these regions.

is defined as average annual growth in GNP/capita for the previous five years (see Appendix C for an example of the calculation of this variable – *grwth5av*). This measure is selected so as to smooth out some of the volatility in annual growth rates. Moreover, this indicator is well suited for this study given the emphasis on (relatively slowly changing) institutional factors. The five-year growth average-institutional change association provides a more meaningful result than attempting to link institutional change with the fluctuations of annual growth. In short, this study is interested in assessing associations between relatively slowly changing institutions and *consistency* of growth.

Two alternate though related dependent variables are used as checks on robustness of the findings. The first alternate captures the absolute rate of change in GNP/capita over the previous five-year period. This is averaged for the previous three years (*gnpch5x3*) so as not to be unduly biased by a year with a spiked observation. *Gnpch5x3* has a 0.90 correlation with *grwth5av* for democratizers in the sample timeframe. The second robustness check (*grw5blk*) assesses the average five-year growth rate of various five-year blocks of time - i.e. 1980, 1985, 1990, 1995, and 1998 (for three years). *Grw5blk* uses the *grwth5av* figure in the selected 'block' years. This technique is intended to minimize bias introduced by potential autocorrelation in the data. It has a 0.85 correlation with *gnpch5x3*. The disadvantage of this alternate is that it substantially reduces the number of observations that can be considered, which is particularly problematic for smaller regions. Moreover, given that it only assesses five 'snapshots' of the growth relationship over the study time period, it is also less sensitive to changes occurring over a

shorter period of time.

The theory guiding the analysis is that institutional, human capital/demographic, and economic policy factors all contribute to explaining growth. Consequently the modeling procedure involves including factors representing each of these three categories with the aim of identifying which variables are significant and which combinations of factors provide the best overall fit for the data. Table 4.1 lists the primary variables considered in every region (see Appendix D for descriptions and sources). Approaching the estimation process in this way is intended to ensure that a sufficiently broad and autonomous range of factors are considered. Including variables from distinct categories also minimizes the collinearity between explanatory factors. Additional factors from a given category are included incrementally to assess their respective significance and collinearity with other variables in a model. Given that a number of the factors considered are related, collinearity is regularly in evidence in the estimation process. To avoid the potentially spurious effects this could have on the results, collinearities between any two explanatory variables exceeding 0.50 are excluded. All of the variables in Table 4.1 are considered for each region's estimates to ascertain the best fit with the data. Criteria used to make this determination include the stability of significance of individual terms, lower levels of collinearity, and overall R^2 .

After a base model is estimated, each of the individual accountability features are substituted in turn to assess the respective contribution they make to the aggregate accountability measure's significance. Lags of 5-30 years for the accountability,

democracy, and full autocracy variables are then sequentially included to the base model to assess the potential influence that institutional history has on growth.

Starting level of GNP/capita (i.e. GNP/capita in 1979 or 1989 for former Eastern bloc countries) is considered in all regressions to assess the extent to which initial resource levels explain prospering democratizer or growth outcomes. However, a priori assumptions regarding convergence or divergence did not guide the analysis. All regressions control for first order autocorrelation to minimize the effects of any systematic patterns in error terms over time. Non-linear terms are generally not included as they are not theoretically designated.

Table 4.1 Primary Variables Considered in Growth and Logit Estimations

Institutions	Human Capital/ Demographic	Economic
Accountability Democracy* Full Autocracy* Years of Democratiz'n Origin of Legal Code	Primary School Enrollment Secondary School Enrollmt Infant Mortality Rate Life Expectancy Urbanization Population Density Conflict Ethnic Fractionalization Kilometers to Brussels	GNP/Capita in 1979 Trade Gross Domestic Fixed Investment Capital Expenditure Fiscal Balance Inflation Foreign Direct Investment Gov't Expenditure Gross National Savings ⁺ Fuel Exports/Imports Exports of Ores/Metals Agriculture Value Added Roads

* Given potential collinearity with accountability, these variables are included only as controls rather than as direct explanatory factors for growth.

+ Savings is only included in the logit estimates due to endogeneity with growth

4.2.5 Fixed Effects Analysis

While only reported in the cross-regional summary of the results section of this

study, a fixed effects model is also employed for each regional sample. This provides another, more rigorous, technique by which the institution-growth relationship can be examined. (Country) fixed effects models solely examine within country changes over time, essentially including a dummy variable for every country in the estimated equation. For this study, this technique is used with the final growth regressions generated from the OLS analysis, as a mechanism for assessing the basis for the explanatory value of the significant factors. Because only within-country relationships are examined, there must be sufficient variation among the variables considered in a given country if a significant result is to be observed under this technique. Given the tendency for institutional characteristics to change relatively slowly, this method is normally not appropriate for this type of analysis. However, if viable, the results generated from this method are more persuasive than those produced from a pooled analysis in that the causal linkage is more straightforward. Considered in this manner, the fixed effects model is complementary to OLS. Significant results under fixed effects burnish the significance of the OLS results, though lack of an observed association under the higher standard of fixed effects does not discount significant results found in the pooled analysis. They solely reflect insufficient inter-temporal within-country variation among the factors considered.

4.3 DESCRIPTION OF THE DATASET

4.3.1 Primary Datasets

Indicators for most of the economic and social factors considered in this study are drawn from the World Bank's *World Development Index 2000* (WDI). This is a

collection of 526 variables with annual observations (where available) from 1960-1998 for 210 countries and political entities. The WDI is the most commonly used economic dataset for cross-national analyses. Many variables are measured in real and per capita terms to facilitate cross-national comparisons. Data for this index is gathered in collaboration with national governments, partner agencies, and independent scholars for each of the countries represented. While attempts are made to ensure consistency in data across countries, given differences in data collection techniques employed by the respective national entities, the quality and type of data represented vary. However, such methods are generally consistent from year to year within countries allowing for comparisons of rates of change. The WDI is also attractive in that it is updated every year. Not only does this lengthen and contemporize the dataset, it also reflects adjustments to earlier observations based on subsequent feedback. Missing observations from the WDI were supplemented by the World Bank's Global Development Network Growth Database, the Penn World Tables, and the Asian Development Bank's country datasets. When the missing observations were the result of five-year averages being used (as with some demographic data), these averages are filled in to represent the respective country-year observations.

The primary resource used to define democracy is the Polity IV Dataset (Marshall and Jaggers; Gurr et al. 1990, 1989; Jaggers and Gurr). This index ranks all autonomous nations in the world with populations over 500,000 for every year from 1800-1999. An overall democracy score scaled on a 0-10 basis is assigned to each country. A total of 161

countries are included in the 1999 listing. Country scores are generated by research teams assessing four structural components of political authority (competitiveness of executive recruitment, openness of executive recruitment, constraints on the chief executive, and competitiveness of political participation) for each year. Three inter-coder reliability tests are undertaken to enhance the consistency and confidence of the country scores. Since it is representing institutional elements in a political system, changes registered in the Polity IV dataset reflect significant shifts in governance orientation. This has the advantage of reducing potential spurious relationships in the analysis. Some criticisms of the Polity Index are that it excludes explicit consideration of civil liberties and de facto limitations on political participation in its definition of democracy. Nonetheless, Polity's democracy variable has a 0.91 correlation with Freedom House's Freedom Index, which is based on assessments of political and civil liberties. For a listing of countries by level of democracy in 1999 see Appendix E.

4.3.2 Quantifying Accountability

CONCEPTUALIZATION

In this study, accountability refers to mechanisms that foster checks on monopolized public power, fairness of public institutions, and responsiveness to issues and interests of the general public. It involves forms of vertical accountability (i.e. the electorate can replace an ineffective leader) as well as horizontal accountability (i.e. checks and balances within the public sphere as well as between the government and civil society) that mitigate against arbitrary decision-making and abuse of power.

There are numerous facets of checks and balances that can contribute to public accountability. The challenge in constructing an accountability measure was to identify relevant factors that were sufficiently distinct, that added value, and that were captured by reliable datasets while maintaining sufficient parsimony so that the tool was practical. Six broad conceptual categories of accountability, each with its own base in the literature, emerged from this process. While related, each captures a unique aspect of accountability.

- 1. *Constraints on the chief executive/political party in power.* This category captures curbs on executive power that minimize arbitrary actions taken without regard for the interests of the general public. In addition to competitive and participatory elections, checks in this context often refer to the existence of an opposition party, a legislature with sufficient power to block perceived excesses of the executive, and decentralization as a means of diluting power and facilitating greater local control over routine issues affecting the day to day lives of ordinary citizens.**
- 2. *Separation of the state from political party activities.* This feature represents the institutionalized check on the executive branch provided by an autonomous civil service. State bureaucracies that possess the institutional independence and capacity to implement state policy based on technical criteria are an especially vital check in countries with a single dominant political party. This category also includes considerations of corruption - using state resources for political gain, the rewarding of political allies and special interests through public monies, and embezzlement.**

3. ***Separation of political from economic power.*** This facet highlights the importance of an autonomous private sector as a balance to political power in a society. This balance reduces the social, professional, and economic costs incurred when economic opportunities are monopolized by political authorities. Ease and fairness of firm entry and the extent of government involvement in economic sphere including state-owned enterprises are represented by this facet. Similarly, separation of economic and political power is marked by an autonomous central bank enabled to pursue technically driven monetary policy as well as state regulatory agencies that are empowered to ensure the credibility of firm financial disclosure information.
4. ***Independence of judicial system.*** This category captures the importance of a rule of law in a society for fostering social fairness, stability, and public confidence toward state institutions. Without adequate property rights protection, contract enforcement mechanisms, and protection from government expropriation of private property few entrepreneurs are willing to risk significant investment. Without a fair system for adjudication, the politically and economic well-connected will be able to exploit their position to the detriment of economic efficiency and overall social welfare.
5. ***Openness of information access.*** This component represents the check created by free speech and association, freedom of the press, and the ability for independent voices to advance alternative policies and highlight shortcomings in government activities. This category also captures the importance access of information plays in public education and formation of independent thought. Freedom of thought and expression in turn is

considered an essential catalyst for innovation and the adoption of new technology.

6. *Social Capital*. The conceptual rationale for this component is that public leaders in societies with stronger social capital are likely to exhibit higher levels of solidarity with and interest in pursuing the public good. Similarly, the public-spiritedness associated with social capital can serve both as a carrot and a stick in prompting greater responsiveness from public institutions. Stronger social capital, with its basis in trust is felt to significantly contribute to lowering transaction costs in economic exchanges and, in the process, further reducing the need for extensive government enforcement mechanisms. Societies with higher levels of social capital are considered less prone to conflict and demonstrate a greater ability to withstand hard times in the knowledge that the burden is being relatively evenly shared. This societal norm may also be reflected in higher levels of equity.

SELECTION OF VARIABLES FOR THE ACCOUNTABILITY MEASURE

These six categories provided the framework from which the construction of the accountability dataset used in this analysis was developed. Accompanying the scholarly literature on institutions has been a growing availability of cross-national datasets that attempt to quantitatively represent one institutional dimension or another. Consequently, extensive exploration and testing of the available measures for validity and reliability was required. Appendix F lists the variables and respective datasets considered in the compilation process.

The aim of this process was to identify a variable or set of variables that

represented each of the six conceptual elements of accountability. From these individual features an aggregate measure could be compiled. With this multifaceted accountability measure in place, the study could assess the extent to which a given accountability feature was relevant in distinguishing prospering democratizers and growth. Given this approach, the individual features were intended as proxies for the broader category of accountability for which they were selected to represent. Table 4.2 lists the variables that were selected for each category. The criteria used in selecting the measures were that they were representative of the respective element for which they were considered, that they had observations for the bulk of the democratizing countries for the 1980-1998 timeframe, that they exhibited sufficient variance between countries and over time to enable meaningful comparison, and that they were not strongly collinear with the other accountability features. See Appendix G for a description of each of the selected variables.

Table 4.2 Variables Selected to Represent the Respective Accountability Features

Accountability	Primary Indicators
CHECKS ON CHIEF EXECUTIVE	Electoral Competition for Executive (Polyarchy) ^{1/}
SEPARATION OF PARTY & STATE	Bureaucratic Quality + Corruption (ICRG)
SEPARATION OF POLITICAL AND ECONOMIC POWER	Access to Credit for Private Sector (WDI 2000)
INDEPENDENT JUDICIARY	Rule of Law (ICRG)
INFORMATION ACCESS	Freedom of Press + Civil Liberties (Freedom House Press and Freedom surveys, respectively)
SOCIAL CAPITAL ²⁰	

1/ Datasets in parentheses represent the primary source used for the respective indicator.

20 None of the variables considered for social capital were thought to demonstrate sufficient coverage of the democratizing countries or were robustly representative of this concept, therefore this feature was not operationalized in the accountability measure.

Cross-correlations between the selected and comparable indicators within each category were undertaken to assess their compatibility and robustness (see Appendix G). Similarly, analogous variables were scaled and compared with the selected indicators on an observation by observation basis for all democratizing countries. In this way, distinctly outlying observations were filtered out of the final measure. The screening of the indicators was also intended to reduce the effect of potential bias introduced in the creation of the variables, particularly those that were subjective in nature. Some writers have been critical of certain subjective measures for the lack of variation attributed to countries in a given region and the tendency for a crisis in one country in a region to influence the values assigned to other, autonomous countries in that region (Collier 1998). As the aggregate accountability measure constructed in this study is compiled from various distinct datasets, there is less likelihood that systematic bias has entered into the aggregate scores for a given country or time period.

Once selected and screened, each of the five individual accountability features was scaled on a 0-10 basis. The aggregate accountability measure was compiled by summing the individual factors, generating a measure with a 0-50 range for each country and year. The accountability means over the 1980-1998 period for democratizers in each respective region are shown in table 4.3. For comparative purposes, the individual accountability features are graphed by region for the same timeframe (see table 4.4). See Appendix H for a global ranking of countries by their aggregate level of accountability in 1998.

Table 4.3 Mean Regional Accountability Scores for Democratizers, 1980-98

Region	Accountability	Range
Western Europe	36.2	12 - 47
Latin America	24.5	4 - 41
East Asia	24.3	4 - 44
Central Europe	23.1	8 - 42
South Asia	20.5	9 - 31
Middle East	18.1	8 - 33
Africa	16.9	4 - 41
FSU	15.1	5 - 38

The theory guiding this analysis reasons that democracies, being based on a structure of checks and balances, are likely to exhibit greater degrees of accountability than other governance systems. While the influence of democracy can be better ascertained in the multivariate analyses, the mean accountability score for democracies (i.e. Polity democracy score between 8-10) during the 1980-1998 timeframe is 37.2 (n=909). This is significantly higher than the score generated by nondemocracies during the same period – 14.3 (n=1927). Moreover, examining initial correlations between democracy and the individual features reveals robust, though heterogeneous, associations. The electoral and information measures are particularly strong, with correlations of 0.80 and 0.83, respectively. The correlation between democracy and private credit is 0.47, followed by the judicial system correlation at 0.43, and the bureaucratic efficiency correlation of 0.42. Reflecting a cumulative effect, the aggregate accountability measure generates a 0.82 correlation with democracy. The post Cold-War correlations are very similar to those from the 1980-1998 timeframe.

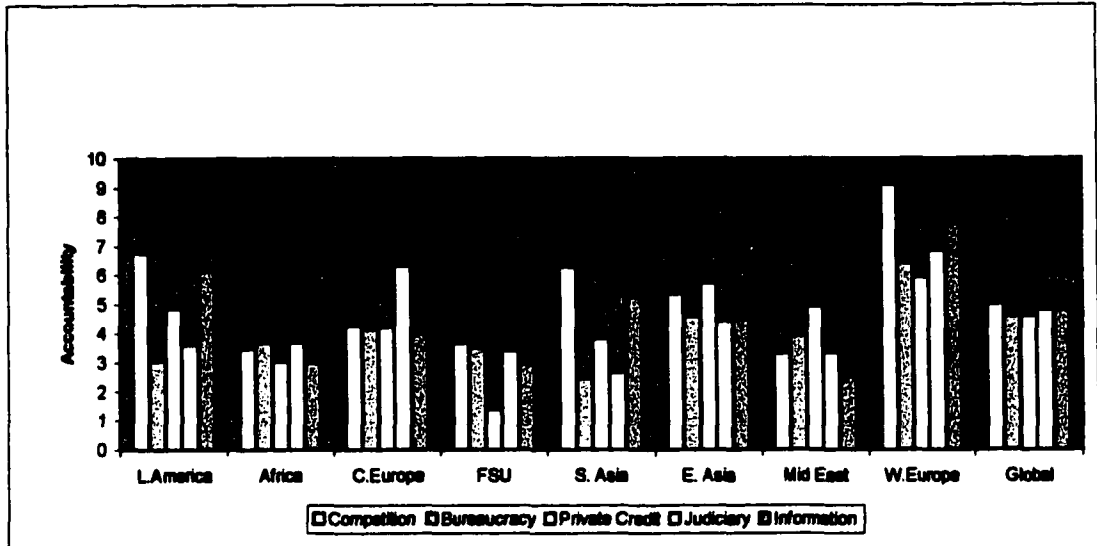


Table 4.4 Regional Means of Individual Accountability Features
 Sample: All Democratizers 1980-1998

4.3.3 Data Challenges

As in all large sample data analysis, the caliber of the data qualifies the accuracy and robustness of the results generated. While an extensive effort has been made to incorporate the most complete and respected datasets available, some shortcomings remain. For this analysis, these primarily involve missing observations, the emergence of new states, and the subjective nature of some of the variables used. In regions where there were a relatively large number of missing observations for a particular variable, this indicator was excluded from the analysis. This may contribute to omitted variable bias in some of the estimations. The issue of missing data is linked to the emergence of many new states in the past fifteen years. In cases where data from a parent state was available (e.g. Czech Republic), this was incorporated into the datasets as appropriate. Nonetheless, the realignment of political structures does limit historical analysis. As discussed earlier in this chapter and in Appendix G, efforts have been made to minimize the systematic effect of subjectivity in the data. Nonetheless, given the nature of the issues addressed, subjective

chapter and in Appendix G, efforts have been made to minimize the systematic effect of subjectivity in the data. Nonetheless, given the nature of the issues addressed, subjective influences remain a factor of consideration when interpreting the results. Each of these data challenges are typical of those faced by similar analyses.

CHAPTER 5. RESULTS

The results from each of the analytical tools employed in this analysis are presented by region in sections 5.1-5.9. Given the number of regions examined in this study, there are many results to consider. To streamline this process, only the final estimates are reported and briefly discussed for each of the eight regions. To minimize repetition of the explanatory text in each section an identical reporting format is followed for each region:

- 1) A graphic presentation of the change in accountability levels for prospering and lagging democratizers from 1980-1998.
- 2) A review of correlations between the individual accountability features and growth.
- 3) A summary of the bivariate comparisons of means on common background characteristics between the two categories of democratizers²¹.
- 4) The final logit estimate and description of key findings. This description follows a sequential pattern of summarizing the relationships for the key economic and demographic, institutional, and then historical factors of significance for the respective estimate.
- 5) The final OLS growth estimate and description of key findings.
- 6) A summary of factors that are co-associational with both dependent variables²².

For readers primarily interested in the cross-regional comparisons, please see section 5.10. This section presents in separate consolidated tables the final logit,

21 Positive signs on the t-scores in these tables indicate a larger prospering democratizer mean; figures in bold are significant at the 0.05 level or stronger.

22 Shaded features are significant in both estimates.

growth (OLS), and fixed effects estimates for each region. In addition, a summary table of key findings for each technique by region is provided in table 5-10.4. This format is intended to facilitate an examination of the principal cross-regional findings, which are summarized in this section.

5.1 LATIN AMERICA

Prospering Democratizers	Lagging Democratizers
Argentina	Guatemala
Bolivia	Haiti
Brazil	Honduras
Chile	Mexico
Dominican Republic	Paraguay
El Salvador	
Guyana	
Nicaragua	
Panama	
Trinidad and Tobago	
Uruguay	

5-1.1 Accountability Trends and Growth Correlations

Prospering democratizers in Latin America demonstrate distinctly stronger accountability structures than lagging democratizers throughout the course of the study timeframe (see figure 5-1.1). While both the prospering and lagging countries show steady gains in their levels of accountability since 1980, the gap between the two groups remains consistent. These differences are strongly statistically significant ($t=7.9$). The prospering democratizers score higher on each of the accountability factors compared to the lagging democratizers in this region. The differences are most prominent on the private credit, legal system, and information access features, where laggards exhibit scores that are more than one standard deviation below the levels attributed to the prosperers.

Figure 5-1.1 Accountability Trends for Democratizers in Latin America

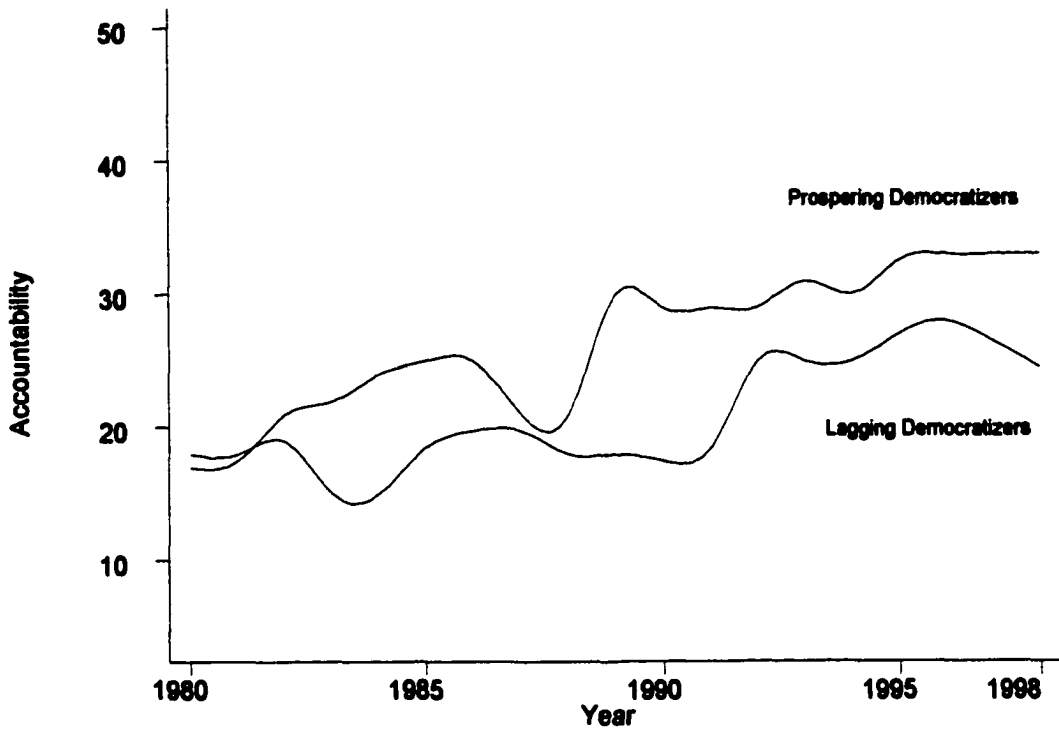
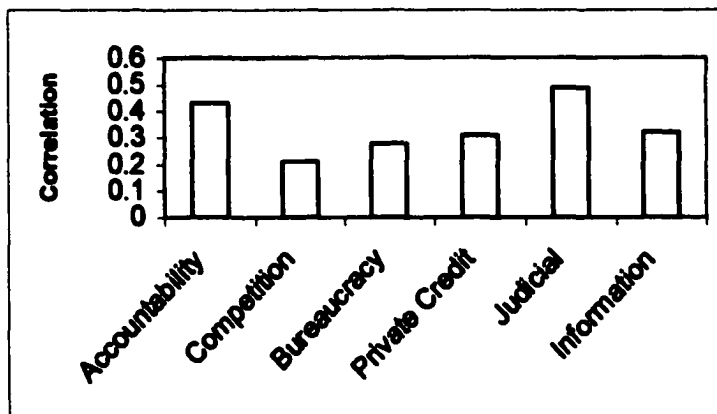


Figure 5-1.2 Correlations of Individual Accountability Features and Growth



Each of the individual accountability features correlates strongly with growth during the study time period (see figure 5-1.2).

These range from a low of 0.21 for electoral competition to 0.49 for judicial independence. The strength of the judicial systems factor coupled with the observation that laggards exhibit substantially lower levels of judicial independence points to the

potential importance of this factor for distinguishing economic performance among democratizers in this region. More generally, the consistently positive accountability-growth correlations are a distinctive characteristic of democratizers in this region.

5-1.2 Bivariate Analysis

Prospering democratizers exhibit higher standards of health, per capita income, secondary education, and urbanization with the latter two factors recording striking differences (see table 5-1.1). The prosperers have also been more actively engaged in trade, though this distinction fades in the 1990s. Institutionally, the prosperers demonstrate significantly elevated levels of democracy and accountability across the sample period. These results suggest there are multiple, complementary factors that contribute to the distinctiveness of the prospering democratizers.

Table 5-1.1 Bivariate Comparison of Democratizers in Latin America

Variable	Post-1979	Post-1989
Primary School	t = 0.71	t = 0.41
Secondary School	t = 8.50	t = 6.40
Infant Mortality	t = -3.60	t = -3.05
Life Expectancy	t = 3.10	t = 2.60
Population	t = -0.27	t = -0.25
Urbanization	t = 9.10	t = 6.15
Trade	t = 3.20	t = 1.72
GNP/Capita	t = 5.80	t = 4.27
Annual Growth	t = 1.90	t = 3.81
Democracy	t = 6.30	t = 6.93
Accountability	t = 7.90	t = 6.88

5-1.3 Logit Analysis

Table 5-1.2 reveals that starting level of GNP/capita, higher population density, greater levels of trade, and a greater share of export value in ores and minerals are the key demographic and economic distinguishing factors for prospering democratizers. Secondary education is also highly associated with prospering democratizers, however, this is strongly collinear with population density and therefore is not included in the final base logit estimation. Surprisingly, prospering democratizers demonstrate higher levels of inflation and lower levels of savings than lagging democratizers – factors typically associated with lower growth. These results may partly explain why the differential in growth rates between the two groups is relatively modest.

Level of accountability is also significantly associated with prospering democratizers for the Latin America region. When considered by individual measure, private credit ($t=4.59$), information access ($t=3.68$), extent of electoral competition ($t=2.46$), and bureaucratic efficiency (1.72) are all distinctive. In other words, prospering democratizers in this region excelled on virtually every aspect of accountability considered. This is reflected in the strongly significant and robust aggregate measure ($t=3.70$). Accountability is significant even when controlling for level of democracy or years since the democratization process started, (both of which are insignificant). This result reflects the distinctiveness of the accountability and democracy measures. The level of democracy gradually increases its predictive power as the length of its lag is extended (becoming significant at lag-5). Lagged 25 years, democracy has a t-score of $t=3.70$. This

indicates that democratizers with previous democratic exposure are growing relatively more rapidly than their neighbors. A similar, though shorter, lagged predictive relationship emerges for accountability. Accountability lags at 3 and 5 years generate stronger t-scores ($t=3.68$ and $t=3.86$, respectively) than accountability at the same year interval. However, this strong association drops off at the 10-year interval, suggesting that the distinctiveness of the prospering democratizers' accountability systems is a relatively recent development. Including the full-autocracy term finds that prospering democratizers are less likely to have a history of severe oppression. Lagged 10 and 20 years, countries that were full autocracies were significantly less likely ($t=-1.95$ and $t=-2.46$, respectively) to become prospering democratizers.

Table 5.1-2 Final Logit Estimate for Latin America

Dependent Variable: Prospering Democratizer

Acctblty	GNP79	Popul. Density	Trade	Savings	Ores EX	Inflat.	Const.	Psd. R ²	n
0.129	0.001	0.016	0.067	-0.200	0.137	0.117	-8.11	0.53	279
(3.70)	(5.72)	(4.91)	(4.96)	(-4.64)	(3.35)	(2.43)	(-6.43)		

t-scores in parentheses

5-1.4 OLS Estimates

The results from the growth estimates indicate that orthodox economic factors such as gross domestic fixed investment, trade, export of ores and minerals, controlling inflation, and reducing government expenditures are all essential contributors to growth (see table 5-1.3). Domestic fixed investment (DFI) produces a notably large coefficient – a one percent increase in DFI is associated with a 0.26 percentage point increase in annual

growth. Meanwhile, the positive association between starting income and growth is contrary to what would be expected under convergence thinking. Interestingly, urbanization, which is strongly associated with prospering democratizers and normally moves in the same direction as income, is negative and significantly associated with growth. This is excluded from the final estimate due to collinearity with starting level of GNP/capita, however.

Accountability is also significantly associated with growth. The specific components of accountability that are significant include legal system ($t=2.94$), private credit ($t=2.21$), and electoral competition ($t=2.03$). While not significant at the 95% level of significance, information access and bureaucratic efficiency also post positive relationships with growth ($t=1.4$ and $t=0.79$, respectively), indicating that all aspects of accountability are associated with growth among Latin American democratizers. The significance of accountability for growth is replicated in robustness checks using `gnpch5x3` ($t=3.14$) and `grw5blck` ($t=3.29$; $n=79$).

Institutional history does play a role in explaining accountability's influence on growth. Accountability lags of 10 ($t=2.40$) and 15 years ($t=2.46$) are significant in separate estimates. Democracy, at time zero and lagged, did not generate a significant relationship and did not substantively alter the accountability coefficient's significance. This suggests that while electoral competition and information access are important in explaining growth, it is the combination of accountability factors that are determinative. In particular, independent judicial systems and autonomous private sector are influential in

this regard. Lagged intervals of full autocracy are significantly and negatively associated with growth going back for 30 years indicating that the rapidly growing democratizers in this region were comparatively less oppressive in their pre-democratization periods.

Table 5.1-3 Growth Regressions for Latin American Democratizers

Dependent Variable: Annual Growth (5 yr. avg.)

Acctblty	GNP79	Domest Fixed I	Imports	Ores EX	Gov't Cons.	Inflation	Adj. R ²	n
0.070 (2.70)	0.0004 (3.00)	0.26 (7.53)	0.032 (2.52)	0.034 (3.39)	-0.156 (-5.40)	-0.0005 (-3.57)	0.45	303

Note: Results are Cochrane-Orcutt adjusted for first order auto-correlation; t-scores in parentheses.

5-1.5 Summary of Latin American Results

In each set of estimates, at least three of the five individual accountability features are found to be significant (see table 5-1.4). An independent private sector and electoral competitiveness stand out as the individual features most congruent with the prospering democratizers and growth in this region. The leading importance of the private sector variable in distinguishing prospering democratizers coincides with the region's move toward more capitalist economic systems during their period of democratization. That this feature is significant in the logit analysis indicates that the prospering democratizers have made relatively greater advances in this area than other democratizers. Meanwhile, the consistent importance demonstrated by the electoral competitiveness and, to a lesser extent, information access features indicates that the greater steps the prospering democratizers have taken in opening their political structures during the process of democratization have also contributed to their relatively higher rates of growth. Notably,

judicial independence is found to be the most important accountability feature for explaining growth, however, this is not one of the factors on which the prospering democratizers distinguish themselves. This finding reveals that consistently significant growth associations across accountability features can compensate for a low score on an individual measure. The lack of co-association of judicial independence also highlights a potential area of strengthening for the prospering democratizers.

Economic characteristics associated with prospering democratizers – higher levels of income, trade, and exports of primary commodities are all significant with growth. Remarkably, the prospering democratizers seem to have managed their relatively rapid growth despite exhibiting higher levels of inflation and lower gross national savings – both factors that run contrary to the associations observed in the growth regressions. The distinctiveness of the prospering democratizers despite these deleterious economic traits further underlines the importance of those economic and institutional factors that are mutually significant.

Table 5-1.4 Summary of Significant Factors for Latin America

Logit Estimate of Pro-Democratizers	OLS Estimate of 5-Yr. Growth Avg.
Accountability (t=3.70)	Accountability (t=2.70)
Private Credit (t=4.59)	Private Credit (t=2.21)
Competitiveness (t=2.46)	Competitiveness (t=2.03)
Information Access (t=3.68)	Information Access (t=1.11)
Bureaucratic Quality (t=1.72)	Legal System (t=2.94)
GNP in 1979	GNP in 1979
Trade	Trade
Ores/Metals Exports	Ores/Metals Exports
Population Density	Gross Domestic Investment, Fixed
Savings (-)	Government Expenditures (-)
Inflation	Inflation (-)

Note: Shaded factors indicate those variables that are significant in both estimates.

5.2 SUB-SAHARAN AFRICA

Prospering Democratizers

**Benin
Burkina Faso
Ethiopia
Ghana
Guinea
Kenya
Malawi
Mali
Mauritius
Mozambique
Tanzania
Togo
Uganda**

Lagging Democratizers

**Angola
Cameroon
Central African Republic
Chad
Comoros
Madagascar
Namibia
Niger
South Africa
Zambia**

5-2.1 Accountability Trends and Growth Correlations

Africa is distinctive in that it is the only region where the lagging democratizers have higher accountability scores than the prosperers for most of the observation period (see figure 5-2.1). Notably, this is reversed in the mid-1990s. However, in neither case is the difference significant. Reviewing the mean scores of the individual accountability features for this region (not shown) finds that all democratizers have made significant advances in their electoral competition levels during the 1990s. In addition, the prosperers have improved their standards of information access and judicial independence. The laggards, in comparison, have declined slightly in their legal and bureaucracy indicators post-1989. Neither group exhibits much improvement in their private credit variable. Of the five individual measures, the prospering democratizers lead the laggards throughout the 20 year time period only on the legal system factor. Nonetheless, the prospering democratizers have maintained consistently, if marginally, higher growth rates throughout

the study timeframe (see figure 5-2.2).

Exploring the Africa accountability figures more closely, South Africa appears to be an outlier. It is categorized as a lagging democratizer but does exhibit many of the same accountability features as the prosperers. When South Africa is removed from the pool, the prospering democratizers do realize a higher accountability mean than the laggards in Africa for both the overall and post-1989 timeframes, though again the difference between the two groups is not statistically significant.

Figure 5-2.1 Accountability Trends for Democratizers in Africa

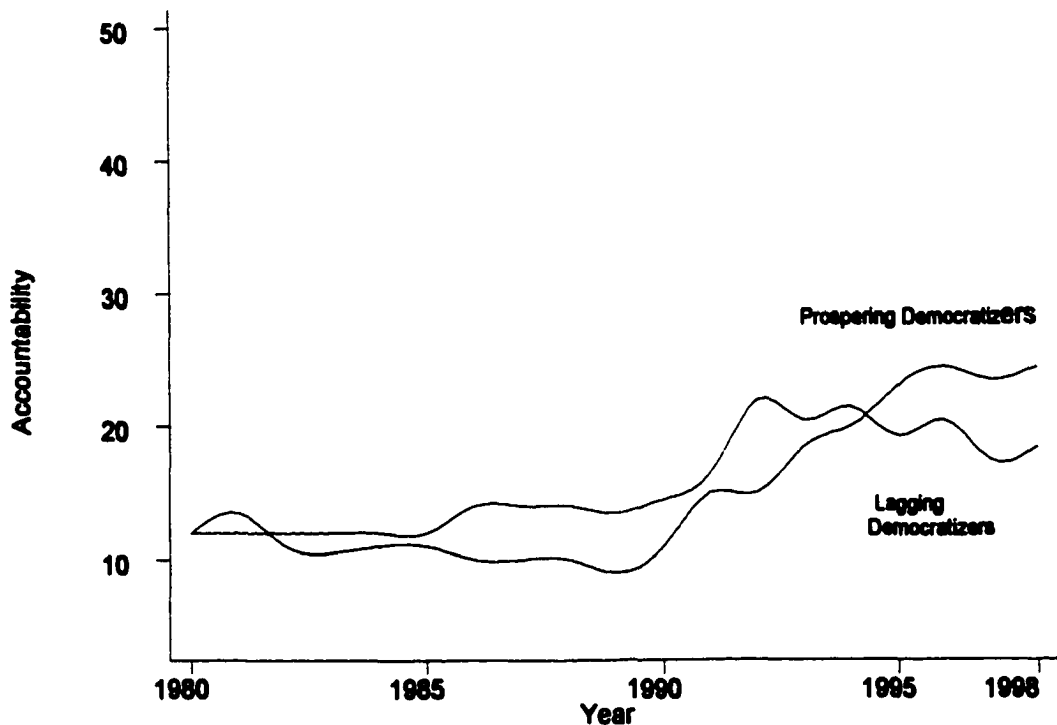


Figure 5-2.2 Growth Trends for Democratizers in Africa

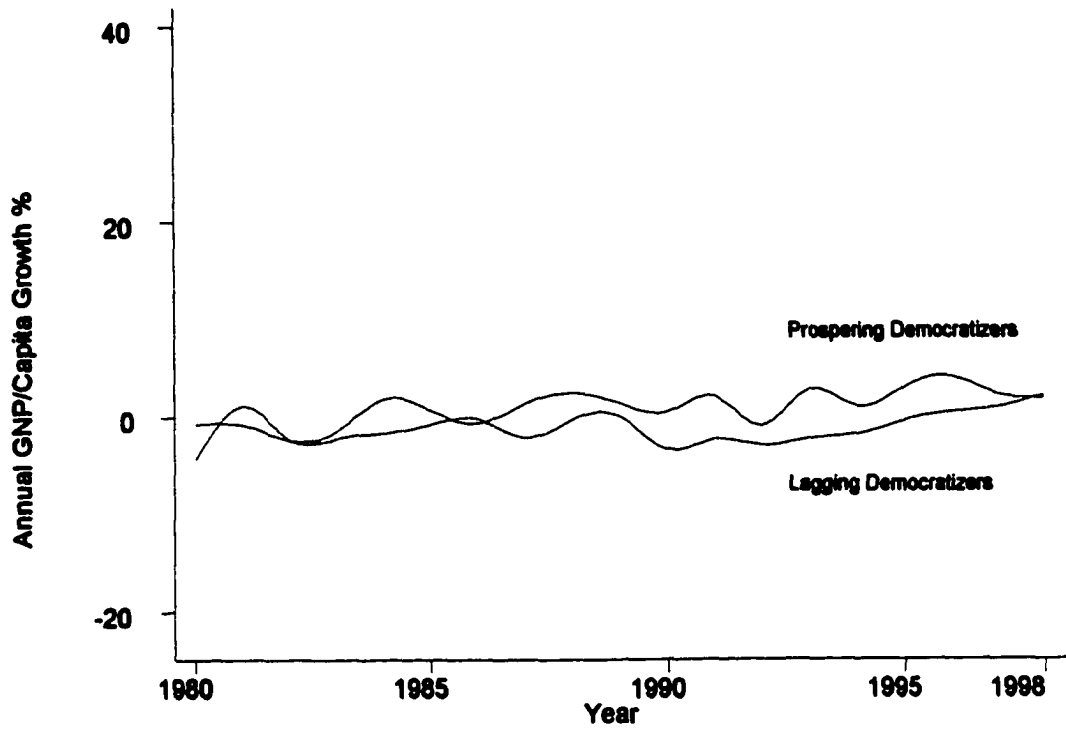
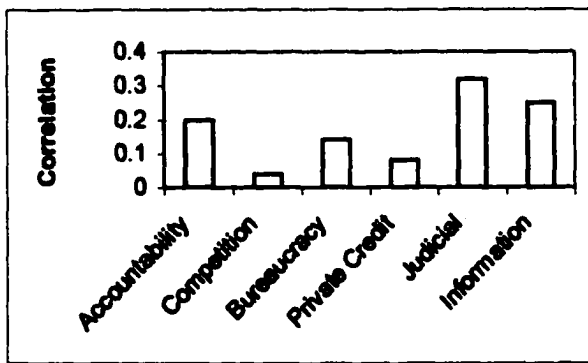


Figure 5-2.3 Growth Correlations by Accountability Feature



The African growth correlations are varied across accountability features (see figure 5-2.3). Judicial independence and information access are most closely

associated with growth with correlations of 0.32 and 0.25, respectively. Electoral competition, in contrast, demonstrated only a slight relationship (0.04). The aggregate measure reflects the balance with a correlation of 0.20.

5-2.2 Bivariate Analysis

The central finding in the African bivariate analysis is the substantial difference between the post-1979 and post-1989 results (see table 5-2.1). The laggards demonstrate stronger levels on nearly every variable assessed in the post-1979 period (except growth). However, the difference shifts towards the prosperers on most indicators for the post-1989 timeframe. In the latter period, the only economic factors on which a statistical difference remains in favor of laggards is on GNP/capita and urbanization. Meanwhile, the prosperers increase their advantage on growth rates in the 1990s. An anomaly seen in these figures is that while the prosperers made relative gains in their levels of accountability in the 1990s, the laggards expand their advantage on the democracy index. This divergence in these institutional measures is a demonstration of their distinctiveness, as well as of the added analytical power provided by using both.

Table 5-2.1 Bivariate Comparison of Democratizers in Africa

Variable	Post-1979	Post-1989
Primary School	t = -4.10	t = -1.80
Secondary School	t = -3.10	t = -1.60
Infant Mortality	t = 0.40	t = -0.40
Life Expectancy	t = -0.50	t = -0.40
Population	t = 5.30	t = 3.78
Urbanization	t = -8.50	t = -5.50
Trade	t = -2.50	t = -1.20
GNP/Capita	t = -4.50	t = -2.40
Annual Growth	t = 2.70	t = 3.50
Democracy	t = -1.90	t = -3.30
Accountability	t = -1.10	t = -0.04

5-2.3 Post-1979 Logit Analysis

The post-1979 logit analysis reveals that the prosperers exhibit a higher level of

trade, domestic fixed investment, and a stronger savings rate (see table 5-2.2). However, the prosperers exhibit lower levels of urbanization and primary school attendance (collinear with GNP/capita), and receive relatively less foreign direct investment than their lagging counterparts. Instead, it appears that the prosperers have supported their growth by an ability to raise domestic investment. Meanwhile, prospering democratizers in Africa are also more likely to have adopted a British legal structure.

The post-1979 logit analysis also finds the aggregate accountability measure to be significant ($t=1.69$). This is a somewhat unexpected result given the observations from the accountability timeline. Private credit ($t=3.17$) and information access ($t=2.24$) are significant among the individual accountability features. The strengthening of accountability institutions among the prospering democratizers is a relatively recent process (consistent with the accountability trend line), as accountability lagged 5-15 years is insignificant.

Prospering democratizers are not simply those that started the transformation process earlier as controlling for years since democratization is not significant. Similarly, level of democracy does not distinguish the prospering democratizers. However, lagged ten years, democracy is significant ($t=1.86$) indicating that the contemporary African democratizers with previous democratic exposure were more inclined to become prospering democratizers. Meanwhile, the full autocracy variable demonstrates an inverse relationship. Full autocracies are insignificant in the present time period and lagged back ten years. However, lagged 20 years, full autocracies are *positively* associated with being a

prospering democratizer. These results imply that the strengthening of democratic qualities among the prospering democratizers is a relatively recent phenomenon. These former autocracies have made substantial institutional changes in the process of democratizing. Demonstrating that it is the former full autocracies that have made the transformation, estimates including both full autocracy lagged 20 years and information access in the base year reveal each of the terms to be significant ($t=2.37$ and $t=2.38$, respectively).²³ From a conceptual perspective, these results suggest that the influence of institutional path dependency has not been so strong as to avoid being reversed for certain African countries over this recent time period.

Table 5-2.2 Final Post-1979 Logit Estimate for African Democratizers²⁴

Dependent Variable: Prospering Democratizer										
Acctblty	Urban.	Prim. Educ.	Trade	Dom. Fix. I	FDI	Sav-ings	Legal Brit.	Cons.	R ²	n
0.034	-0.081	-0.025	0.022	0.102	-0.561	0.027	1.939	0.196	0.31	426
(1.69)	(-4.46)	(-2.80)	(3.00)	(3.34)	(-3.97)	(1.49)	(4.92)	(0.39)		

t-statistics in parentheses

Post-1989 Logit Analysis

The post-1989 logit is distinctive from the post-1979 estimate, reflective of the substantial political and economic changes experienced in the 1990s. The bivariate analysis revealed that laggards expanded their advantage in democracy levels during the 1990s, while the prosperers made relative advances in levels of accountability. To capture this counter-intuitive pattern, both terms are included and significant, in the estimation (see table 5-2.3). Moreover, contrary to the post-1979 model, human capital and income

23 Ghana, Mozambique, and Malawi are former full autocracies that this pattern.

24 Excluding South Africa from this estimate does not change the significance of any of the explanatory

factors are not significant, apparently reflecting the advances in education and health made by the prosperers in the 1990s. Another distinction in this decade is the negative association between conflict and prospering democratizers that emerges. Meanwhile, trade and fiscal conservatism are common policy traits between the two periods. The more rural demographic make-up of prospering democratizers is also an ongoing distinguishing characteristic.

Prospering democratizers distinguish themselves across a broader mix of accountability features in the post-1989 results. In addition to the aggregate accountability measure, which is moderately significant, strength of legal systems ($t=3.44$), information access ($t=3.34$), and bureaucratic efficiency ($t=2.13$) are significant in the 1990s. The strengthening of these features among the prospering democratizers is consistent with the trend observed in figure 5-2.1. However, congruent with the democracy result, electoral competition is negatively, though not significantly, associated with prospering democratizers ($t= -1.33$). The negative relationship on this individual feature also explains why the aggregate measure is not more strongly significant.

Table 5-2.3 Final Post-1989 Logit Estimate of African Democratizers²⁵

Dependent Variable: Prospering Democratizer

Acctblty	Democ	Urban	Popul.	Trade	Fiscal Bal.	Conflict	Const.	Psd. R ²	n
0.442 (1.30)	-0.179 (-2.53)	-0.085 (-3.86)	9.4e-8 (4.20)	0.017 (2.05)	0.431 (3.16)	-1.670 (-2.21)	1.552 (1.59)	0.24	207

t-statistics in parentheses

variables. However, accountability does strengthen to $t=2.54$.

25 Excluding South Africa from estimations in the 1990s increases the significance of accountability to $t=1.95$. All of the other coefficients are similar.

5-2.4 OLS Regressions

Conventional economic traits dominate the post-1979 growth regression with gross domestic fixed investment, foreign direct investment, capital expenditures, government surpluses, and trade all registering positively in their significance with growth (see table 5-2.4). Foreign direct investment (FDI) produces the largest coefficient, with a one percent increase in FDI associated with a 0.57 percentage point increase in annual growth. African democratizers that are relatively more rural grow faster. Ethnic fractionalization is positively associated with growth in Africa - consistent with the theorized relationship (Collier 2001). Meanwhile, income and human capital characteristics are not significant.

The aggregate accountability measure registers strongly significant in the post-1979 growth regression ($t=3.24$). Of the individual accountability features, information access ($t=3.45$) and legal system ($t=2.50$) are also significant. These two individual measures each generate coefficients of 0.19 – indicating a substantial direct impact on growth. Notably, while information access is associated with growth, electoral competitiveness is not. This may indicate the greater validity of information access as an institutional measure of democratic change in Africa (and elsewhere). Checking for robustness of the aggregate accountability measure using the more sensitive `gnpch5x3` generates a significant reading ($t=4.32$), while the second robustness check, `grw5b1ck`, is marginally significant ($t=1.45$; $n=103$).

Level of democracy supersedes accountability as a significant explanatory factor

for growth in this region ($t=2.60$). This suggests that it is the direct effects from democracy that are working through the accountability measure for this region. Democracy's significance holds when lagging democracy up to 15 years, with the maximum level of significance occurring at lag-10 ($t=5.29$). Lagged ten years, accountability is also significant, though not as strongly. Full autocracy is negative at time zero ($t=-2.83$) and insignificant when lagged. Time since democratization is marginally significant ($t=1.61$) indicating that the early democratizers have realized higher rates of growth. In short, democratic history is an important influence explaining growth in Africa.

Table 5-2.4 Final Post-1979 OLS Estimates for African Democratizers^{26 27}

Dependent Variable: Annual Growth (5 yr average)										
Acctblty	Urban	Trade	Dom. Fix. I	FDI	Cap. Exp.	Fiscal Bal.	Ethnic Fract.	Inter.	Adj. R ²	n
0.057	-0.052	0.019	0.178	0.573	0.078	0.137	0.023	-6.41	0.35	399
(3.20)	(-3.58)	(3.14)	(6.98)	(4.61)	(5.75)	(4.15)	(2.89)	(-7.79)		

Note: Results are Cochrane-Orcutt corrected for first order auto-correlation; t-statistics in parentheses.

Results from the post-1989 regressions generally support the findings from the post-1979 timeframe. Gross domestic fixed investment, foreign direct investment, and trade all remain positively significant as does relatively lower levels of urbanization (see table 5-2.5). In the post-1989 final estimates, however, capital expenditures drop out and fiscal balance is replaced by lower levels of inflation. Infant mortality also enters positively into the model. This is collinear with a negative starting level of income, indicating that democratizers with lower levels of income and human capital are growing more rapidly.

²⁶ The final growth estimates for Africa exclude the 1992-1998 observations from Angola as it was an extreme outlier in plotted residuals, altering the significance of several explanatory variables. This appears to be due to Angola's hyper inflation, ranging from 74-11,600 percent annually and wildly fluctuating per capita growth shifting between -20% to 25%, during this period.

²⁷ Excluding South Africa from these estimates causes trade to become insignificant ($t=0.67$).

British legal history also emerges as a strong factor explaining growth in the 1990s.

African democratizers that have adopted a British legal code show nearly a percentage point larger annual growth than other democratizers.

The results for the post-1989 regressions reveal subtle though important shifts in the relationship between accountability and growth. The aggregate accountability retains its level of significance in this time period ($t=1.52$). However, among the individual measures, in addition to information access ($t=2.86$) and legal system ($t=2.97$), bureaucratic efficiency ($t=3.40$) is also significant in this estimate. Therefore, the advances certain African democratizers made in their institutional strength during the 1990s are associated with higher levels of growth. The identification of an evolving pattern of accountability for the post-79 to the post-1989 estimates points to the value of assessing the effect of era on the democratization and economic growth relationship. The assumption that this relationship is consistent over time may lead scholars and policymakers to false conclusions. Inserting $gnpch5x3$ as the dependent variable for a robustness check generates a strongly positive result for the aggregate accountability measure ($t=2.12$), while $grw5blk$, which picks up selective observations ($n=68$), generates an insignificant result ($t=1.03$) for this period.

Table 5-2.5 Final Post-1989 OLS Estimates for African Democratizers²⁸

Dependent Variable: Annual Growth (5 year average)

Acctblty	IMR	Urban.	Trade	Dom. Fix I	FDI	Inflat.	Legal Brit.	Inter.	Adj. R ²	n
0.044 (1.52)	0.105 (1.22)	-0.070 (-3.38)	0.030 (3.22)	0.113 (3.05)	0.501 (3.15)	-0.016 (-2.01)	0.922 (2.19)	-3.577 (-2.25)	0.27	199

Note: Results Cochrane-Orcutt corrected for first order auto-correlation; t-statistics in parentheses

28 Excluding South Africa slightly strengthens the significance of accountability ($t=1.7$), while ethnic fractionalization becomes significant (0.023, $t=2.61$) and infant mortality drops out.

5-2.5 Summary of Africa Findings

There is a high degree of congruity between those factors that predict prospering democratizers and those that predict growth in Africa (see tables 5-2.6/7). Of the accountability features, information access, judicial independence, and bureaucratic efficiency are significant in both the logit and OLS estimates for the 1990s. This indicates that the institutional features on which the prospering democratizers distinguish themselves are those that are most contributing to growth in Africa. The emergence of stronger judicial systems among the prospering democratizers appears to be a particularly instrumental factor explaining their elevated growth during the period of democratization. Distinctiveness in this area matches the significance of judicial independence in both growth estimates. The advances in the legal systems and bureaucratic efficiency features among the prospering democratizers in the 1990s is also notable in that it suggests that institutional advances can be realized within the relatively short period of a decade. The extent to which these changes can be sustained will substantially contribute to their ongoing economic development. Meanwhile, the aggregate accountability findings are only moderately significant due to negative relationships between electoral competition and growth/prospering democratizers. Therefore, the electoral competition figure in the 1990s may be confounding results for this region²⁹. Prospering democratizers have demonstrated greater historical levels of democracy, which are also associated with

29 Central African Republic, Madagascar, Namibia, Niger, and South Africa are lagging democratizers with relatively strong democracy scores. The accountability levels of these five countries grew by 0.5 standard deviation in the 1990s compared to a full standard deviation advance for all African democratizers, on average. Meanwhile, the democracy scores of these lagging democratizers

growth. The advancement made by laggards in their level of democracy in the 1990s, perhaps linked to electoral results, is offset by the broadened accountability institutions demonstrated by the prosperers during this period.

Orthodox economic policies are also consistently significant in this region. Gross domestic fixed investment, trade, and fiscal conservatism explain both prospering democratizers and growth. Foreign direct investment is a positive growth factor in both periods, while negative in the post-1979 logit estimate. This suggests that prospering democratizers were able to overcome the lack of international investment in their realization of higher levels of growth. A lower level of urbanization is also significant in each estimate undertaken in this region. While this factor is often closely associated with lower income levels, in this sample there is little collinearity between the two factors. In general, starting income levels and human capital factors are not significant in the multivariate analyses. The prospering democratizers' institutional advantage of inheriting British legal traditions shows up positively and significantly in the post-1989 growth regression – congruent with the period of democratization in this region.

increased at a comparable rate as the other African democratizers during this time period.

Table 5-2.6 Summary of Significant Factors for African Democratizers, Post-1979

Factors Predicting Prosp. Democratizers	Factors Predicting Growth
Accountability (t=1.69)	Accountability (t=3.20)
Information Access (t=2.24)	Information Access (t=2.58)
Private Sector (t=3.17)	Legal System (t=2.34)
Urbanization (-)	Urbanization (-)
Gross Domestic Fixed Investment	Gross Domestic Investment
Savings	Fiscal Balance
Trade	Trade
Foreign Direct Investment (-)	Foreign Direct Investment
Primary School Enrollment (-)	Capital Expenditure
British Legal Tradition	Ethnic Fractionalization
Government Consumption*	

* Collinear with Savings

Table 5-2.7 Summary of Significant Factors for African Democratizers, post-1989

Factors Predicting Prosper. Democratizers	Factors Predicting Growth
Accountability (t=1.30)	Accountability (t=1.52)
Information Access (t=3.34)	Information Access (t=2.86)
Legal System (t=3.44)	Legal System (2.97)
Bureaucratic Efficiency (t=2.13)	Bureaucratic Efficiency (3.40)
Democracy (-)	Infant Mortality
Urbanization (-)	Urbanization (-)
Population	Gross Domestic Fixed Investment
Fiscal Balance	Inflation (-)
Trade	Trade
Conflict (-)	Foreign Direct Investment
	British Legal History

5.3 CENTRAL EUROPE

Prospering Democratizers

**Albania
Hungary
Poland
Slovak Republic
Slovenia**

Lagging Democratizers

**Bulgaria
Czech Republic
Macedonia
Romania**

5-3.1 Accountability Trends and Growth Correlations

Central European democratizers demonstrate a steep escalation in their level of accountability post 1989 (see figure 5-3.1). This is mostly a result of the dramatic improvements in political competition and information access, the means of which jump by 4.5 and 3 points respectively from levels in the 1980s. The prosperers have maintained a steady advantage over the laggards in their aggregate accountability scores over the past 20 years, with the differences growing wider in the mid-1990s. While consistent, this difference is not statistically significant ($t=1.10$). The difference appears to be a result of stronger bureaucracies within the prospering democratizers as they exhibit a mean one standard deviation above the laggards.

Reviewing the sample of democratizers reveals that one of the laggards, the Czech Republic, is the state in this region with the highest accountability ranking. When the Czech Republic is removed from the pool, the difference in the aggregate accountability means between the two sub-groups becomes statistically significant ($t=3.2$). Meanwhile, Albania, the democratizer in this region with the lowest accountability rating, is among the faster growing countries in Central Europe. The categorization of these two countries challenges commonly held perceptions and therefore is a potential benefit from the intra-

regional comparison. Nonetheless, both countries merit observation throughout the analysis for the potential skewing effects they may have on the overall results.

Figure 5-3.1. Accountability Trends of Democratizers in Central Europe

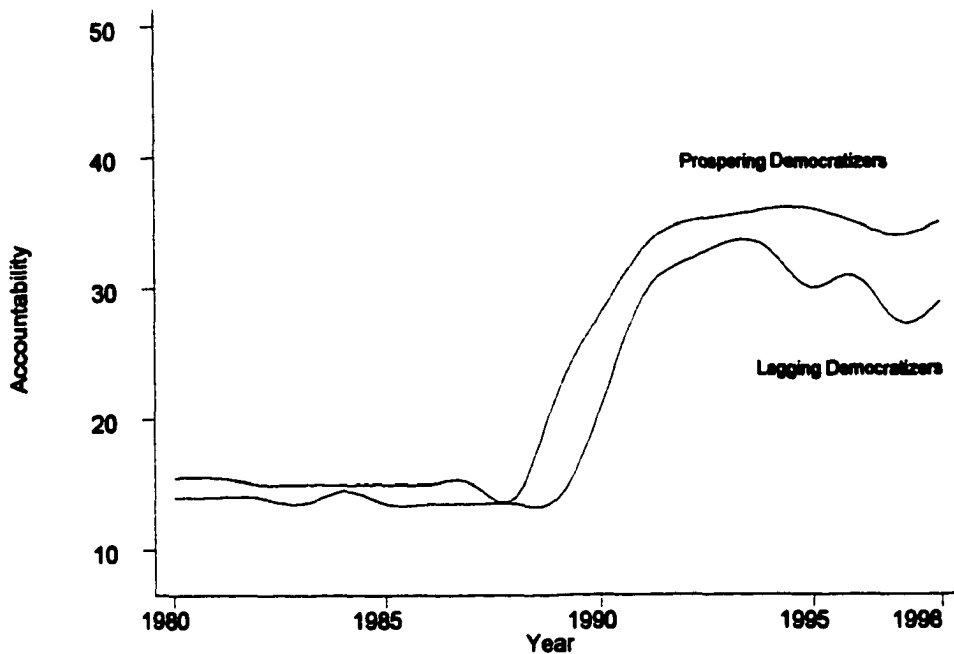
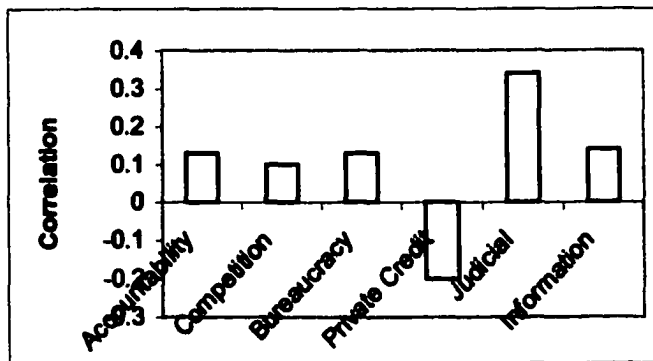


Figure 5-3.2 Growth Correlations by Accountability Feature



Correlations of the individual accountability features with growth in the post-1989 period indicate a broad-based association. An independent

judiciary stands out as the single factor most closely related to growth with a correlation of 0.34. Electoral competition, bureaucratic efficiency, and information access each register in the 0.10 to 0.14 range, as does the aggregate measure. The major outlier is the

credit to private sector feature. This generates a strongly negative association with growth (-0.20), apparently reflecting the negative growth experienced in the process of privatization in Central Europe.

5-3.2 Bivariate Analysis

There are relatively few background factors on which prospering and lagging democratizers in Central Europe are distinguished from one another. As summarized in table 5-3.1, the major differences that emerge are that the prosperers have higher per capita incomes and are less urbanized. Otherwise, the two groups are similar in their levels of primary education, life expectancy, trade, and population size. In terms of human capital, a mixed picture emerges. Laggards have a greater percentage of secondary school attendance, though higher levels of infant mortality. Statistically insignificant differences are found in the level of accountability - though prosperers have modest advantages in their levels of democracy and growth in the 1990s.

Table 5-3.1 Bivariate Comparison of Democratizers in Central Europe

Variable	Post-1979	Post-1989
Primary School	t = 0.96	t = -0.40
Secondary School	t = -2.30	t = -3.14
Infant Mortality	t = -2.80	t = -1.47
Life Expectancy	t = 1.48	t = 1.36
Population	t = 0.46	t = 0.41
Urbanization	t = -6.95	t = -5.13
Trade	t = -1.60	t = -0.40
GNP/Capita	t = 5.40	t = 3.61
Annual Growth	t = 1.40	t = 1.99
Democracy	t = 0.71	t = 1.71
Accountability	t = 0.46	t = 0.41

5-3.3 Logit Analysis

Relatively few characteristics statistically distinguish the prospering democratizers in Central Europe. As summarized in table 4-3.1, the key variables that do emerge are starting level of GNP/capita and trade. The former is positively associated with prospering democratizers, the latter negatively. Starting level of GNP/capita, being collinear with higher levels of life expectancy and secondary education, can be interpreted as part of an advantage in human capital associated with the prosperers. To assess whether proximity to Western Europe might influence the propensity to become a prospering democratizer due to shared institutions and the allure of potential EU and NATO membership, a 'kms to Brussels' variable was included in the Central Europe estimates. Despite its intuitive appeal, this factor is insignificant in distinguishing the prospering democratizers when considered along with other factors.

Accountability is statistically significant ($t=1.63$) in predicting prospering democratizers. In contrast to the limited number of significant economic and demographic factors, three of the five individual accountability measures are significant in predicting prospering democratizers: bureaucratic efficiency ($t=2.47$), judicial independence ($t=2.32$), and electoral competitiveness ($t=2.32$). The relatively large number of individual features that are significant in predicting prospering democratizers in this region is revealing in that it implies that these countries have inherited or restructured themselves on many different levels. Furthermore, the balanced level of significance for each of the individual measures supports the notion that the prospering democratizers' distinctiveness is created from the

diversity of these established checks and balances rather than from any one dominant feature. The significance of the aggregate measure is all the more noteworthy in that the private sector feature is negatively associated with prospering democratizers ($t = -1.11$). As with the trade result, the lack of significance for the private sector variable is likely a reflection of the extensive restructuring of the economic sector in this region during the 1990s. Results from this region are also notable for the relatively greater explanatory value associated with electoral competition rather than information access, which is insignificant. In a number of other regions, the reverse is true. This highlights the importance competitive elections have had in distinguishing prospering democratizers in this region.

The prospering democratizers' distinctiveness on the accountability features appears to be a result both of the substantial changes they have made since democratization as well their institutional history. Accountability is significant when lagged at the five ($t=1.89$) and ten year ($t=2.63$) intervals, after which the association declines. This result fits the image of the Central European prospering democratizers having been early and substantive reformers as the Cold War drew to a close. Including 'years since the start of democratization' finds a marginally positive result ($t=1.41$), while controlling for level of democracy does not add explanatory value ($t=0.25$). The relative strength of accountability compared to democracy is an apparent inconsistency with the significance of the electoral competitiveness feature. While elections do distinguish the prospering democratizers, it appears that the more robust accountability measure,

capturing the value of bureaucratic and legal systems, creates an even stronger distinction.

Table 5-3.2 Final Logit Estimate for Central European Democratizers³⁰

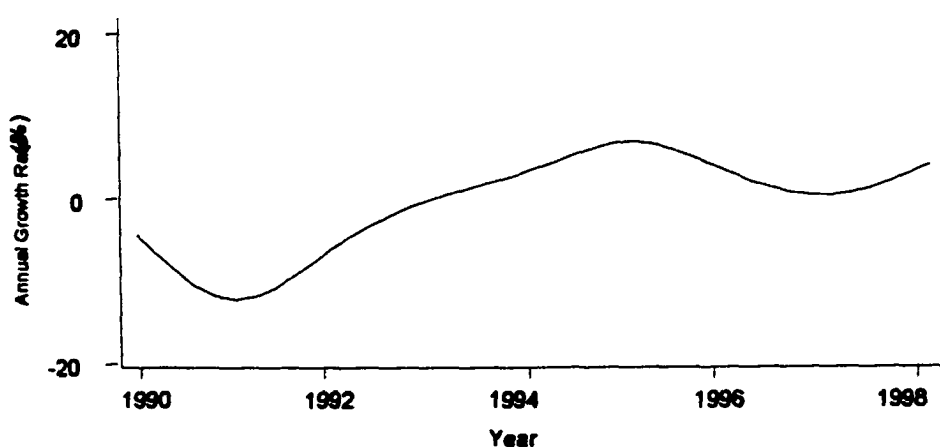
Dependent Variable: Prospering Democratizer					
Acctblty	GNP89	Trade	Constant	Pseudo R ²	n
0.101	0.001	-0.022	-3.613	0.28	72
(1.63)	(3.15)	(-1.96)	(-1.83)		

t-statistics in parentheses

5-3.4 OLS Analysis

In addition to the newness of several of the Central European democratizers, estimating growth in this region is more challenging than other regions given the sharp dip in growth at the end of the Cold War (see figure 5-3.3). Given that this was a period of democratization as well, the relationship between the two can be expected to be negative for the early part of the 1990s. Consequently, relatively greater attention is given to potential lagged relationships in this region to assess subsequent effects from reforms taken earlier in the decade.

Figure 5-3.3. Annual Growth Among the Central Europe Democratizers, post-1989



30 The final estimate excludes Albania due to higher levels of collinearity observed in the estimation process.

Results from the Central European growth regression indicate that lower levels of infant mortality as well as higher rates of gross domestic fixed investment are the non-institutional factors most influential in explaining growth (see table 5-3.3). A one point decline in the infant mortality rate is associated with a 0.26 percentage point increase in the annual growth rate. The significance of this human capital factor is consistent with endogenous growth theory. This result holds up despite the insignificance of starting level of GNP/capita. An ability to generate gross domestic fixed investment is also associated with higher rates of growth. Given the lack of significance found on the other economically-oriented factors considered in these restructuring states, this finding underscores the importance of raising domestic investment in this region. The negative relationship between growth and trade runs contrary to the conventional economic reasoning that by maximizing comparative advantages, instituting hard budget constraints, and fostering productive efficiencies trade enhances growth. This result begs further analysis. It may reflect the negative effects of relatively greater integration into the former Eastern bloc trading network. Alternately, it could represent the initial steep declines in growth experienced by reforming states in this region as they opened up their economies. Proximity to the West, as represented in the 'kilometers to Brussels' variable, while positive ($t=1.45$), has little explanatory power for the regression and is collinear with infant mortality and gross domestic fixed investment.

Accountability is particularly important in explaining growth in this region. A one point improvement in accountability is associated with a 0.16 percentage point increase in

annual growth. Three of the five individual accountability measures are significant in explaining growth – suggesting a multi-dimensional institutional influence on growth in this region. Lagged accountability features generate the best fit with the data - aggregate accountability lagged five years has a t-score of 4.33. Central European democratizers that created stronger accountability structures early in the process did realize greater rates of growth subsequently. Accountability at time zero is also significant ($t=1.96$). When examined by individual accountability feature, lagged electoral competitiveness is the factor most strongly explanatory of growth ($t=7.16$) suggesting a close association with extent of governance changes undertaken during the democratization movement. Information access is also significant ($t=2.64$), though less strongly. In addition to these factors, lagged judicial independence ($t=2.65$) is the other key accountability feature that is significant. Lagged bureaucratic efficiency is positive though insignificant ($t=1.23$). As with the logit estimate and trade, the lagged private sector feature is strongly negative ($t=-1.83$). The importance of the lagged aggregate accountability measure is supported by the robustness checks using $gnpch5x3$ ($t=1.23$) as well as $grw5blk$ ($t=1.40$; $n=27$) – both of which are constrained by the single decade of data considered.

When a five-year democracy lag is included in the estimation, democracy takes on much of the significance of the institutional measure ($t=2.85$) and the accountability lag becomes insignificant. This is consistent with the leading significance found for electoral competition. Therefore, while multiple accountability features are associated with growth, it is the level of democracy realized by democratizers in this region that is the dominant

factor in promoting positive economic performance. Controlling for years since the start of democratization is insignificant, highlighting that it was not just a matter of reforming early that contributed to growth but the substantive changes that this reform entailed. Lags of full autocracy are insignificant.

Table 5-3.3. Final OLS Estimates for Central European Democratizers³¹

Dependent Variable: Annual Growth (5 year average)

Acctblty	IMR	Trade	Dom	Intercept	Adj. R ²	n
Lag-5			Fixed I			
0.163	-0.258	-0.065	0.112	1.772	0.49	80
(4.33)	(-4.22)	(-5.28)	(1.97)	(0.80)		

Note: Results Cochrane-Orcutt corrected for first order auto-correlation; t-statistics in parentheses

5-3.5 Summary of Significant Factors for Central European Democratizers

Accountability features dominate the co-associations from the Central European estimates. In addition to the aggregate accountability term, the electoral competitiveness, information access, and judicial independence features are all strongly and mutually significant - as is bureaucratic efficiency at a more moderate level (see table 5-3.4). The breadth of mutually significant accountability features for prospering democratizers in this region is perhaps the most important distinguishing trait gleaned from these results. The scope of the prospering democratizers' accountability institutional strength ensures the significance of the aggregate measure despite the negative relationship between private sector and growth. The electoral competitiveness dimension stands out for its explanatory power in both sets of estimates as well as in comparison to other regions. This is closely associated with the level of democracy. Thus, in Central Europe, those democratizing

31 When the Czech Republic is excluded, the accountability coefficient increases to 0.22 (t=5.41). When

countries that have made the greatest progress in creating democratic institutions, have also realized the most rapid growth.

The only non-institutional factor that is significant in both estimates is lower levels of trade. As mentioned above, the trade result is counter to conventional macroeconomic theory and must be interpreted within the context of the major restructuring undertaken. Income levels at the start of the democratization process do distinguish prospering democratizers. However, they are not a direct explanatory factor for growth. Conversely, lower levels of infant mortality rate and gross domestic fixed investment are significant factors in explaining economic performance, though do not distinguish this region's prospering democratizers.

Table 5-3.4 Summary of Significant Factors in Central European Estimates

Factors Predicting Pros. Democratizers	Factors Predicting Growth
Accountability (t=1.63)	Accountability Lag-5 (t=4.33)
Competitiveness (t=2.32)	Competitiveness Lag-5 (t=7.16)
Information Access (t=2.41)	Information Access Lag-5 (t=2.64)
Judicial Independence (t=2.32)	Judicial Independence Lag-5 (t=2.65)
Bureaucratic Efficiency (t=2.47)	Bureaucratic Eff. Lag-5 (t=1.23)
Trade (-)	Trade (-)
GNP '89	IMR (-)
	Gross Domestic Fixed Investment

Albania is excluded, the accountability coefficient declines to 0.12 (t=3.18).

5.4 FORMER SOVIET UNION

Prospering Democratizers

Armenia

Estonia

Georgia

Latvia

Lithuania

Lagging Democratizers

Kazakhstan

Kyrgystan

Moldova

Russia

Tajikistan

Ukraine

5-4.1 Accountability Trends and Growth Correlations

The accountability trend in the FSU reveals a sharp separation in accountability levels for the prospering and lagging democratizers with the end of the Cold War (see figure 5-4.1). This difference is statistically significant ($t=7.7$). This gap between the two groups is apparently due to differences in the electoral competition (two standard deviations), information access (one standard deviation), and bureaucracy (one standard deviation) features. Whereas the prosperers made dramatic gains in those categories post-1989, the laggings' advances were relatively muted. The FSU is unique among the regions considered in this analysis in that it is the only one where there are more lagging democratizers than prosperers.

Figure 5-4.1 Accountability Trends for Democratizers in the FSU

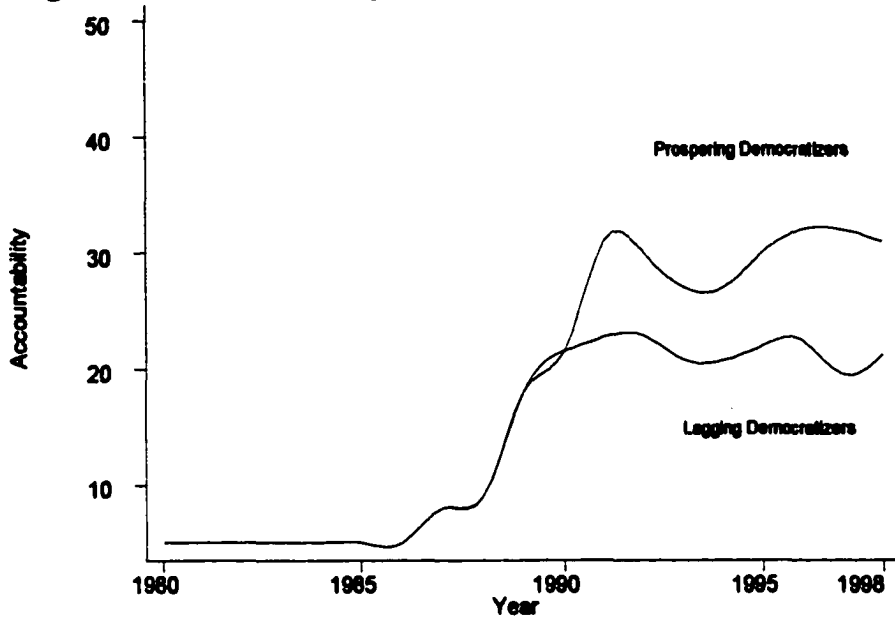
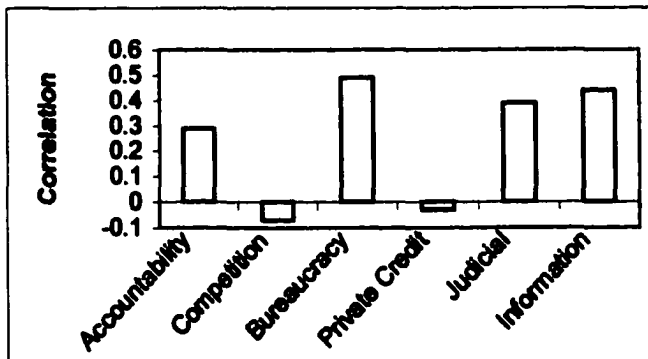


Figure 5-4.2. Growth Correlations By Accountability Feature



Correlations between individual accountability features and growth among democratizers in the former Soviet Union reveal a sharply

mixed picture (see figure 5-4.2). Several of the features – bureaucratic efficiency (0.49), information access (0.44), and judicial independence (0.39) post very close associations with growth. These are among some of the strongest correlations on individual measures within any of the regions considered. The bureaucratic quality measure seems particularly important for the FSU as it correlates at a level nearly 30 percentage points higher (0.57 vs. 0.29) than the same measure in Central Europe. Meanwhile, electoral competition

(-0.07) and credit to private sector (-0.04) have moderately negative associations with growth. The negative relationship on the private sector variable is consistent with that found in the Central European correlations and would seemingly reflect the dramatic economic restructuring initiated during this period. However, the electoral competition correlation in the Central European correlations was positive. This highlights a starkly different dynamic with regards to the evolution of political pluralism for democratizers in the two regions. In particular, especially when considering the strong information access-growth correlation, it raises questions over the authenticity of the electoral results in the FSU during this time period, while underscoring an apparent gulf in electoral and liberal democratic institutions among the FSU democratizers.

5-4.2 Bivariate Analysis

The bivariate analysis reveals a variety of differences between the prospering and lagging democratizers, as summarized in table 5-4.1. The prosperers have higher per capita income levels and health care, though slightly lower rates of educational participation. Demographically, the prosperers are more urbanized though they have smaller populations. The prosperers lead the laggards in their degree of trade. Institutionally, the prosperers are strongly distinguished by the advances they have made in their levels of accountability and democracy relative to the laggards during the 1990s.

Table 5-4.1 Bivariate Comparison of Democratizers in the FSU

Variable	Post-1989
Primary School	t = -3.19
Secondary School	t = -3.62
Infant Mortality	t = -7.70
Life Expectancy	t = 8.58
Population	t = -4.92
Urbanization	t = 6.34
Trade	t = 1.97
GNP/Capita	t = 3.57
Annual Growth	t = 1.12
Democracy	t = 5.20
Accountability	t = 7.70

5-4.3 Logit Analysis

The final logit estimate reflects a balance of human capital, economic, and institutional factors that distinguish the prospering democratizers since 1989 (see table 5-4.2). No one single factor dominates the estimation. The significance of lower levels of infant mortality indicates that the inherited advantages in the area of health care do distinguish the prospering democratizers (and are consistent with the finding in Central Europe). Unlike the Central Europe estimates, however, prospering democratizers in the FSU also show up as being more engaged in trade, particularly imports. The prosperers are also distinguished by their relatively lower levels of gross domestic fixed investment. This observation is supported by the negative gross national savings coefficient (not included due to collinearity with domestic fixed investment). Evidently, the prospering democratizers have relied on other sources of capital to facilitate their growth. Given the large number of factors that are significant in the bivariate analysis, the relatively parsimonious logit estimates suggest that many of the variables considered are closely

related. Notably, starting income level is insignificant. Similarly, conflict and kilometers to Brussels, while both registering with the anticipated signs, are not significant when including other controls.

Institutionally, accountability generates a significant and strong result in explaining prospering democratizers ($t=2.85$). This finding is stable throughout the estimation process. When considered by individual feature, bureaucratic efficiency ($t=3.16$) and information access ($t=2.52$) are also found to be significant. As with some of the other regions, a split in the importance of electoral versus liberal democratic emerges in terms of explaining prosperers. This result highlights the limited benefit of elections without the complementary development of other institutions in the democratization process. Notably, the other two accountability features are also positive (judicial independence $t=0.84$; independent private sector $t=0.92$), even though insignificant. This supports the image of prospering democratizers having developed relatively more advanced mechanisms of checks and balances across a range of institutions. Their relative progress does not seem tied to a concentrated enhancement of any single institutional area.

The level of democracy is insignificant when included in the logit estimation with accountability reinforcing the view that the distinguishing qualities of the prospering democratizers extend more broadly than political structures. In particular, while competitive elections are not significant, there are other less visible but important institutional factors that differentiate democratizers in this region. Lagged intervals of accountability, democracy, and full autocracy are not significant - due at least in part to

the limited timeframe on which these factors varied.

Table 5-4.2 Final Logit Estimate for Former Soviet Union Democratizers

Dependent Variable: Prospering Democratizer

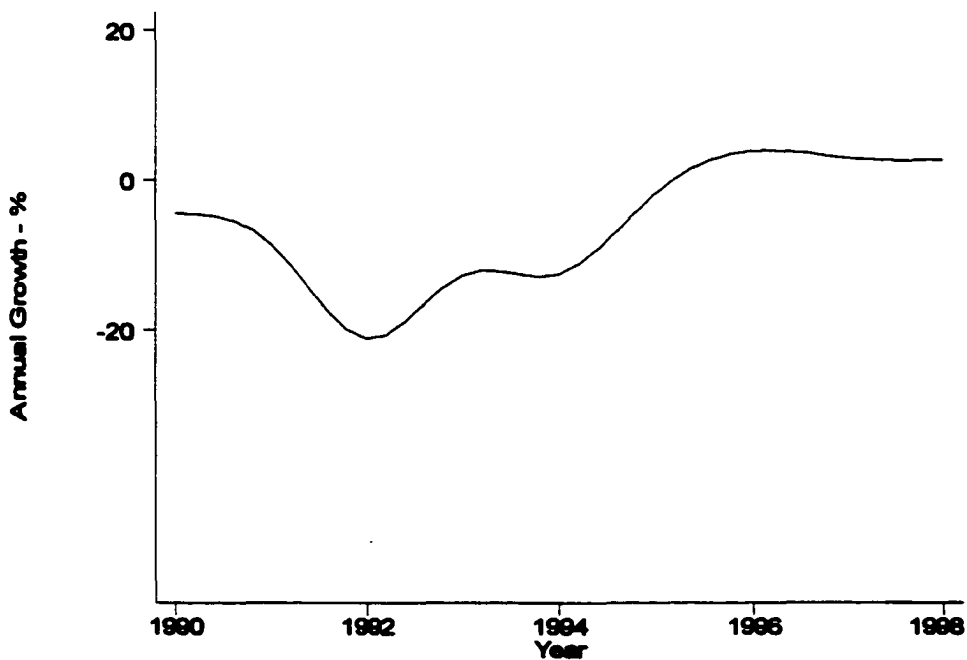
Acctblty	IMR	Dom Fixed I	Imports	Constant	Pseudo R ²	n
0.301	-0.543	-0.130	0.033	2.465	0.58	99
(2.85)	(-3.39)	(-2.18)	(2.06)	0.71		

t-statistics in parentheses

5-4.4 OLS Analysis

As with the Central European estimates, the modeling challenges for this region are substantial due to the rapidly shifting target involved. The growth trend in the FSU in the 1990s has been even more volatile and declined for a longer period of time than in Central Europe (see figure 5-4.3).

Figure 5-4.3 Growth Trend Among Democratizers in the FSU, Post-1989



The results from the post-1989 regressions indicate a balance of economic and accountability factors that are significant in explaining growth among the FSU democratizers (see table 5-4.3). The ability to generate investment stands out as the most important growth factor for this region's democratizers - both gross domestic fixed investment and foreign direct investment are significant. Foreign direct investment generates the largest coefficient – a one percent increase in FDI is associated with a 0.79 percentage point increase in annual GNP/capita growth. Meanwhile, as in Central Europe, trade registers as negatively associated with growth. Conflict and kilometers to Brussels generate the expected signs but are not significant in explaining growth. Similarly, starting level of GNP/capita is insignificant (though left in the regression to serve as a control).

Despite the volatility of the post Cold War period, various facets of accountability are significant in explaining growth for the FSU democratizers. Of the component features, judicial independence ($t=3.07$), information access ($t=2.98$), and bureaucratic efficiency ($t=2.37$), stand out. The large coefficients for each of these individual features – between 1.32 and 0.89 – indicate the far-reaching impact these institutions have on growth. The importance of information access to growth is a particularly revealing insight for this region as it restructures itself. Democratizers that are more open to the flow of information grow more rapidly. In comparison to the information access relationship, electoral competition is negative though insignificant ($t=-1.28$). This highlights the inconsequential effect of elections on growth in this region without other dimensions of accountability. As with the Central European sample, the breadth and balance of the

significance of accountability features are the most remarkable aspects of these results. The aggregate measure is also positive though only marginally significant ($t=1.40$), due to the negative relationship between electoral competitiveness and growth. Substituting $gnpch5x3$ as the dependent variable reflects a positive, though insignificant result with accountability ($t=0.77$) as does $grw5blck$ ($t=0.58$; $n=27$) – though these are limited due to the short timeframe considered.

Lagged intervals for accountability, democracy, and full autocracy yield insignificant results. However, given the limited time range in which lags can be considered in this sample, estimates were undertaken for annual growth (rather than five year averages) in order to better capture the rapidly evolving sequence of events during the short time period assessed. In these regressions, accountability lagged 5 years is significant ($t=4.39$), (see table 5-4.3, model II). This result is consistent with that found for Central Europe and suggests that democratizing states in the FSU that made relatively greater advances in their levels of accountability early in the transition process were more likely to grow subsequently. Of the individual measures, lagged information access ($t=4.10$), electoral competition ($t=3.70$), and judicial independence ($t=3.32$) all demonstrated significance with annual growth.

Table 5-4.3 Final OLS Estimates for FSU Democratizers^{1/}
Dependent Variable: Annual Growth (5 year average)

Model	Acctbly	Acctb. Recip.	GNP89	Trade	Dom Fix. I	FDI	Intercep	Adj. R ²	n
I	0.150 (1.40)		0.0001 (0.12)	-0.040 (-3.33)	0.316 (4.34)	0.785 (3.76)	-15.046 (-6.18)	0.36	98
II	0.736 (4.39)	1.146 (1.29)	0.0001 (0.651)	-0.050 (-1.76)	0.219 (1.34)	0.892 (1.76)	-27.55 (-3.57)	0.34	98

Note: Results Cochrane-Orcutt corrected for first order auto-correlation;

Model II employs annual growth as dependent variable with accountability lag-5; Acctb. Recip is the reciprocal term included to capture the initial negative accountability-growth relationship.

1/ Reviewing the residuals from the growth regressions determined that Georgia is an outlier for several years. Nevertheless, when Georgia is excluded from the sample, the results are nearly identical.

5-4.5 Summary of FSU

Comparing the results from the logit and OLS estimates finds that only the accountability features are significant in both (see table 5-4.4). In addition to the aggregate measure, bureaucratic efficiency and information access are mutually significant. The importance of the bureaucracy factor suggests that by establishing relatively more autonomous civil service sectors, the prospering democratizers have been able to avoid the economic inefficiencies caused by corruption and the use of state institutions for party aims. As noted in the discussion of the growth regressions, the finding on information access indicates that the advances the prospering democratizers have made in this area have been a vital factor for their relatively strong economic performance. As seen with other regions, there is a divergence of significance between the two democracy-related features, with electoral competitiveness remaining below significance in both estimates.

Private sector development, the accountability feature that is conceptually the most directly related to economic development, does not register as significant in either

estimate. The significance of judicial independence for growth and its omission as an identifying characteristic for the prospering democratizers suggests this is an area in which the prospering democratizers can further improve their accountability institutions. Trade is significant in both sets of estimates - though with opposite signs. This indicates that while the prospering democratizers did engage in relatively more trade than their counterparts, strongly negative trade-growth relationships for other democratizers causes this coefficient to be negative. A similar inverse relationship applies to gross domestic fixed investment and foreign direct investment. Prospering democratizers generate relatively less of such investments, while these are positively associated with growth. These results imply that the prosperers have overcome certain obstacles to growth in realizing their superior economic performance. These incongruent observations on the economic factors further underscore the distinctive advantage to growth their stronger accountability institutions bring to the prospering democratizers.

Table 5-4.4 Summary of Significant Factors for FSU Democratizers, post-1989

Factors Signif. with Prosp. Democratizers	Factors Significant with Growth
Accountability (t=2.85)	Accountability (t=1.40)
Bureaucratic Efficiency (t=3.16)	Bureaucratic Efficiency (t=2.37)
Information Access (t=2.52)	Information Access (t=2.98)
	Judicial Independence (t=3.07)
Infant Mortality (-)	Foreign Direct Investment
Trade	Trade (-)
Gross Domestic Fixed Investment (-)	Gross Domestic Fixed Investment

5.5 SOUTH ASIA

Prospering Democratizers
Bangladesh
India

Lagging Democratizers
Nepal
Pakistan

5-5.1 Accountability Trends

The accountability timeline for the South Asian democratizers reveals modest though steady advancements in the level of accountability structures in this region over the study time period (see figure 5-5.1). The difference in accountability between the two groups is statistically insignificant post-1989, whereas it is significant for the entire 20 year period ($t=3.4$). In fact, the range of aggregate accountability scores in South Asia (9 to 31) is more narrow than any other region. This narrowing is a result of advances the laggards made in their electoral competition and information access institutions over this time period - each feature improves by one standard deviation in the 1990s. The prosperers maintain a one standard deviation advantage in terms of bureaucratic efficiency. This is balanced by a 0.5 standard deviation lead the lagging democratizers exhibit in their credit to the private sector. Democratizers in South Asia post notably lower judicial independence scores than the global mean - 2.66 vs. 4.81 – a difference of one standard deviation. A similar gap exists for the bureaucratic efficiency feature.

Figure 5-5.1 Accountability Trends for Democratizers in South Asia

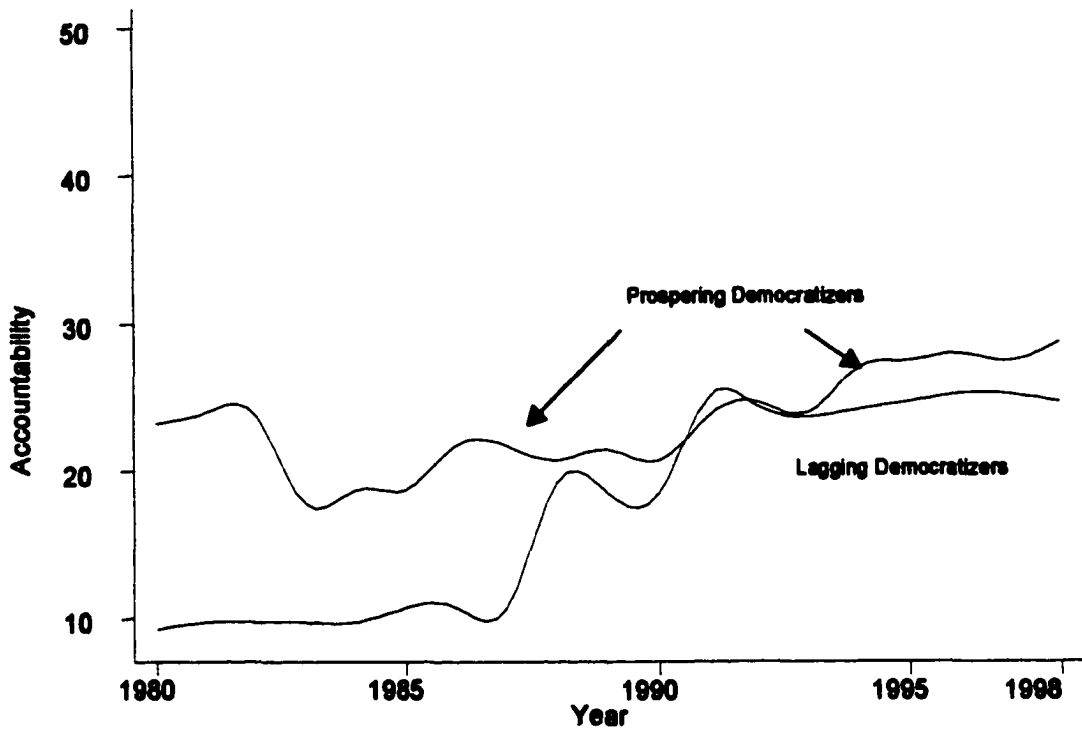
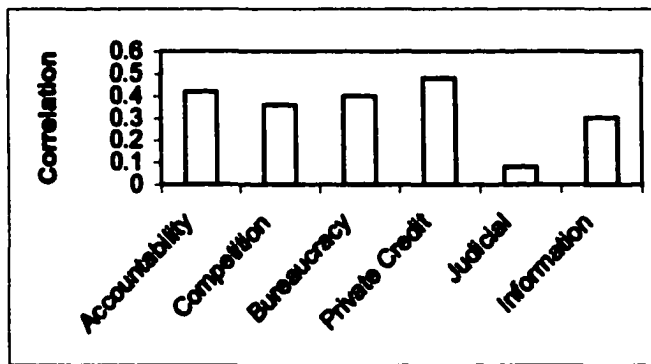


Figure 5-5.2. Growth Correlations by Accountability Feature



The growth correlations for the South Asian democratizers show remarkably strong relationships for four of the accountability features.

These are led by the credit to private sector (0.48), bureaucratic efficiency (0.40), and the electoral competition (0.36) associations. The feature with the least strong growth correlation in this region is judicial independence with an association of 0.08. This is apparently reflective of the low levels of judicial independence across the sample in this region. The aggregate measure generates a

correlation near to the upper tier of features (0.42).

5-5.2 Bivariate Analysis

The bivariate analysis reveals that lagging democratizers have a commanding advantage in their level of trade (see table 5-5.1). Similarly lagging democratizers post higher rates of primary and secondary education, the differential of which appears to be increasing. However, a clear-cut advantage on human capital factors cannot be discerned, as prosperers exhibit a lower infant mortality rate. Prospering democratizers are significantly more populated, a distinction that holds up when population density is considered. An earlier advantage on level of accountability for prosperers fades in the post-1989 timeframe as the lagging democratizers made their advance.

Table 5-5.1 Bivariate Comparison of Democratizers in South Asia

Variable	Post-1979	Post-1989
Primary School	t = -0.37	t = -5.67
Secondary School	t = -2.40	t = -3.02
Infant Mortality	t = -0.71	t = -3.58
Life Expectancy	t = 0.36	t = 0.64
Population	t = 6.70	t = 4.57
Urbanization	t = 0.93	t = 0.67
Trade	t = -10.9	t = -8.10
GNP/Capita	t = 0.24	t = 0.17
Annual Growth	t = 1.20	t = 2.40
Democracy	t = 1.90	t = 0.82
Accountability	t = 3.40	t = 1.30

5-5.3 Logit Analysis³²

The final logit estimate indicates that prospering democratizers are distinguished by their ability to mobilize gross national savings, while lagging democratizers exhibit greater levels of foreign direct investment (see table 5-5.2). Despite the early gap observed in the accountability trends, the aggregate accountability measure is not significant in predicting prospering democratizers in the logit estimates ($t=0.81$). This outcome is a result of the negative relationship between credit to private sector and prospering democratizers ($t=-1.63$), and that the prosperers do not strongly distinguish themselves on any individual feature. They do exhibit moderately significant associations on the electoral competitiveness ($t=1.51$) and information access ($t=1.19$) features, however.

Lagging accountability highlights the historically stronger checks and balances demonstrated by the prospering democratizers (at five years, $t=2.55$). A similar trend is observed for the individual features with electoral competition and information access moving from moderately to strongly significant associations. This significance is maintained at accountability lag-15 ($t=2.05$). Democracy at time zero is not significant. However, lagged intervals of democracy also increase their significance over time. The lag-15 democracy result is significant at $t=2.29$.

32 The small number of countries considered in this region limits the depth of analysis possible. Therefore, caution is warranted when interpreting the results. Nonetheless, the generally complete listing of observations for virtually all of the factors considered does compensate for this shortcoming to some extent. The study has refrained from collapsing South Asia into East Asia (or the Middle East) since their cultural, political, and economic situations vary so significantly. These influences would likely obscure any comparative institutional effects.

Table 5-5.2 Final Logit Estimate for South Asian Democratizers

Dependent Variable: Prospering Democratizer

Acctblty	FDI	Savings	Constant	Pseud. R ²	n
0.067	-9.339	1.036	-17.339	0.68	76
(0.81)	(-3.06)	(3.72)	(-4.30)		

t-statistics in parentheses

5-5.4 OLS Regressions

South Asia is the region with the fastest rate of growth in the world during the latter half of the 1990s, realizing a regional median five year growth of 15.5 percent. The final growth regression indicates that a series of conventional economic factors - gross domestic fixed investment, lower levels of inflation, and openness to imports are the leading factors associated with these rapid growth rates (see table 5-5.3). A one point increase in domestic fixed investment is associated with a 0.17 percentage point increase in annual growth, the largest coefficient observed. Contrary to most regions, *higher* levels of infant mortality are also significant. The lack of significance of the education variables cautions against generalizing this result to overall human capital influences. Starting level of income is not a significant explanatory factor.

The aggregate accountability measure is robustly significant. Considered by individual measure, credit to private sector (t=5.45), bureaucratic efficiency (t=3.66), information access (t=2.08), and electoral competition (t=1.73) are all closely associated with growth. The strong relationship of credit to private sector is consistent with the movement toward more market-oriented economic activities in this region in the 1990s.

The significance of the bureaucratic efficiency factor is also intuitive. Given the large civil services and history of state control of economic enterprises in this region, democratizers that have stronger administrative systems and have done a better job of minimizing corruption are likely to have realized widespread benefits. The significance of the aggregate measure is replicated by substituting the $gnpch5x3$ ($t=4.03$) and $grw5blk$ ($t=1.49$; $n=19$) dependent variables.

Lagging the various institutional terms in these regressions finds that accountability is significantly associated with growth at lags of 10 and 15 years ($t=2.31$ and $t=2.26$, respectively). Democracy is significant at lag 15 ($t=2.31$). Controlling for level of democracy in the same year estimate is also significant ($t=1.86$) and this causes accountability to become insignificant – reflecting the dominant influence of the democratic features in the aggregate measure for most of the study timeframe. Meanwhile, full autocracy is negatively associated with growth. The strength of this finding enlarges at longer intervals - at lag-20, $t= -2.58$. The lagged significance of the democracy, accountability, and full autocracy features all point to the importance of institutional history in this region. The prospering democratizers, exhibiting rapid growth in the 1990s have had a history of stronger democracy and accountability institutions. Nonetheless, substantial institutional and policy changes undertaken in the 1990s in this region have also contributed to the rapid growth observed.

Table 5-5.3 Final OLS Estimates for South Asian Democratizers

Dependent Variable: Annual Growth (5 year average)

Acctblty	IMR	Dom Fixed I	Imports	Inflation	Intercep	Adj. R ²	n
0.051	0.112	0.174	0.024	-0.057	-2.817	0.26	75
(2.82)	(2.66)	(2.63)	(1.30)	(-1.57)	(-1.94)		

Note: Results Cochrane-Orcutt corrected for first order auto-correlation; t-statistics in parentheses.

5-5.5 Summary of South Asia

A mixed pattern of strengths on economic policies among the prospering and lagging democratizers contributes to the absence of mutually significant economic factors (see table 5-5.4). Prosperers have developed stronger mechanisms to mobilize domestic capital than their counterparts. This is significant in both sets of estimates (though excluded due to negative collinearity with foreign direct investment in the logit model). Given that prospering democratizers receive substantially less foreign direct investment underlines the importance of domestic sources of capital for their growth. This is consistent with the stronger rates of savings exhibited by the prospering democratizers. While trade is positively associated with growth, prospering democratizers are relatively less integrated in the global economy. Conversely, higher levels of trade and support of the private sector do appear to be important causes for the growth realized by the lagging democratizers in the 1990s.

Of the accountability features, electoral competition and information access are mutually significant. This reflects the stronger democratic background of the prospering democratizers. The relatively greater political competition and open vehicles of

information exchange instituted by the prospering democratizers have advanced their economic growth. The breadth of accountability features that are significant in the growth regression indicates that institutional factors have a very meaningful influence in this region's economic performance. The strength of accountability features does not break evenly across the two categories of democratizers, however. The laggards' relatively greater openness to capitalist economic structures has greatly augmented their growth and compensated for weaknesses in other areas. Bureaucratic efficiency, a relative strength of the prosperers, is also important for growth in this region. However, as this is a feature on which a gap has only emerged in the 1990s, it is not significant in the logit estimates. While not listed in the table, the insignificance of judicial independence in both estimates is notable. This reflects the overall weak level of legal systems in this region.

Table 5-5.4 Summary of Significant Factors for South Asian Democratizers

Factors Predicting Pros. Democratizers	Factors Predicting Growth
	Accountability (t=2.82)
Electoral Competition (t=1.51)	Electoral Competition (t=1.73)
Information Access (t=1.19)	Information Access (t=2.08)
	Bureaucratic Efficiency (t=3.66)
	Private Credit (t=5.45)
Foreign Direct Investment (-)	Gross Domestic Fixed Investment
Savings	Inflation (-)
	Infant Mortality
Gross Domestic Fixed Investment*	Imports

* This factor is significant though collinear with other variables in the final estimate.

5.6 EAST ASIA

Prospering Democratizer

Korea
Taiwan
Thailand

Lagging Democratizer³³

Cambodia
Mongolia
Philippines

5-6.1 Accountability Trends and Growth Correlations

Figure 5-6.1 portrays the statistically significant ($t=8.8$) difference in accountability between prospering and lagging democratizers in this region. The main features on which the prosperers separate themselves are on the private credit and legal system features, where they realize a two and one standard deviation advantage over the lagger levels, respectively. While the difference in accountability between the two groups is robust, the laggards have made substantial gains in their levels of accountability during the process of democratizing. Comparing democratizers in East Asia to global accountability levels finds East Asian democratizers at the mean for every feature except credit to private sector on which they exhibit a score that is 0.5 standard deviation above the global mean. What is noteworthy about this result is the balance and stability across measures. If there are any minimum institutional thresholds to growth, then the East Asian democratizers have most likely already achieved these. The balance of the accountability institutions is particularly meaningful given the rapid rates of growth in this region and is supportive of the notion that accountability institutions are complementary to one another.

33 Comparing prospering and lagging democratizers in East Asia is constrained by the limited number of laggards (i.e. Cambodia is just below the median and Mongolia presents a unique geographic, political, and economic history from the other countries in the region). To facilitate instructive analysis, therefore, the next slowest growing democratizer, the Philippines, has been moved into the lagger category. This allows for a more balanced comparison of relatively faster versus slower growing democratizers in East Asia.

Figure 5-6.1 Accountability Trends for Democratizers in East Asia

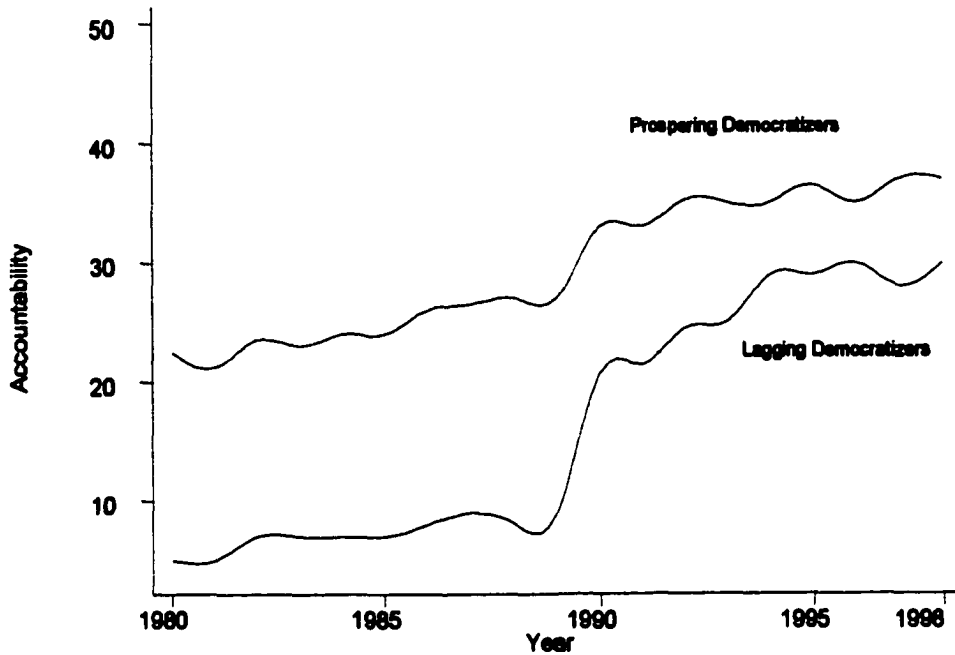
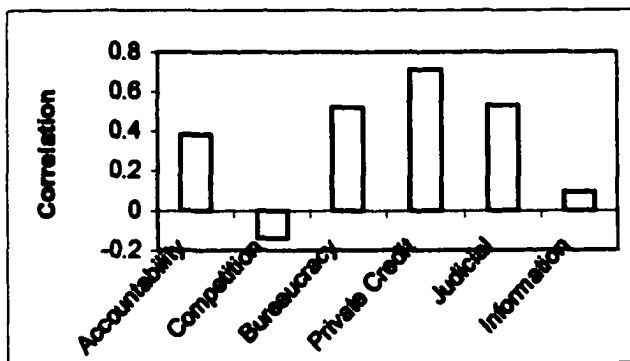


Figure 5-6.2 Growth Correlations by Accountability Feature



Correlations with growth reveal a wide variance in associations by accountability feature. The credit to private sector factor correlates at an

impressive 0.71. This is followed by the very strong correlations with judicial independence (0.53) and bureaucratic efficiency (0.52). The information access feature

while positive, correlates at a substantially lower level (0.10). The only negative correlation among the accountability features occurs with electoral competition (-0.14). Reflecting the range of the individual features, the aggregate accountability measure yields a 0.38 correlation with growth.

5-6.2 Bivariate Analysis

The bivariate comparison of prospering and lagging democratizers in East Asia reveals notable differences in their levels of income and accountability (see table 5-6.1). The distinctiveness in resource availability is most significantly seen in GNP/capita, on which the prosperers hold a commanding advantage ($t=9.55$). This is mirrored in the life expectancy ($t=6.92$) and infant mortality rates ($t=-5.46$). However, these advantages cannot necessarily be extended to human capital levels in general as the groups are not distinguished in their levels of education. The prosperers have also posted significantly more rapid growth rates over the 20 years of the study timeframe. The other category on which a major difference stands out is accountability ($t=8.81$). Given this, it is notable that the two groups are not distinguished on their levels of democracy, suggesting that the prosperers have established their advantage in the functional aspects of accountability. The comparison of democratizers in this region also reveals relatively little shifting in the differences between the two categories of democratizers in the 1990s. The differences in East Asia are more stable than for any of the other regions considered.

Table 5-6.1 Bivariate Comparison of Democratizers in East Asia

Variable	Post-1979	Post-1989
Primary School	t = -1.34	t = 0.17
Secondary School	t = -0.60	t = 0.53
Infant Mortality	t = -5.46	t = -4.68
Life Expectancy	t = 6.92	t = 5.54
Population	t = 3.64	t = 2.17
Urbanization	t = 2.32	t = 0.93
Trade	t = 0.96	t = -0.26
GNP/Capita	t = 9.55	t = 9.01
Annual Growth	t = 6.84	t = 5.09
Democracy	t = 0.06	t = 0.50
Accountability	t = 8.81	t = 8.49

5-6.3 Logit Estimates

Economic policy factors and accountability distinguish the prospering democratizers in the logit analysis (see table 5-6.2). In addition to starting level of income, capital expenditures are positively and inflation negatively associated with the prosperers. Gross domestic fixed investment and savings are also significant in separate estimations, though due to collinearity with capital, they are excluded from the base version. Trade and foreign direct investment do not emerge as significant factors in the logit analysis, evidently reflecting the lack of variation on these features in this region. No single factor dominates the estimation.

In addition to the aggregate accountability measure (t=2.14), the individual features that are significant in the logit analysis are bureaucratic efficiency (t=2.76), private sector independence (t=1.72), and judicial independence (t=1.38). The breadth of the factors that are significant for this region is notable. Moreover, it is the functional characteristics of accountability that distinguish the prosperers. A check for robustness

omitting Mongolia generates coefficients and levels of significance nearly identical to the full estimate.

Lagging the accountability measure five years generates the same level of significance in predicting prospering democratizer as in time zero ($t=2.40$). Full autocracy lagged 10 and 20 years generates moderately negative results ($t= -1.9$) indicating that prospering democratizers in East Asia were less likely to be oppressive than the laggards prior to the move towards democracy. Controlling for level of democracy, which is insignificant, does not affect the accountability term. This is consistent with the insignificant result for democracy in the bivariate analysis and the lack of distinctiveness of the electoral competition and information access features.

Table 5-6.2 Final Logit Estimate for East Asia

Dependent Variable: Prospering Democratizer						
Acctblty	GNP79	Inflation	Capital Expend	Constant	Pseudo R ²	n
0.369	0.005	-0.249	0.566	-23.672	0.82	114
(2.14)	(2.29)	(-1.96)	(2.25)	(-2.53)		

t-statistics in parentheses

5-6.4 OLS Analysis

The final growth regression for the East Asia democratizers is marked by strong macroeconomic characteristics and trade openness (see table 5-6.3). An increase in one percent of budget surplus is associated with a 0.80 percentage point increase in annual growth. Meanwhile, starting level of income is also positively related to growth, contrary

to what would be predicted by convergence theory. The human capital factors of infant mortality and life expectancy are also significant, as would be expected in endogenous growth theory, however, they are collinear with starting level of GNP/capita and therefore excluded from the base estimate.

The five-year accountability lag estimate best fits the data ($t=4.27$). Judicial independence ($t=6.13$) and bureaucratic efficiency ($t=4.62$) are the two individual accountability features that are most strongly associated with growth. The private credit feature is also significant ($t=1.84$), though not as strongly as might be expected given the strength of its bivariate growth correlation. This effect is likely picked up by the other economic factors in the model. The information access factor is positive but insignificant indicating that openness is broadly supportive of growth in this region. Meanwhile, electoral competitiveness is neutral. Overall, the explanatory power for aggregate accountability in this region largely comes from the functional accountability mechanisms.

Accountability lagged ten years is significant ($t=2.93$) as is accountability at time zero ($t=2.33$) demonstrating the robustness of this measure. Level of democracy is not significant in explaining growth, nor does it affect the significance of accountability. However, controlling for years since democratization is negatively significant, reflecting the relatively recent moves toward democracy of some of the rapid growers in this region. Full autocracy lagged ten years is negatively associated with growth ($t=-3.1$) providing support to the logit result that democratizers realizing higher rates of growth were not particularly oppressive prior to starting down the democratic path. The five year lagged

accountability result is replicated in the *gnpch5x3* ($t=4.30$) and *grw5b1ck* ($t=2.30$; $n=25$) estimates.

Table 5-6.3 Final OLS Estimates for East Asian Democratizers³⁴

Dependent Variable: Annual Growth (5 year average)

Acctblty	GNP79	Trade	Fiscal	Yrs Since	Intercep	Adj. R ²	n
Lag-5			Balance	Dmetrz			
0.219	0.0005	0.038	0.804	-0.425	-1.233	0.67	100
(4.27)	(1.75)	(3.04)	(9.22)	(-3.56)	(-1.16)		

Note: Results Cochrane-Orcutt corrected for first order auto-correlation; t-statistics in parentheses.

5-6.5 Summary of East Asia Results

Orthodox economic policies and strong functional accountability institutions are the distinguishing traits associated with prospering democratizers and growth (see table 5-6.4). Starting with higher levels of income, the prospering democratizers have been able to maintain relatively more rapid rates of growth. Recalling that the logit estimates generated a significant result for savings, prospering democratizers in East Asia have excelled at maintaining fiscal balances while directing a greater share of expenditures to capital allocations. In addition, it appears that prospering democratizers have turned their stronger health indicators into improved productivity.

Bureaucratic efficiency, judicial independence, and private credit stand out as the accountability features that most distinguish the prospering democratizers. Buoyed by these individual features, the aggregate accountability measure is also significant in both estimates. Taken as a whole, the institutional features are more consistently significant

³⁴ Excluding Mongolia did not significantly alter the results in the growth regressions. The trade coefficient and significance are somewhat reduced, however.

across estimates than the economic factors considered. The experience of the East Asian democratizers also highlights that there is not a single institutional formula for achieving relatively rapid economic growth. Whereas other regions' prospering democratizers were often distinguished by their level of information openness, the East Asian democratizers relied largely on the strength of their functional accountability institutions. Nonetheless, recalling that the mean electoral competition and information access scores of this region are comparable with global levels indicates that development of the more democratically-oriented features has not been ignored. This is also consistent with the finding that history of full autocracy is negatively associated with prospering democratizers and growth.

Table 5-6.4 Significant Factors for East Asian Democratizers

Factors Predicting Pros. Democratizers	Factors Predicting Growth
Accountability (t=2.14)	Accountability Lag 5 (t=4.27)
Bureaucratic Efficiency (t=2.76)	Bureaucratic Efficiency Lag-5 (t=4.62)
Private Credit (t=1.72)	Private Credit Lag-5 (t=1.84)
Judicial Independence (t=1.38)	Judicial Independence Lag-5 (t=6.13)
GNP79	GNP79
Inflation (-)	Trade
Capital Expenditure	Fiscal Balance
Savings *	Health Indicators*

* Significant but collinear with other variables in model.

5.7 MIDDLE EAST

Prospering Democratizers	Lagging Democratizers
Iran	Algeria
Jordan	Yemen
Tunisia	

5-7.1 Accountability Trends and Correlations

The accountability trend line for democratizers in the Middle East reveals that starting in the late 1980s, the prospering democratizers made advances that distinguished them from their counterparts (see figure 5-7.1). The lagging democratizers, in comparison, while experiencing greater fluctuations in their level of accountability, have demonstrated only modest gains. Examining trends on individual features reveals that the two groups deviate most on their level of private credit. Prosperers have nearly a two standard deviation advantage in this area throughout the entire period considered. In the 1990s, the private credit gap is expanded and differences on bureaucratic efficiency (one standard deviation) and legal systems (one standard deviation) also emerge. Overall, democratizers in the Middle East are one standard deviation below the global mean in their aggregate accountability level – posting lower levels on all features except for credit to private sector.

Figure 5-7.1 Accountability Trends for Democratizers in the Middle East

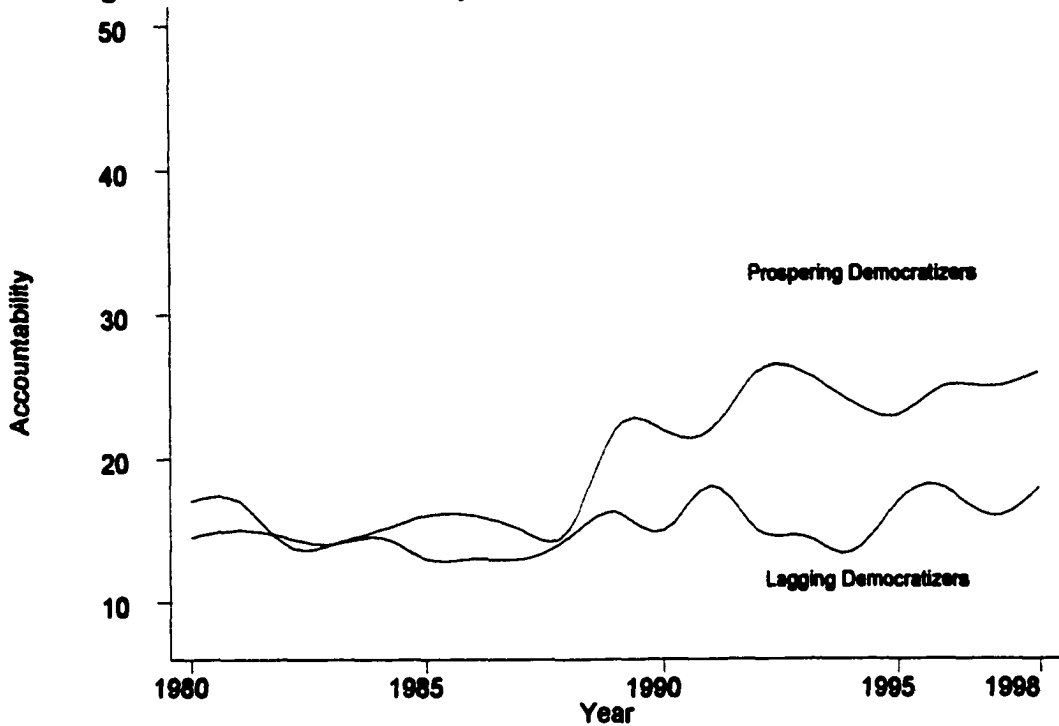
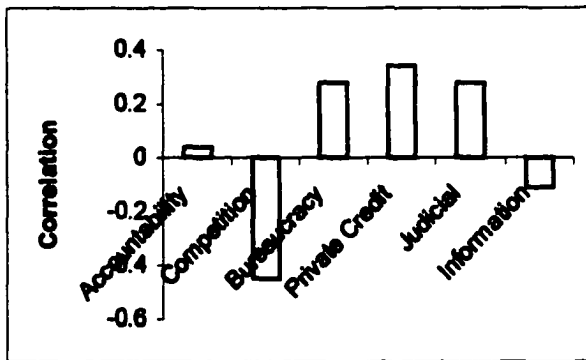


Figure 5-7.2. Growth Correlations by Accountability Feature



Democratizers in the Middle East exhibit a wide variance in the relationship of individual accountability features and growth.

Private credit, bureaucratic efficiency, and judicial independence all generate correlations of between 0.28 to 0.34 (see figure 5-7.2). Meanwhile, electoral competitiveness exhibits a strong negative association (-0.45).

5-7.2 Bivariate Analysis

Prospering democratizers in the Middle East demonstrate a variety of modest

advantages over the lagging democratizers in their background characteristics (see table 5-7.1). Prospering democratizers have higher levels of GNP/capita, which is mirrored in their superior levels of life expectancy and infant mortality. However, the prosperers have lower levels of primary education suggesting that there are competing influences affecting the respective human capital indicators. The prosperers are also more engaged in trade. Demographically, the prosperers are substantially more urbanized ($t=8.8$), however, the two groups of democratizers are not distinguished by their population sizes. In institutional terms, prospering democratizers have substantially stronger accountability institutions, which have become further distinguished in the 1990s ($t=6.1$). In contrast, the prospering democratizers do not distinguish themselves on their level of democracy.

Table 5-7.1 Bivariate Comparisons of Democratizers in the Mid-East

Variable	Post-1979	Post-1989
Primary Education	$t = -2.40$	$t = -2.27$
Secondary Education	$t = -0.19$	$t = -0.22$
Infant Morality Rate	$t = -4.00$	$t = -3.46$
Life Expectancy	$t = 3.50$	$t = 2.72$
Urbanization	$t = 8.80$	$t = 5.85$
Population	$t = 0.87$	$t = 0.51$
Trade	$t = 4.20$	$t = 3.55$
GNP/Capita	$t = 2.78$	$t = 4.17$
Annual GNP/C Growth	$t = 1.40$	$t = 2.90$
Democracy	$t = 1.30$	$t = 1.45$
Accountability	$t = 4.90$	$t = 6.10$

5-7.3 Logit Analysis

The logit analysis demonstrates that the prospering democratizers are distinguished by their higher levels of health capacity and trade. The infant mortality rate is collinear with the life expectancy, income, and urbanization factors and therefore reflective of a

broader range of resource characteristics. Notably, this does not include education, which is not significant in these estimates. The significance of the trade variable confirms the greater outward economic orientation of the prospering democratizers. This is supported by the prosperers' relatively higher levels of foreign direct investment (excluded due to collinearity with trade).

While accountability is robust under various combinations of factors the strength of significance in the final estimate is modest. The marginal significance is a reflection of the varied associations of the individual features. Private credit is strongly significant ($t=2.53$) and indicates a relatively greater commitment on the part of the prospering democratizers to capitalist economic processes. Information access is also positive though insignificant ($t=0.84$). However, the other accountability features are neutral in their association with the prospering democratizers. Therefore, the prospering democratizers in this region have a relatively narrow base of distinctiveness on their accountability structures. This narrowness may also be a reflection of the relatively recent advances the prosperers have made in their levels of accountability. The 10 and 15 year lagged intervals of accountability are negative for this region ($t=-2.59$ and $t=-1.78$, respectively). This is indicative of the extent of transformation that has occurred. Controlling for level of democracy yields a negatively significant result for prospering democratizers in this region ($t=-2.28$) indicating that the prosperers have exhibited lower levels of democracy for much of the study timeframe. Full autocracy is insignificant in its association with prospering democratizers in the present and lagged timeframes, however.

Table 5-7.2 Final Logit Estimates for the Middle East Democratizers.

Dependent Variable: Prospering Democratizer

Acctblty	IMR	Trade	Constant	Pseudo R ²	n
0.968	-0.047	0.015	0.457	0.27	85
(1.32)	(-3.19)	(1.67)	(0.28)		

t-statistics in parentheses

5-7.4 OLS Analysis

Results from the multivariate growth analysis indicate that institutional and political factors explain a great deal of the variance in growth in this region (see table 5-7.3). Conflict is the single factor that is most detrimental to growth ($t=-4.45$), reflecting the damaging effects of wars among countries in this sample – Iran, Algeria, and Yemen. The coefficient for this factor indicates that the existence of conflict is associated with a decline in annual growth of 4.5 percent.

In terms of economic factors, a greater ability to accumulate domestic fixed investment ($t=2.99$) stands out as a priority. Life expectancy, infant mortality rate, and starting level of income are moderately significant with the former included in the final model as the better fit. An unexpected finding, given the bivariate and logit results, is that trade and particularly exports are negatively associated with growth in this region. This observation appears to capture a negative growth-fuel export relationship for this group of countries during much of the study time period (not included due to collinearity). Urbanization does not provide explanatory power for growth in this region.

Comparatively strong accountability institutions, meanwhile, are an important positive influence on growth for this region's democratizers. The five year lagged interval

of this measure best fits the model ($t=3.13$). Remarkably, the only lagged individual features that are also significant are those capturing the more direct democratic qualities – electoral competition ($t=3.87$) and information access ($t=2.03$). This is a contrary finding to that observed in the individual feature growth correlations and the logit estimates.

Apparently after controlling for other factors, previous advances in political pluralism and tolerance of opposing views do seem to be particularly important qualities for promoting growth among this region's democratizers. Accountability lagged 15 years is also positive ($t=1.67$), though accountability in the same year estimate is insignificant. The insignificant same year result likely reflects the relatively few years in which accountability and growth have been simultaneously expanding as well as the advances the laggards have made in their levels of electoral competition in the 1990s. The prosperers have strengthened their legal systems in this period, which is the single accountability feature that is significant with growth in the same year model ($t=2.85$). The significance of the five year lag of accountability is supported by the `gnpch5x3` estimate ($t=2.98$) and the `grw5blk` regression ($t=1.65$; $n=21$).

The importance of changing institutional structures of governance for growth in this region is supported by the results of other lagged estimates. At year zero, democracy is negatively associated with growth. However, when lagged five years or more democracy is insignificant (rather than negative). The divergent results of the democracy and information access/electoral competitiveness features reflect the smaller variance of democratic change in this region. Full autocracy lagged ten years is negatively associated

with growth ($t=-1.99$). In short, institutional history in this region has a notable effect on growth. Democratizing states with relatively greater political competition and tolerance in this region, while not democratic, grow more rapidly.

Table 5-7.3 Final OLS Estimates for Middle East Democratizers

Dependent Variable: Annual Growth (5 year average)

Acctblty	Life Ex	Export	Dom. Fix I	Conflict	Intercep	Adj. R ²	n
Lag-5							
0.274	0.116	-0.093	0.203	-4.556	-13.88	0.43	83
(3.13)	(1.46)	(-3.10)	(2.99)	(-4.45)	(-3.11)		

Note: Results Cochrane-Orcutt corrected for first order auto-correlation; t-statistics in parentheses

5-7.5 Summary of Middle East Estimates

The analysis of co-associations in the Middle East yields few consistent results (see table 5-7.4). Only certain human capital qualities and accountability are significant in predicting both prospering democratizers and growth. This highlights the stronger health indicators (infant mortality and life expectancy) enjoyed by the prospering democratizers - factors closely associated with initial income levels. Notably, they do not extend to education – in which the laggards have an advantage and which are not associated with growth. Gross domestic fixed investment and conflict emerge as important factors for explaining growth for democratizers in this region. However, these factors are not significantly associated with the prospering democratizers. Trade is a characteristic of prospering democratizers though negatively associated with growth, apparently reflecting the negative fuel export-growth relationship.

The accountability-growth relationship among the Middle Eastern democratizers is

evolving. The prospering democratizers in this region are distinguished only by their relatively greater private sector accountability feature. In this way, their accountability distinctiveness is narrower than in other regions. This is unanticipated given the wide difference found in the bivariate comparisons of accountability. However, this may be a result of the changing composition of the aggregate accountability measure for both the prospering and lagging democratizers. While prosperers exhibited higher levels of electoral competition in the 1980s, their distinctiveness is captured in the areas of credit to private sector and judicial independence in the 1990s. Meanwhile, the relatively short period in which both accountability and growth have been growing may explain the muted (same year) accountability association in the growth regression - and the reason a stronger relationship is observed when accountability is lagged. This lagged relationship is led by positive associations in the electoral competitiveness and information access features. This suggests that the political reforms undertaken among democratizers in this region have contributed to subsequent economic liberalization and growth. The most consistent institution-growth relationship observed is with regards to autocracy. Historical experience with full autocracy is negatively associated with prospering democratizers and with growth. In sum, continued efforts at modest political reform in these democratizers hold promise for future growth. An apparent broadening of the prosperers' accountability systems in the 1990s augments the likelihood of this outcome.

Table 5-7.4 Summary of Significant Factors for Middle Eastern Democratizers

Factors Predicting Pros. Democratizers	Factors Predicting Growth
Accountability (t=1.32)	Accountability Lag-5 (t=3.13)
Private Sector (t=2.53)	Electoral Competitiveness (t=3.87)
	Information Access (t=2.03)
Infant Mortality Rate (-)	Life Expectancy/IMR (-)
	Gross Domestic Fixed Investment
Trade	Exports (-)
	Conflict (-)

5.8 WESTERN EUROPE

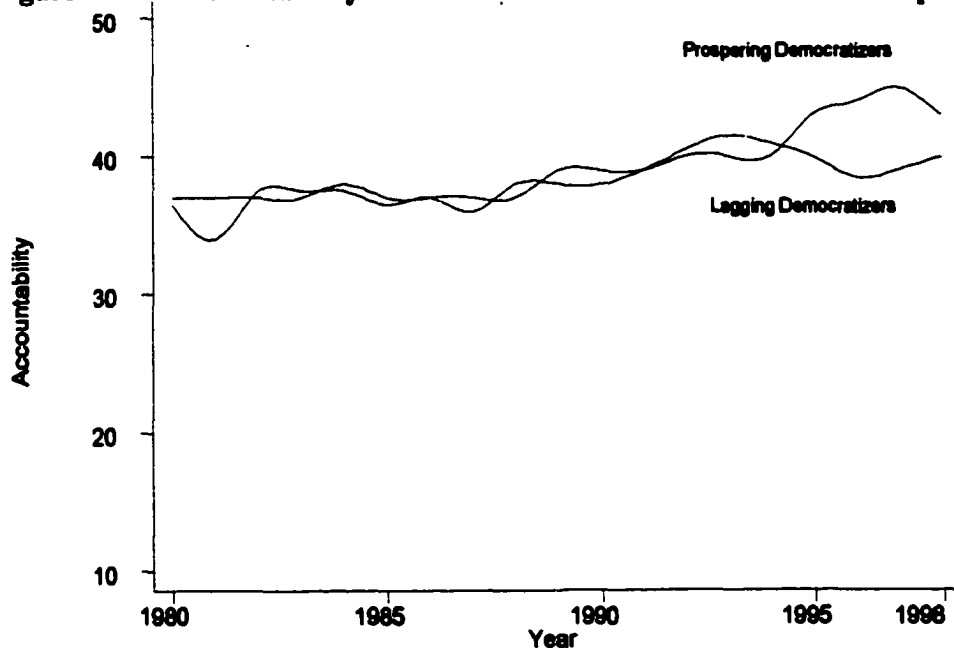
Prospering Democratizers
Portugal
Spain
Turkey

Lagging Democratizers
France
Greece

5-8.1 Descriptive Statistics and Accountability Trends

Democratizers in Western Europe are closely comparable in their levels of accountability (as seen in figure 5-8.1). Despite their relatively high starting levels, they have made steady advances in their levels of accountability over the course of the past two decades. Comparing the two groups on individual accountability features also reveals close similarities. The one exception is on bureaucratic efficiency, on which the laggards have a one standard deviation advantage.

Figure 5-8.1 Accountability Trends for Democratizers in Western Europe



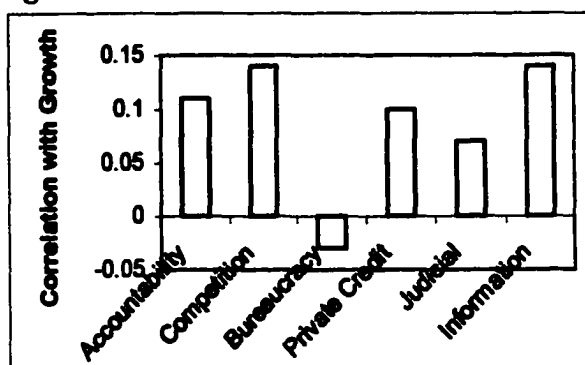
5-8.2 Bivariate Analysis

The bivariate analysis for the West European democratizers demonstrates a breadth, though not depth, of differences (see table 5-8.1). The prospering democratizers in this region are substantially poorer, less educated, and facing greater health risks than the lagging democratizers. They are also engaged in slightly higher levels of trade. The relatively faster growth of the poorer democratizers in this region fits the convergence pattern. The two groups are indistinguishable in their levels of democracy.

Table 5-8.1 Bivariate Comparison of Democratizers in Western Europe

Variable	Post-1979	Post-1989
Primary School	t = -3.60	t = -2.32
Secondary School	t = -7.30	t = -3.87
Infant Mortality	t = 3.82	t = 3.66
Life Expectancy	t = -4.20	t = -4.25
Population	t = 0.24	t = 0.30
Urbanization	t = -2.87	t = -0.35
Trade	t = 2.10	t = 2.50
GNP/Capita	t = -7.30	t = -4.71
Annual Growth	t = 2.40	t = 1.96
Democracy	t = 0.24	t = 0.84
Accountability	t = -2.30	t = -1.30

Figure 5-8.2 Growth Correlations with Accountability Features



Correlating individual accountability features with annual average growth reveals a generally balanced relationship (see figure 5-8.2). Of the five features, four fall in

the 0.07-0.14 range, as does aggregate accountability at 0.11. Bureaucratic efficiency

stands out as the feature with a slightly negative growth correlation. Interestingly, this is the one feature on which the two groups deviated in the comparison of means (with the laggards exhibiting more efficient bureaucratic systems).

5-8.3 Logit Analysis

Human capital, level of foreign direct investment, and accountability differences distinguish the Western European prospering democratizers (see table 5-8.2). The negatively significant secondary education factor is representative of a broader category of human capital characteristics being strongly collinear with life expectancy and starting level of income.

The prospering democratizers exhibit higher levels of accountability once income level and human capital are considered. Individual accountability features that are significant include judicial independence ($t=3.22$), autonomous private sector ($t=2.99$), and bureaucratic efficiency ($t=2.71$). Information access is also marginally significant ($t=1.39$) indicating that prospering democratizers in this region are distinct on a wide range of institutions. The breadth of significance among these accountability features is unanticipated given the income and human capital advantages of the laggards. The robustness of the aggregate accountability measure is also seen in its strength of significance ($t=3.96$) relative to the individual measures, indicating that the aggregate value encompasses meaning beyond the sum of its parts.

Lagging accountability five years is significant ($t=2.1$), reflecting a robust association. This fades at lag-10 ($t=1.2$), however. The level of democracy also

demonstrates significance ($t=2.3$), when included in the model. This significance is maintained at lag-5 ($t=2.5$), though not at lag-10. At lag-20, democracy is negatively associated with prospering democratizers ($t=-2.70$). This pattern reconciles with the relatively rapid and extensive transition the prospering democratizers have made in raising their levels of democracy over this time period. Controlling for level of democracy and years since democracy does not change the level of accountability's significance in the logit estimates. Prospering democratizers were more likely to have been full autocracies in this region.

Table 5-8.2 Final Logit Estimate for Western European Democratizers

Dependent Variable: Prospering Democratizer					
Acctblty	Sec. Educ	FDI	Constant	Pseudo R ²	n
0.604 (3.96)	-0.528 (-4.31)	3.523 (3.15)	-18.412 (3.59)	0.64	94

t-statistics in parentheses

5-8.4 OLS Analysis

A range of economic, human capital, and institutional factors are significant in explaining growth among the West European democratizers (see table 5-8.3). The foreign direct investment relationship generates the largest coefficient representing a 1.2 percentage point increase in growth for every one percent increase in FDI. The strong negative association between fuel imports and growth is intuitively reasonable given the widespread reliance on fuel for these economies. Life expectancy is negatively related to growth. This result appears to capture the differences in initial resource allocations moreso

than human capital per se. The collinearity between life expectancy and starting level of income is very strong (with the former fitting the model with substantially less multicollinearity). Meanwhile, infant mortality is not significant and the education factors are marginally positive, though collinear, with life expectancy.

The aggregate accountability measure is a significant predictor of growth ($t=2.59$). In addition to accountability, electoral competitiveness ($t=2.58$), autonomous private sector ($t=2.37$), and information access ($t=1.70$) are all significant. The other accountability features – bureaucratic efficiency and judicial independence are positive though insignificant. The consistency of the association of the accountability features with growth in this region is notable. Each appears to be contributing something unique. The aggregate measure carries more explanatory power for growth than any individual measure indicating a cumulative effect. The robustness of the accountability estimate is verified in the $gnpch5x3$ proxy regression ($t=2.0$), though $grw5blck$ is insignificant ($t=0.87$; $n=24$).

Controlling for level of democracy ($t=3.53$) reduces the explanatory value of accountability, as does the years since democratization ($t= -3.11$). However, in both estimates accountability remains significant verifying that the measure is capturing a broader institutional pattern than democracy alone. Lagging accountability generates increasingly negative results at the five through fifteen year intervals ($t=-3.41$ for lag-15). The same pattern holds for democracy lags, though less strongly. These findings reflect that the relatively faster growing democratizers are emerging from lower levels of

accountability and democracy. Mirroring these are the modestly positive levels of significance for the 10 and 20 year lags of full autocracy for this region ($t= 1.44$ and $t=1.92$, respectively). The rate of change of these institutional accountability features indicates that the hold of path dependency has not been prohibitive to transformational alterations.

Table 5-8.3 Final OLS Estimate for Western European Democratizers
Dependent Variable: Annual Growth (5 year average)

Acctblty	Life Ex	FDI	Fuel Imports	Intercep	Adj. R ²	n
0.053	-.271	1.211	-0.056	19.995	0.54	94
(2.59)	(-6.96)	(7.39)	(-4.52)	(8.04)		

Note: Results corrected for first order auto-correlation using Cochrane-Orcutt; t-statistics in parentheses.

5-8.5 Summary of Western Europe Results

The characteristics distinguishing prospering democratizers closely match those factors explaining growth in the Western Europe sample (see table 5-8.4). Specifically, lower starting resource allocations coupled with higher rates of foreign direct investment are mutually significant. The results from these estimates match the outcomes predicted by convergence theory. Of the regions considered, the West European sample best fits this theory, perhaps due to the relative homogeneity of human capital in this region.

Accountability also emerges as a robust factor in distinguishing both prospering democratizers and growth. The multivariate analyses for this region are particularly effective in demonstrating the significance of the accountability factors given that these features are of marginal or negative significance in the bivariate analysis. In addition to the aggregate accountability measure, which given its balance emerges as the strongest

institutional factor, credit to private sector stands out as particularly important in both sets of estimates. This finding indicates that an autonomous private sector remains an important factor to growth even among high-income countries. Information access also registers as marginally significant in both tests. Interestingly, there is an inconsistency between the logit and OLS estimates for the other accountability features. Bureaucratic efficiency, judicial independence, and electoral competitiveness are each significant in one estimate or the other but not in both. Notably, however, all of the individual features are positive in both sets of estimates.

Table 5-8.4 Factors Significant with Western European Democratizers

Factors Predicting Prosp. Democrtzrs	Factors Predicting Growth
Accountability (t=3.96)	Accountability (t=2.59)
Private Sector Credit (t=2.99)	Private Sector Credit (t=2.37)
Judicial Independence (t=3.20)	Electoral Competitiveness (t=2.58)
Information Access (t=1.39)	Information Access (t=1.70)
Bureaucratic Efficiency (t=2.70)	
Foreign Direct Investment	Foreign Direct Investment
Secondary Education (-)	Life Expectancy (-)
GNP79* (-)	Fuel Imports (-)

5.9 FULL SAMPLE OF DEMOCRATIZERS

This study has approached the examination of contemporary democratizers from an intra-regional perspective in order to better identify distinctions. However, for comparative purposes, estimates for a full sample of democratizers have also been undertaken. These results are reported below.

5-9.1 Accountability Trends and Growth Correlations

The full sample of prospering democratizers have maintained a higher accountability level than the lagging democratizers throughout the 20 year period observed (see figure 5-9.1). After the period of transition, a time at which both prospering and lagging democratizers experienced a rapid increase in their levels of accountability, the prospering democratizers are again distinguished by a higher level of accountability. While not as visually dramatic as the regional trends, the differences between the two categories are strongly significant in the full democratizer sample ($t=7.05$). Prospering democratizers exceed the laggards on each of the individual accountability factors. The features on which the greatest differentials are observed are the legal system, private credit, and information access variables where the prosperers post mean scores that are 0.5 standard deviation above the laggards. Democratizers in Central Europe and the former Soviet Union made the largest aggregate gains in their mean accountability levels, 9.5 and 7.5 points respectively, as seen through comparisons between the post 1979 and post-1989 intervals.

Figure 5-9.1 Accountability Trend Line for Prospering and Lagging Democratizers

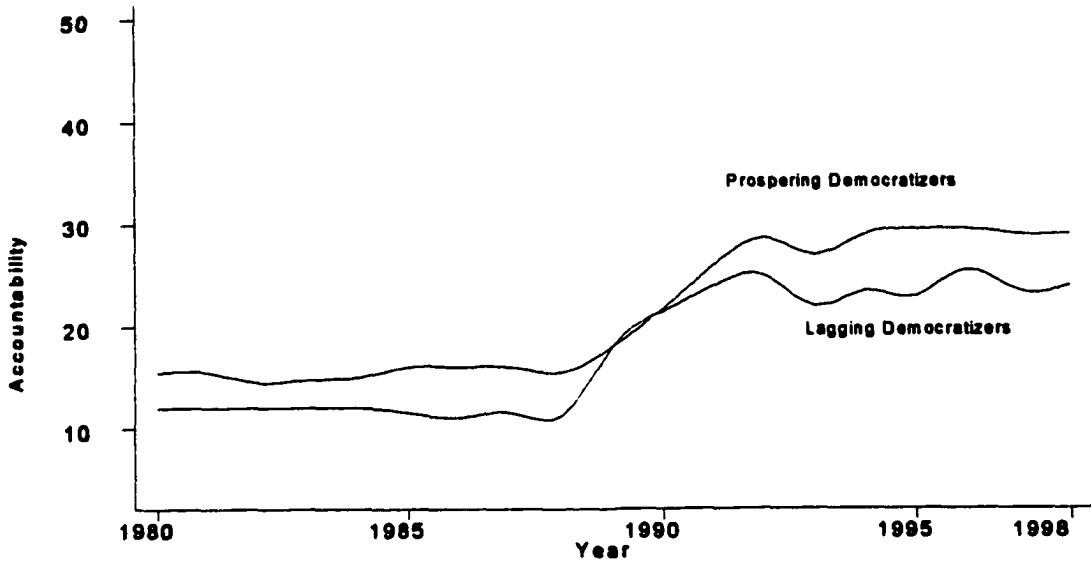
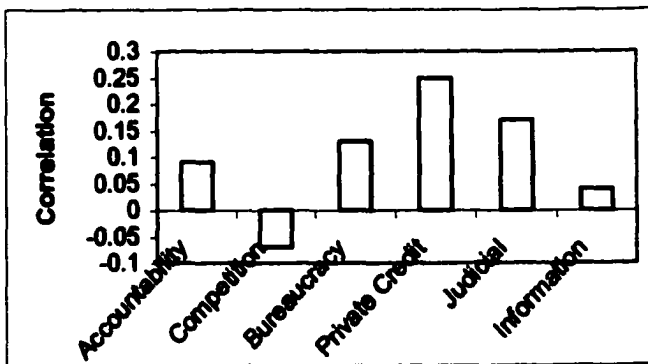


Figure 5-9.2. Growth Correlations by Individual Feature



Correlations of the individual accountability features with growth reveal a sharp distinction between the functional and democratically-

oriented factors (see figure 5-9.2). Credit to private sector, judicial independence, and bureaucratic efficiency all post moderately strong correlations ranging from 0.13 to 0.25, respectively. Meanwhile, information access is neutral and electoral competition negative in their associations with growth. As a result of this bifurcated result, the aggregate

accountability measure generates a modest 0.09 correlation with growth – lower than the result for any of the individual regions except the Middle East. The aggregation of democratizers obscures the relative strength of the accountability-growth relationship observed in the regional results.

5-9.2 Bivariate Analysis

The accountability measure reveals the starkest distinction of any of the factors considered in the bivariate analysis (see table 5-9.1). Level of democracy is also significantly associated with prospering democratizers. Among the other factors, only the urbanization ($t=4.55$) and population size ($t=3.43$) are strongly significant. A notable observation from these comparisons is the declining difference between the two categories in the post-1989 results. Every factor considered, with the exception of growth (subsequently GNP/capita) and infant mortality, yields a more modest difference in the latter period. (The expanding growth differential is also influenced by the sharply negative growth rates of the FSU laggards). The contraction in bivariate comparisons between the groups would indicate that changes undertaken in the 1990s are resulting in a relatively more homogeneous category of democratizers than existed previously. As with the growth correlations, however, the results from this aggregate sample present a more moderate pattern of distinctions than that seen at the regional level.

Table 5-9.1. Comparison of Democratizers in Full Sample

Variables	--- t-scores ---	
	1979	1989
Primary School	-2.19	-0.87
Secondary School	-1.86	-0.09
Life Expectancy	2.51	1.74
Infant Mortality Rate	-1.74	-1.80
Trade	1.16	0.81
Population	3.43	2.42
Urbanization	4.55	3.57
GNP/Capita	1.48	1.68
Annual Growth	4.97	6.67
Accountability	7.05	6.16
Democracy	3.78	2.57

5-9.3 Logit Analysis

Relatively few factors demonstrate significance in the logit analysis of the full sample of democratizers (see table 5-9.2). The main policy factor on which prospering democratizers are distinguished is gross domestic fixed investment. Of the demographic and economic factors – urbanization and fuel imports – present the strongest levels of significance ($t=4.62$ and $t=4.63$, respectively). The urbanization figure is difficult to interpret since starting level of GNP/capita, which is collinear, is negative and significant. The significance of the fuel imports factor indicates that prospering democratizers have been able to grow despite the additional economic challenge presented by dependence on volatile fluctuations in fuel prices.

Institutional factors also emerge as distinctive. The aggregate accountability measure is significant ($t=2.30$), as are four of the five individual measures – judicial independence ($t=5.05$), information access ($t=2.15$), credit to private sector (1.74), and

bureaucratic efficiency ($t=1.41$). Judicial independence is notable among the accountability features for the extent of its distinctiveness for the prosperers. Electoral competition generates a negative though insignificant coefficient ($t=-0.97$). The more diverse full democratizer sample also allows for a comparison of various legal histories. The results show that democratizers with a British legal code are more apt to be classified in the prospering category. Conversely, democratizing societies that inherited a socialist legal code are more closely associated with the lagging democratizer category. Including democracy does not affect the significance of accountability - reflecting the breadth of this measure.

Lagged estimates yield relatively little additional clarification. Accountability lagged ten years is positively associated with prospering democratizers, though insignificant ($t=1.24$). Democracy and its lags are also generally insignificant – though negative. At lag-15, democracy does generate a significant and negative result ($t= -2.62$), reflecting the major transformation from low levels of democracy undertaken by many of the prospering democratizers since the end of the Cold War. However, as with the bivariate comparisons, this result smoothes over the substantial regional variations in institutional history observed.

Table 5-9.2. Final Logit Estimates for Full Sample of Democratizers

Dependent Variable: Prospering Democratizer								
Acctblty	Urban	DFI	Fuel IM	Legal Brit	Legal Social.	Constant	Pseudo R ²	n
0.016 (2.30)	0.017 (4.62)	0.028 (3.32)	0.038 (4.63)	0.727 (4.38)	-0.855 (-5.43)	-1.831 (-6.47)	0.07	1489

t-statistics in parentheses

5-9.4 OLS Analysis³⁵

Results from the growth regressions using the full sample of democratizers reveal a large number of significant factors (see table 5-9.3). This is due to the greater variation on both the dependent and explanatory variables presented by the larger sample. Of the economic factors, gross domestic fixed investment stands out in its strong association with growth ($t=12.31$). Reinforcing the importance of investment to growth, foreign direct investment is also significantly positive ($t=8.02$). This is the policy variable with the largest growth coefficient – a one percent increase in FDI is associated with a 0.34 percentage point increase in annual growth. Capital expenditures are also significant – though at a more modest level ($t=2.65$). Inflation generates a strong negative association ($t=-5.49$) as does fuel imports ($t=-2.45$). Of the economic factors that are significant, only the strong negative result on trade is unexpected ($t=-6.26$). Trade is negatively associated with growth only in the Central Europe, FSU, and Middle East samples. Nevertheless, it is negative here, even when including various regional controls. Finally, conflict does generate a negative association with growth ($t=-3.92$). Democratizing countries engaged in conflict have annual growth rates that are 1.13 percentage points lower than democratizers that avoid war, on average.

Considering institutional contributions to growth, accountability is robustly significant ($t=3.30$). This is significant at all intervals considered from time zero ($t=1.96$)

35 In the spirit of the comparative aims of the full sample section, a replication of Barro's 1997 democracy-growth estimates was undertaken with this study's democratizer sample and timeframe. In short, few similarities are found. For a summary of these results, see Appendix I.

to lag-15 ($t=3.55$). (The lag-5 interval is included in the model for its fit and consistency). Of the individual accountability features (at lag-5), information access ($t=3.47$), judicial independence ($t=1.64$), and electoral competition ($t=1.62$) are also significant. When democracy, lagged 5 years, is included in the base estimate, it is strongly positive in its association with growth ($t=3.08$) and accountability drops from significance. This reflects the importance of the democratic features in the accountability measure's significance for the full sample. However, unlike the longer accountability lags, democracy is insignificant when considered at lag-10, -15. Democracy is also moderately significant in the same year estimate ($t=1.55$). Therefore, while similar, the accountability and democracy measures are capturing differing institutional processes in this sample. Full autocracy is negatively significant with growth at intervals from time zero to lag-20. It is most strongly significant at lag-10 ($t=-4.57$). Democratizers with legal systems adopted from the German (Korea, Taiwan), British, and French models are also more strongly associated with rapid growth. The significance of accountability (lag-5) in the base estimate is confirmed under the `gnpch5x3` dependent variable ($t=2.72$), though not with the `grw5blck` ($t=0.66$; $n=370$).

Table 5-9.3 Final OLS Estimates for Full Sample of Democratizers

Dependent Variable: Annual Growth (5 year average)

Variable	Coefficient	t-score
Acctnbly Lag-5	0.040	3.30
Trade	-0.021	-6.26
Gr. Domestic Inv.	0.192	12.31
For. Direct Inv.	0.343	8.02
Inflation	-0.001	- 5.49
Capital Expend.	0.029	2.65
Fuel Imports	-0.029	-2.45
Conflict	-1.133	- 3.92
Legal-German	6.268	8.85
Legal-British	1.478	3.88
Legal-French	2.024	6.65
Africa	0.533	2.01
South Asia	3.031	6.19
East Asia	1.386	3.21
FSU	-2.276	- 6.41
Intercept	-5.242	- 8.85
n	1425	
Adjusted R ²	0.44	

Note: Results Cochrane-Orcutt corrected for first order auto-correlation

5-9.5 Summary of Full Sample of Democratizers

Despite the large number of factors found to be significant in the full sample growth regression, relatively few variables are mutually significant in explaining prospering democratizers and growth (see table 5-9.4). The only economic factor in this category is gross domestic fixed investment, which is the indicator with the strongest degree of significance in both sets of estimates. Outside of this, only institutional factors are mutually significant. The aggregate accountability measure is robust in both tests. Of the individual measures, strength of legal system and information access are also strongly

associated with both dependent variables considered. All five of the features are significant in one or the other of the final estimates, however. This indicates that each of the accountability individual features considered is associated in some way with the distinctness of the more rapidly growing democratizers. In addition to these features, democratizers that inherited a British legal system are more likely to be in the prospering category and growing more rapidly.

For the purposes of this analysis, the main value of the full sample of democratizer estimates is as a base of comparison with the regional findings. In this light, the full sample results are revealing for what they do not capture as much as for what is significant. The wide differences in factors of significance between regions (e.g. East Asia and the former Soviet Union) counteract each other leading to an aggregate result with little comparability to the experiences of individual regions. In the process, many important nuances and insights applicable to the regions are left uncovered. Therefore, while there is value in assessing the full sample, this should be interpreted within the very broad context that it represents.

Table 5-9.4 Summary of Factors Significant for Full Sample of Democratizers

Factors Predicting Prosp. Democratizers.	Factors Associated with Growth
Accountability (t=2.30)	Accountability Lag-5 (t=3.30)
Legal System (t=5.05)	Legal System Lag-5 (t=1.64)
Information Access (t=2.15)	Information Access Lag-5 (t=3.47)
Credit to Private Sector (t=1.74)	Electoral Competit. Lag-5 (t=1.62)
Bureaucratic Efficiency (t=1.41)	
Gross Domestic Fixed Investment	Gross Domestic Fixed Investment
British Legal Code	British Legal Code
Urbanization	Foreign Direct Investment
Fuel Imports	Capital Expenditures
Socialist Legal Code (-)	Trade (-)
	Inflation (-)
	Conflict (-)
	Fuel Imports (-)
	German Legal Code
	French Legal Code
	Africa
	South Asia
	East Asia
	FSU (-)

5.10 SUMMARY OF CROSS-REGIONAL RESULTS

While this study has focused on the intra-regional differences among democratizers, insights can be gained by a review of the cross-regional findings. This section consolidates the findings from the logit, growth (OLS), and fixed effects estimates respectively, so as to facilitate this comparison (see tables 5-10.1-3 on pages 176-178). Table 5-10.4 summarizes the results for this chapter by consolidating the key regional findings from each tool in a single format.

LOGIT ESTIMATES

The most immediate observation that emerges from a comparison of logit estimates is the consistency of significance of the aggregate accountability measure. Accountability is at least moderately significant in distinguishing prospering democratizers in every region except South Asia. The robustness of this variable indicates that strong accountability structures are a distinctive characteristic of prospering democratizers regardless of the context they are facing.

Trade is the next most commonly distinctive feature of prospering democratizers. Prospering democratizers are more open to international exchange in Latin America, Africa, the FSU, and the Middle East. The reverse is true for prospering democratizers in Central Europe. Nonetheless, the propensity for prospering democratizers to distinguish themselves on their level of trade is consistent with the greater levels of transparency, lack of protection for favored firms, and respect for contracts that would be expected from societies exhibiting greater levels of accountability.

Reviewing the other factors considered in the logit analysis is revealing for their lack of consistency in distinguishing prospering democratizers. Most features are significant in only two or three regions, underlining the diversity of the prospering democratizers' distinctiveness across regions. This lack of consistency may reflect the limited variance of these features within individual regions as well as the lower priority a particular factor may have at a given stage of economic development. Nonetheless, this observation further frames the meaningfulness of the accountability results.

Foreign direct investment posts mixed associations. Prospering democratizers in Africa and South Asia receive proportionally less foreign direct investment, though foreign direct investment is a clear identifying trait for the Western European prospering democratizers. Given the lack of significance in the other regions, it can be concluded that prospering democratizers are not distinguished by the levels of foreign direct investment they receive. A similarly sporadic pattern emerges for the domestic fixed investment and capital expenditure results. African prospering democratizers have mobilized higher levels of domestic resources than their counterparts while the reverse observation is true for the FSU. Meanwhile, the East Asian prospering democratizers excel in their level of capital expenditure – though this distinctiveness only holds for this single region.

Prospering democratizers do appear to start with higher initial resource levels. Prospering democratizers in Latin America, Central Europe, and East Asia have significantly higher levels of per capita incomes than laggards in their respective regions. This is mirrored by the lower infant mortality rates found among prospering democratizers

in the FSU and Middle East. The association between starting resource level and prospering democratizer is narrowed when education factors are considered, however. In Africa and Western Europe, prospering democratizers have significantly lower levels of educational participation, consistent with lower income levels.

In sum, outside of accountability and to a lesser extent trade, very few cross-regional generalizations can be made from the logit analysis. Prospering democratizers do not distinguish themselves in a typical pattern across contexts.

GROWTH ESTIMATES

Comparing the regional growth regressions confirms the consistency of significance of accountability in explaining growth among democratizers. Accountability is an important explanatory factor in every region considered. This is the only variable included in the analysis for which this applies. There is a wide range in the size of the accountability coefficients across regions, however. The East Asian and Middle Eastern estimates produce the largest coefficients, indicating that a one point increase in the accountability rate adds two tenths of a percent to the average annual growth rate, holding other factors constant. The Central European and former Soviet Union estimates also generate notable growth coefficients for accountability (roughly 0.15). The accountability coefficients for Latin America, Africa, South Asia and Western Europe are smaller. For these regions, on average, a ten point gain in accountability is associated with a half percentage point increase in annual growth. While modest, the significance of these relationships reflect the consistent advances in growth made in these regions during and

subsequent to the period of strengthening accountability. Taking the mean of the eight regional coefficients, a five point increase in accountability (i.e. slightly less than a half of a standard deviation) is associated with a 0.6 percentage point increase in annual growth. In short, there is a substantial accountability-growth linkage that can be observed among contemporary democratizers.

Domestic Fixed Investment stands out as the economic factor most consistently associated with growth across regions. It is consistent in six of the eight regions considered. It also posts a consistently large growth coefficient, ranging from a tenth of a percent in Central Europe to three tenths in the former Soviet Union. Given its relative consistency and impact, gross domestic fixed investment is a powerfully important trait for promoting growth among democratizers.

While not as consistent across regions, foreign direct investment produces the largest direct impact on growth, on average. Growth among the Western European democratizers is enhanced by 1.2 percent for every one percent increase in foreign direct investment. African and FSU democratizers, with limited sources of capital, also post noteworthy coefficients on this factor (0.57 and 0.79, respectively) highlighting the importance of international engagement for their economic development. These results reveal the powerful influence international actors can have on the economic outcomes of democratizers through foreign direct investment.

The cross-regional findings on trade are mixed. It is significant in nearly every region, however, the signs vary. Trade is positively associated with growth in Latin

America, Africa, South Asia, and East Asia. However, it is negatively related to growth in Central Europe, the FSU, and the Middle East. Interestingly, the full sample estimate also posts a negative trade-growth relationship, evidently capturing the strength of the negative relationships in the latter three regions. The size of these coefficients (in both directions) are relatively modest, however.

Another notable observation from the cross-regional growth estimates is the importance of fiscally conservative policies. Taking the fiscal balance, government consumption, and inflation variables together, the signs are all consistent. Democratizing governments that foster macroeconomic stability through constrained fiscal and monetary policies are more likely to realize higher levels of growth. The size of the respective coefficients vary widely across regions, however. For example, a one percent increase in fiscal surplus is associated with nearly a percentage point advance in annual growth on average in East Asia, while the effect is 0.14 percent in Africa.

Finally, the results from this analysis show little support for the determinative importance of initial resource levels in assessing growth. GNP/capita in 1979 is positively associated with growth in Latin America and East Asia. Democratizers in these regions that started with a \$1,000 advantage in per capita incomes are associated with nearly a half a percentage point more rapid growth per year. However, life expectancy rates (a proxy for income) in Western Europe and the Middle East are mixed. The Western Europe result indicates that democratizers starting at lower levels of life expectancy grow faster (a quarter percent per each year of differential). The mixed signs on the infant

mortality rate also leave little room for generalization. Democratizers in Africa and South Asia with higher infant mortality rates are growing more rapidly. This is the inverse of that found in Central Europe where lower infant mortality (i.e. stronger health systems and incomes) are strongly and positively associated with growth. On average, a reduction in one infant death per thousand in Central Europe is associated with an increase in annual growth of a quarter percentage point. That Africa and South Asia are substantially poorer than the Central European democratizers suggests this result may have a nonlinear dimension to it.

FIXED EFFECTS ESTIMATES

Results from the fixed effects estimates reveal a surprising degree of robustness in the significance of the accountability measure. In four of the eight regions – Latin America, Central Europe, East Asia, and the Middle East – accountability is significant even under the more rigorous fixed effects method. Institutional factors typically do not exhibit significance in within-country estimates due to their lack of inter-temporal variance. However, given the striking advances made in levels of accountability by democratizers in these regions, accountability does continue to post significant associations with growth. These results persuasively demonstrate that improvements in levels of accountability contribute to enhanced economic performance.

The size of the accountability coefficient remains noteworthy under the fixed effects estimates ranging from 0.084 in East Asia to 0.273 in the Middle East. The

strength of significance of the accountability measure is larger in three of these four regions using the within country technique compared to the pooled data analysis.

Among the other explanatory variables, domestic fixed investment and foreign direct investment maintain their levels of significance in each of the regions in which they were significant in the OLS estimates³⁶. This result is less surprising given the propensity of these factors to change relatively more rapidly due to alternate policies undertaken. In fact, democratizers in each of these regions have made significant reversals in their economic policy structures embracing greater degrees of free market practices. These changes are strongly associated with growth for virtually every region. Notably, this includes democratizers in Africa, Central Europe, the FSU, South Asia, and the Middle East – regions not generally recognized for their free market norms. The size of the coefficients for these factors is undiminished from that seen in the OLS estimates. A one percent increase in domestic fixed investment is associated with roughly a 0.3 percentage point advance in annual growth across regions. A comparable rise in foreign direct investment relates to a 0.7 percentage point growth increase on average for the regions in which it is significant. Fiscally conservative policies (budget surpluses, government consumption, inflation) generally retain their significance in the fixed effect model, though less strongly than in the OLS estimates.

The results on the trade factor in the fixed effects model are notable. Only in Africa (post-1979) does trade retain its positive significance when considered from the within country perspective. However, each of the regions in which trade is negatively associated

36 Only in the post-1989 African estimates does this association fade, presumably due to the shorter time period in which variations could be observed.

with growth in the OLS estimates exhibit negative trade coefficients under fixed effects. The large within-country variance on this factor in these regions is driving this negative association.

The human capital factors generally do not retain their significance under fixed effects. This is to be expected given the tendency for these factors to change relatively more slowly. Notably, however, the sign on the urbanization factor in the Africa estimates reverses under fixed effects. This indicates that the process of urbanization within a given country is not negatively associated with growth. This implies that the negative sign in the OLS estimate can be interpreted as that African democratizers that are relatively more urbanized are growing more slowly than those that are more rural.

While included primarily for comparative purposes, all of the factors that are significant in the OLS analysis for the full democratizer sample are significant using fixed effects. This reflects the greater variation of the larger sample. This includes the accountability factor, which indicates that on average, increases in accountability do have a significantly positive impact on growth at a comparable rate to that seen under OLS. Of the factors in the full sample estimate, domestic investment and foreign direct investment stand out for their size and significance. Notably, the conflict variable also comes in strongly. Conflict is associated with a two percent decline in annual growth in the within-country estimates.

In sum, the fixed effects model confirms the important explanatory value provided by the institutional and policy factors identified in the pooled data OLS analysis. The

dramatic political changes that have resulted in economic restructuring have contributed to the improved economic performance of democratizers, on average. The lack of significance of the accountability measure using the fixed effects technique in Africa, the FSU, South Asia, and Western Europe is not surprising. While noteworthy, democratizers in these regions have made relatively less dramatic changes in their levels of accountability over the study timeframe. The robust significance of accountability with growth generated in the OLS estimates for these regions maintains its importance. The insight gained from the fixed effects estimates for these regions is that the significance of accountability under OLS can be largely attributed to cross-country differences.

Table 5-10.1 Cross-Regional Comparisons of Logit Estimates (Prospering Democratizer)

Variable	LAC	SSA 1979+	SSA 1989+	Centr. Europ	FSU	S.Asia	E.Asia	Mid- East	West Europ	All Duncts
Accountability	0.129 (3.70)	0.034 (1.69)	0.442 (1.30)	0.101 (1.63)	0.301 (2.85)	0.067 (0.81)	0.369 (2.14)	0.968 (1.32)	0.604 (3.96)	0.016 (2.30)
GNP/C in 1979	0.001 (5.72)			0.001 (3.15)			0.005 (2.29)			
Primary Educ.		-0.025 (-2.80)								
Second. Educ.									-0.528 (-4.31)	
Infant Mortality Rate					-0.543 (-3.39)			-0.047 (-3.19)		
Urbanization		-0.081 (-4.46)	-0.085 (-3.86)							0.017 (4.62)
Population			9.4e-8 (4.20)							
Population Density	0.016 (4.91)									
Trade	0.067 (4.96)	0.022 (3.00)	0.017 (2.05)	-0.022 (-1.96)	0.033 (2.06)			0.015 (1.67)		
Fuel Imports										0.038 (4.63)
Ores/Mineral Exports	0.137 (3.35)									
Domestic Fixed Investment		0.102 (3.34)			-0.130 (-2.18)					0.028 (3.32)
Foreign Direct Investment		-0.561 (-3.97)				-9.34 (-3.06)			3.523 (3.15)	
Capital Expenditure							0.566 (2.25)			
Fiscal Balance			0.431 (3.16)							
Inflation	0.117 (2.43)						-0.25 (-1.96)			
Savings	-0.200 (-4.64)	0.027 (1.49)				1.036 (3.72)				
British Legal Code		1.939 (4.92)								0.727 (4.38)
Socialist Legal Code										-0.855 (-5.43)
Conflict			-1.67 (-2.21)							
Constant	-8.112 (-6.43)	0.196 (0.39)	1.552 (1.59)	-3.613 (-1.83)	2.465 (0.71)	-17.34 (-4.30)	-23.67 (-2.53)	0.457 (0.28)	-18.41 (3.59)	-1.831 (-6.47)
Pseudo R ²	0.53	0.31	0.24	0.28	0.58	0.68	0.82	0.27	0.64	0.07
Number of obs	279	426	207	72	99	76	114	85	94	1489

Coefficients represent log of odds ratio; t-values are in parentheses.

Table 5-10.2 Cross-Regional Comparisons of Growth Estimates

Dependent Variable: Annual Growth (5 year average)

Variable	LAC	SSA 1979+	SSA 1989+	Centr. Europ	FSU	S.Asia	E.Asia	Mid- East	West Europ	All Dmctz
Accountability	0.070 (2.70)	0.057 (3.24)	0.044 (1.52)	0.163* (4.33)	0.150 (1.40)	0.051 (2.82)	0.219* (4.27)	0.274* (3.13)	0.053 (2.59)	0.040* (3.30)
GNP/C in 1979	0.0004 (3.00)				0.0001 (0.12)		0.0005 (1.75)			
Life Expectancy								0.116 (1.46)	-0.271 (-6.96)	
Infant Mortality Rate			0.105 (1.22)	-0.258 (-4.22)		0.112 (2.66)				
Urbanization		-0.052 (-3.58)	-0.070 (-3.38)							
Trade	0.032 (2.52)	0.019 (3.14)	0.030 (3.22)	-0.065 (-5.28)	-0.040 (-3.33)	0.024 (1.30)	0.038 (3.04)	-0.093 (-3.10)		-0.021 (-6.26)
Fuel Imports									-0.056 (-4.52)	-0.029 (-2.45)
Ores/Mineral Exports	0.034 (3.39)									
Domestic Fixed Investment	0.261 (7.53)	0.179 (6.98)	0.113 (3.05)	0.112 (1.97)	0.316 (4.34)	0.174 (2.63)		0.203 (2.99)		0.192 (12.31)
Foreign Direct Investment		0.573 (4.61)	0.501 (3.15)		0.785 (3.76)				1.211 (7.39)	0.343 (8.02)
Capital Expenditure		0.078 (5.75)								0.029 (2.65)
Fiscal Balance		0.137 (4.15)					0.804 (9.22)			
Gov't Consump.	-0.156 (-5.40)									
Inflation	-0.0005 (-3.57)		-0.016 (-2.01)			-0.057 (-1.57)				-0.001 (-5.49)
British Legal Code			0.922 (2.19)							1.478 (3.88)
Yrs Since Democratization							-0.425 (-3.56)			
Conflict								-4.556 (-4.45)		-1.133 (-3.92)
Ethnic Fractionaliz.		0.023 (2.89)								
Intercept	-6.22 (-8.57)	-6.41 (-7.79)	-3.577 (-2.25)	1.772 (0.80)	-15.05 (-6.18)	-2.817 (-1.94)	-1.233 (-1.16)	-13.88 (-3.11)	19.665 (8.04)	-5.24 (-8.85)
Adjusted R ²	0.45	0.35	0.27	0.49	0.36	0.26	0.67	0.43	0.54	0.44
Number of obs	303	399	199	80	98	75	100	83	94	1425

t-values in parentheses. All results are Cochrane-Orcutt adjusted for first order auto-correlation; * = 5 year lag; German and French legal codes as well as regional dummies are also significant in the full sample estimate, though excluded in this comparative analysis due to their lack of significance in any individual region.

5-10.3 Cross Regional Comparisons of Fixed Effects Estimates

Dependent Variable: Annual Growth (5 year average)

Variable	LAC	SSA 1979+	SSA 1989+	Centr. Europ	FSU	S.Asia	E.Asia	Mid- East	West Europ	All Duncts
Accountability	0.147 (4.81)	-0.022 (0.83)	-0.016 (-0.49)	0.239* (5.92)	0.034 (0.23)	0.017 (0.79)	0.004* (1.70)	0.273* (3.21)	0.015 (0.36)	0.034* (2.49)
Life Expectancy								0.110 (0.71)	-0.377 (-3.35)	
Infant Mortality Rate			0.028 (1.01)	-0.099 (-0.81)		0.005 (1.09)				
Urbanization		0.019 (0.40)	0.318 (3.28)							
Trade	0.015 (0.83)	0.037 (2.59)	-0.007 (-0.32)	-0.072 (-4.26)	-0.052 (-2.76)	0.006 (0.13)	-0.012 (-1.06)	-0.152 (-3.61)		-0.018 (-3.47)
Fuel Imports									-0.076 (-4.23)	-0.064 (-4.70)
Ores/Mineral Exports	0.002 (0.07)									
Domestic Fixed Investment	0.395 (9.64)	0.159 (4.59)	0.050 (1.00)	0.441 (4.24)	0.293 (3.04)	0.354 (3.50)		0.345 (4.53)		0.243 (2.9)
Foreign Direct Investment		0.605 (4.71)	0.001 (0.01)		0.788 (3.58)				1.12 (5.30)	0.310 (7.47)
Capital Expenditure		0.096 (6.03)								0.046 (3.61)
Fiscal Balance		0.081 (2.15)					0.521 (8.11)			
Gov't Consump.	-0.081 (-1.83)									
Inflation	-0.0005 (-3.38)		-0.013 (-1.66)			-0.041 (-1.20)				-0.0005 (-3.80)
Yrs Since Democratization							-0.090 (-0.91)			
Conflict								-4.74 (-4.69)		-2.074 (-6.12)
Constant	-9.72 (-7.86)	-6.86 (-5.37)	-11.62 (-2.50)	-8.57 (-2.62)	-10.70 (-2.57)	-4.76 (-2.99)	4.48 (3.74)	-15.00 (-1.55)	29.35 (3.52)	-4.77 (-7.29)
R ² (within)	0.48	0.37	0.11	0.68	0.47	0.34	0.47	0.50	0.54	0.45
F	25.25	17.68	2.38	19.30	10.43	6.81	15.76	12.05	19.71	72.17
probability > F	0.00	0.00	0.015	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Number of obs	304	400	200	81	99	76	101	84	95	

t-values in parentheses; * represents 5 year lag.

Table 5-10.4 Summary of Indicators³⁷ that are Significant In:

Region	Bivariate	Logit	OLS	Fixed Effects
Latin America	Accountability Democracy Human Capital Higher Income Urbanization	Accountability Private Credit Information Electoral Competit. Bureaucracy Income Trade Ores/Metals	Accountability Private Credit Electoral Competit. Legal Systems Income Domestic Invest. Gov't Expend. (-) Inflation (-) Trade Ores/Metals	Accountability Domestic Invest. Gov't Expend. (-) Inflation (-)
Africa	Rural Lower Income More Populated	Accountability Information Legal Systems More Rural Trade Domestic Invest. Fiscal Balance FDI (-)	Accountability Information Legal Systems More Rural Trade Domestic Invest. Fiscal Balance FDI Ethnic Fractional.	Domestic Invest. Trade FDI Fiscal Balance Capital Expend.
Central Europe	Higher Income More Rural	Accountability Electoral Competit. Bureaucracy Legal Systems Income Trade (-)	Accountability Electoral Competit. Legal Systems Information Infant Mortality (-) Domestic Invest. Trade (-)	Accountability Domestic Invest. Trade (-)
FSU	Accountability Democracy Higher Income Urbanization	Accountability Information Bureaucracy Infant Mortality (-) Trade	Accountability Information Bureaucracy Legal Systems Domestic Invest. FDI Trade (-)	Domestic Invest. FDI Trade (-)
South Asia	Less Trade	FDI (-) Savings Domestic Investment	Accountability Private Credit Bureaucracy Information Electoral Competit. Domestic Invest. Infant Mortality (+)	Domestic Invest.
East Asia	Accountability Higher Income Infant Mortality (-) Life Expectancy	Accountability Bureaucracy Private Credit Income Capital Expend.	Accountability Bureaucracy Legal Systems Private Credit Fiscal Balance Income Trade	Accountability Fiscal Balance Income

37 Factors listed in the bivariate and logit columns represent characteristics of prospering democratizers.

Region	Bivariate	Logit	OLS	Fixed Effects
Middle East	Accountability Higher Income More Urban Trade Infant Mortality (-)	Accountability Private Credit Infant Mortality (-) Trade	Accountability Electoral Competit. Information Life Expectancy Domestic Invest. Trade (-) Conflict (-)	Accountability Domestic Invest. Trade (-) Conflict (-)
West Europe	Lower Income Infant Morality (+) Education (-)	Accountability Private Credit Legal Systems Bureaucracy Education (-) FDI	Accountability Private Credit Electoral Competit. Information Life Expectancy (-) Fuel Imports (-) FDI	Life Expect. (-) Fuel Imports (-) FDI
All Democratizers	Accountability Democracy Urbanization Population	Accountability Legal Systems Information Private Credit Urbanization Fuel Imports Domestic Invest. British Legal Code	Accountability Legal Systems Information Electoral Competit. Trade (-) Fuel Imports (-) Domestic Invest. FDI Capital Expend. British Legal Code Conflict (-) Inflation (-)	Accountability Trade (-) Domestic Invest. FDI Inflation (-) Capital Expend. Fuel Imports (-) Conflict (-)

CHAPTER 6. ANALYSIS

The results from chapter five highlight two primary areas of distinctiveness for democratizers that are growing rapidly. They exhibit stronger systems of accountability and macroeconomic management. The latter includes fiscal conservatism as well as proportionately higher levels of domestic fixed and foreign direct investment – factors consistently found to be significant in growth estimates. As the comparative value of this study is in the area of accountability, this analysis will draw out in more detail the relationships seen between the individual accountability features and the respective dependent variables.

6.1 Distinguishing Factors of Prospering Democratizers

The most notable pattern generated from the results is the solid level of significance found for the aggregate accountability measure (see table 6.1, p.187). Accountability is an identifying characteristic of prospering democratizers in every region except South Asia, (where the lagged accountability measure is significant). The robust significance of the aggregate measure relative to any of the component factors implies that institutional accountability is a cumulative phenomenon that captures a value above the sum of its component parts. Gains in any aspect of accountability have a positive influence in distinguishing democratizers. Moreover, moderate significance across the full range of features generates a more reliably significant result than a spiked relationship on a single feature. By balancing the various accountability components, the aggregate measure smoothes out features that may be atypically low, so as to recognize the advances a

country has realized on the other institutional components.

Next to the consistency of significance of the aggregate accountability measure, the results reveal a diversity across regions in the importance of accountability factors in distinguishing the prospering democratizers. There does not appear to be one single mechanism by which prospering democratizers distinguish themselves. Each of the eight regions considered has a dissimilar pattern of accountability features that distinguishes its prospering democratizers. Therefore, while accountability matters, the manner in which this is demonstrated cannot be generalized. These results affirm the value of a regional approach when examining the experiences of recent democratizers. While global patterns may be gleaned from the results, they are prone to misapplication if generally asserted.

Complementary to the pattern of regional diversity is the observation that each of the individual features adds a unique value to understanding the accountability relationship. All five of the institutional features of accountability are significant with at least three different regions. Nonetheless, underlining the diversity between regions, there is not an individual accountability feature that is significant in every region. More insight can be gained by looking at all of the accountability sub-components in total rather than any of the individual features in isolation. Similarly, only considering the aggregate measure masks the distinctions between features. Of the component measures, relatively more efficient bureaucracies, stronger levels of information access, and a more autonomous private sector distinguish prospering democratizers across more regions than the other features.

Bureaucratic efficiency distinguishes prospering democratizers in every region except South Asia and the Middle East. The strength of this factor emphasizes the potential positive effects from relatively efficient administration and also highlights the evidently far-reaching costs of corruption. The observed importance of this feature begs further analysis on methods by which the prosperers have realized a higher level of accountability in this category compared to their neighbors. That prospering democratizers in poorer regions (South Asia, Middle East, and Africa post-1979) are not distinguished on this feature raises the possibility that bureaucratic efficiency takes on relatively greater significance for democratizers as income levels advance. This is consistent with the postulation that as economies become more sophisticated, a well-trained, expedient, and competent civil service is indispensable if bottlenecks are to be avoided and adequate oversight is to be employed (Lanyi and Lee).

Prospering democratizers are also pursuing a relatively more tolerant path regarding independent expression than other democratizers in their regions. The strength of significance in many of the regions in which it registers indicates that information access is a clearly identifiable characteristic of prospering democratizers. It is similarly noteworthy that information access is substantially more instructive than electoral competition in delineating prospering democratizers. This finding suggests lagging democratizers are more likely to be of the illiberal type – exhibiting some of the external structures of democracy but not truly fostering an open airing of ideas. Given this, information openness can be employed as an indicator of the extent to which

democratizers are committed to accountability. Relatively greater openness appears to be proportionally more important for identifying prospering democratizers in Africa. This is consistent with the theory that a minimal level of openness is a necessary precondition for the other accountability institutions to gain traction. Information access is also proportionately important for distinguishing prospering democratizers in the FSU. In the context of the many aspects of restructuring countries in this region are undertaking, openness in the exchange of ideas stands out. Meanwhile, information access is notably absent as a defining characteristic of the East Asian and Middle Eastern prospering democratizers. In East Asia, the variance on this feature apparently is not sufficiently large to distinguish democratizers in this region. Nonetheless, as mentioned in the East Asia results section, the mean levels of information access among democratizers in this region match those of the global sample suggesting that any required minimal levels have been met. In the Middle East, the prospering democratizers made observable advances in their level of information access in the 1990s and this feature registered positively though insignificantly in the logit analysis ($t=0.84$). However, the Middle Eastern information access score remains a full standard deviation below the global mean. Therefore, unlike East Asia, lack of information openness appears to be an ongoing constraint in this region.

An autonomous private sector is relevant for prospering democratizers in every region except the former Eastern bloc countries and South Asia. This finding indicates that the prospering democratizers are in general pursuing capitalist economic structures relatively more readily than their counterparts. Since this feature is only singularly

distinguished in the Middle East supports the interpretation that the separation of economic and political power is a part of a broader adoption of checks and balances in a society. Thus, the development of a private sector does seem to complement the overall process of augmenting pluralism in a society. That this feature is significant across a range of regions indicates that an autonomous private sector is relevant for democratizers at various levels of economic and democratic development. Furthermore, the proportional importance of this feature in distinguishing prospering democratizers in Africa (post-1979) suggests that fostering an independent private sector is a feasible and potentially highly important accountability element to pursue among poorer countries. Notably, the regions in which private credit is not significant also have a history of considerable state involvement in the economy. As the reform process in the former Eastern bloc democratizers stabilizes, it will bear monitoring whether this feature remains indistinguishable among those that are prospering.

Prospering democratizers in Latin America, Central Europe, and Western Europe stand out for the breadth of institutional strength they exhibit relative to the laggards in their respective regions. Only in the Middle East are prospering democratizers distinguished by a single feature - and it appears their distinctiveness is broadening. The multiple areas of significance indicate that prospering democratizers are apt to be more accountable across a range of institutional sectors. Pursuing checks and balances is not an isolated event but apparently representative of a culture of accountability. Moreover, the breadth of the accountability differences implies that the prospering democratizers in these

regions are in a stable position to continue the advances they are making. Conversely, this observation points to the widespread institutional reform challenges facing the lagging democratizers. To the extent that these accountability features foster growth, laggards will be at a marked disadvantage for at least the near future.

The relatively greater commitment to accountability among prospering democratizers overlaps with their stronger levels of democracy. While prospering and lagging democratizers demonstrated similar levels of democracy prior to the 1990s, a clear distinction emerges since the end of the Cold War (see figure 6.1). This difference is statistically significant ($t=2.57$). In short, prospering democratizers have undertaken more extensive democratization. This coincides with their higher levels of observed growth.

Figure 6.1 Trends in Level of Democracy for Prospering and Lagging Democratizers

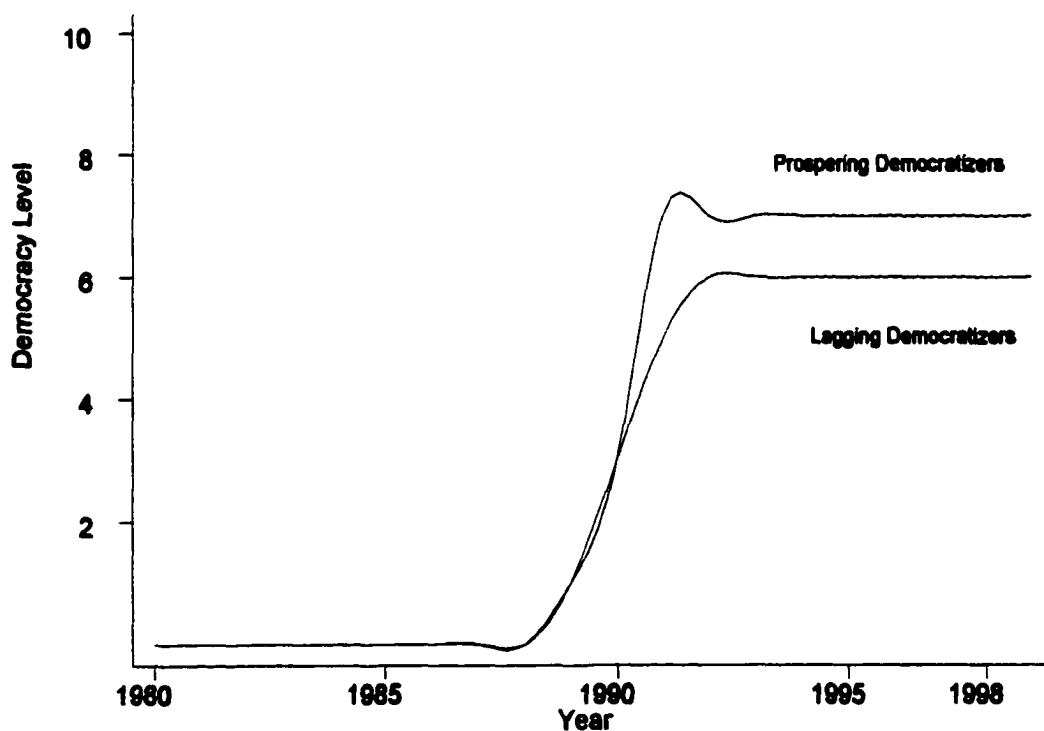


Table 6.1 Summary of Accountability Features Predicting Prospering Democratizers

Region	Accountability	Electoral Competit	Bureaucr Efficiency	Credit to Priv Sector	Judicial Independ	Info. Access
SSA '79+	**			***		***
SSA '89+	*		***		***	***
S. Asia		*				*
M. East	*			***		
FSU	***		***			***
LAC	***	***	**	***		***
C. Europe	**	***	***		***	
E. Asia	***		***	**	*	
W. Europe	***		***	***	***	*

*** Significant at above 0.05 confidence interval; ** Significant at 0.10 confidence interval;

* Significant at 0.15 confidence interval; Regions arranged in ascending order of GNP/capita income in 1998

Table 6.2 Summary of Significant Accountability Features in OLS Estimations on Growth

Region	Accountability	Electoral Competit	Bureaucr Efficiency	Credit to Priv Sector	Judicial Independ	Info. Access
SSA '79+	***				***	***
SSA '89+	*		***		***	***
S. Asia	***	**	***	***		***
M. East	***	***				***
FSU	*		***		***	***
LAC	***	***		***	***	
C. Europe	***	***			***	***
E. Asia	***		***	**	***	
W. Europe	***	***		***		**

*** Significant at above 0.05 confidence interval; ** Significant at 0.10 confidence interval; * Significant at 0.15 confidence interval; Note: Central Europe, Middle East, and East Asia results reflect 5 year lagged estimations.

6.2 Distinguishing Growth Factors

As with the distinguishing characteristics of prospering democratizers, there is great diversity between the regions regarding which individual features are significant in explaining growth (see table 6.2). The aggregate accountability measure again provides the broadest and strongest explanatory power across regions among the factors considered. It is a significant factor in predicting growth in every region. Moreover, the five year lagged accountability relationship is significant in predicting growth in seven of the eight regions considered (with Western Europe being the exception). The finding that the aggregate accountability measure is more consistently significant than any of the individual features supports the reasoning that it is the breadth of checks and balances in a society that contributes to its growth more so than any single factor. More generally, this finding reinforces recent research indicating that institutions matter in explaining growth. They add value even when considered alongside economic variables conventionally linked with growth.

The breadth of individual accountability features that are significant is also a distinguishing factor for growth. A majority of the regions considered realize significant associations on at least three of the individual accountability factors. All regions have at least two individual measures that are significant. Conversely, in none of the regions are all five features significant. In short, democratizers that are growing more rapidly have generally established stronger systems of accountability across a range of sectors.

All of the individual features make a significant contribution to growth.

Information access is the individual feature that provides the most consistent explanatory value followed by an independent judiciary and electoral competition. Each feature is significant in at least four regions. This indicates that each of the individual features is relevant at various stages of economic development. It also points to the multifaceted manner through which accountability structures affect economic performance. No single feature is all-encompassing.

The robustness of the information access feature in explaining growth relative to the other features is a striking result from this research. It is significant in six regions and at a generally strong level of significance. The importance of the information feature supports the view that greater openness fosters the exchange of ideas, innovation, and entrepreneurship. Notably, information access is an important factor in explaining growth in Africa, the FSU, and the Middle East – areas not typically known for their high levels of civil liberties. Thus democratizers in these regions exhibiting greater openness are reaping the benefits in terms of higher rates of growth. Two of the poorest regions considered, South Asia and Africa, demonstrate a strongly significant information access-growth association. As with the predictors for prospering democratizers, there is a divergence in the predictive power between the electoral and liberal democratic features. Information access is more widely relevant as an explanatory factor for growth than electoral competition - though the electoral feature is as significant as any of the other accountability features in predicting growth.

Strength of legal systems emerges as another important institutional factor for

growth. Judicial independence is a significant growth factor among democratizers from a range of regions - Latin America, Africa, the former Eastern bloc, and East Asia. This points to the on-going and diverse contributions an effective legal system can make to growth for democratizers at every income level. This finding is supportive of the institution-growth empirical work that has focused on the importance of legal systems. The proportional importance this feature has for African democratizers implies that an independent judiciary, like information access, may be a conditional feature for economic growth. As per North's thesis, having the fundamentals of a legal system in place allows for a culture of contracting between unfamiliar parties to emerge, substantially expanding the marketplace.

Bureaucratic efficiency stands out as a leading growth factor among the Asian, FSU, and African democratizers. These regions have historically exhibited a strong state role in the economy. Therefore, it is intuitive that relatively more efficient bureaucratic systems would have more widespread benefits for these economies. Several of these regions are also in the middle-income category.

Credit to the private sector stands out for its lack of explanatory power given its direct relevance to growth. This may be explained by undetected collinearity between this feature and other economically-oriented independent variables in the growth regressions. Another possibility is that these regions are still at the early stages of developing their private sectors and therefore insufficient variance has yet emerged. Notably, the regions where private sector development is not significant are for the most part those that have

had a historically strong state role in the economy. Alternately, this result may reinforce the theory that other fundamental institutional features (i.e. information access and judicial independence) must be in place before an independent private sector can make a dynamic contribution to growth.

6.3 Common Factors Distinguishing Prospering Democratizers and Growth

This analysis has found that the aggregate accountability measure is the single factor that provides the most reliable insight in predicting prospering democratizers and growth. It does so in every region except South Asia (where it is not significantly associated with prospering democratizers). The robustness of the aggregate measure highlights the importance of *breadth* in a democratizing society's accountability institutions for economic advancement. The aggregate measure not only balances the fluctuations of the individual features but represents a more comprehensive outcome than the sum of its individual parts.

Each of the individual accountability measures adds value in identifying prospering democratizers and in explaining growth. In fact, there is considerable balance in the significance of the individual features. Every individual accountability feature is 'mutually significant' in at least three regions whereas information access is distinctive in four of the eight regions. In addition to the meaning these results hold for the importance of the individual measures, they reveal that while most empirical research on the institutions-growth linkage has focused on legal systems (property rights and contract enforcement), these factors offer only a partial explanation of accountability's contribution to growth

among democratizers.

The robustness of the information access feature is an unanticipated finding from this analysis. While civil liberties are a defining quality of liberal democracy, their evident importance to growth has not garnered much attention. That information access offers greater explanatory power than some of the more ostensibly economic features begs further examination as to the mechanisms operating to generate this outcome. In addition to serving as an accountability mechanism on abuse of power and macroeconomic policies, information access contributes to the exchange of ideas, innovation, more widespread communication of prices, and firm integrity among other contributions. With the growing importance of global trade and information technology, the value of information access can be expected to increase in the future. Notably, the FSU and Africa are among the regions that exhibit mutual significance on the information access factor. While these regions often score poorly in their protection of civil liberties, it appears that there is sufficient variance within each region to allow prospering democratizers to distinguish themselves by their greater levels of openness - and enhance their growth as a result. This finding is all the more meaningful in that these regions have relatively few other features on which they are mutually significant.

The regions in which bureaucratic efficiency is mutually significant – Africa, FSU, and East Asia – are widely varied. Their main similarity would appear to be their history of state involvement in the economy. The significance of bureaucratic efficiency therefore would appear to highlight the far-flung reverberations in an economy resulting from

corruption, lack of autonomy of the civil service, and poorly functioning administrative systems in these societies. With the exception of Africa, the regions in which this feature distinguishes prospering democratizers – FSU, East Asia, Latin America, Central Europe, and Western Europe - are largely middle income, suggesting an increasing importance of strong bureaucratic systems as an economy becomes more sophisticated.

The steady levels of mutual significance of the judicial independence factor are consistent with previous empirical analyses linking institutional development and growth. A strong legal system plays an important contributing role to growth at all stages of economic development. Judicial independence is pertinent in Central Europe and Africa - two regions emerging from the Cold War and in the process of major transformations, as well as the two wealthiest regions considered – East Asia and Western Europe (in the logit analysis). Moreover, judicial independence is notably more important for predicting growth than in distinguishing prospering democratizers. This points to a potentially important area of institutional strengthening in regions where prospering democratizers do not distinguish themselves on judicial independence but it is significant with growth – Latin America and the FSU – as well as in South Asia where this feature is strikingly low.

Electoral competition is a mutually significant factor for democratizers in Latin America, Central Europe, and to a lesser extent South Asia. This demonstrates the important contribution authentic elections can have in regions long denied opportunities for broad political participation. Elections in these regions have allowed previously excluded leaders to govern and have been accompanied by shifts toward market-oriented

economic policies. In Central Europe elections are the individual accountability feature that demonstrates the strongest level of significance for growth. Therefore, the importance of elections to growth should not be undervalued, particularly when other growth factors such as access to investment and human capital are available. In fact, elections are more consistently significant in explaining growth than in identifying prospering democratizers. The lack of association with prospering democratizers may reflect the fact that virtually all of these democratizers now hold periodic elections and there is insufficient variance among democratizers in a given region on this characteristic. Meanwhile, the electoral competitiveness feature is only significant in the growth regressions alongside several other accountability features. This suggests that while important, elections are not enough to foster economic growth on their own. Institutional development in other areas is required.

Credit to the private sector is mutually significant in only three regions – Latin America, East Asia, and Western Europe. The limited significance of this feature should not be interpreted too narrowly, however. Taking into consideration that this feature is negatively associated with growth in the FSU and Central Europe in the 1990s, it will bear watching whether as the transformation processes in these regions settle out, an autonomous private sector also distinguishes those democratizers with better economic performances. Prospering democratizers with long-moribund economies in Africa and the Middle East are distinguishing themselves in this category - even though this feature has not stood out as an explanatory growth factor in these regions. This may be due to the

embryonic stage of private sector development in these regions as well as still unmet minimum levels on other conditional features such as openness, judicial independence, and bureaucratic efficiency.

6.4 Overarching Findings

This research indicates that accountability institutions make a difference in fostering growth in democratizing countries. However, there is not a single institutional formula for becoming a prospering democratizer. No two regions exhibit the same combination of institutional strengths. Nonetheless, given the consistency of significance of the aggregate accountability measure, efforts to strengthen institutional capacity on any front do seem to be rewarded by higher levels of economic performance.

This study has found that it is the strength of accountability institutions that are meaningful – and not the time since the democratization process started. Years since democratization is a very weak predictor of prospering democratizers or of growth. Therefore, while early reformers may self-select in terms of their commitment to change, this in itself does not emerge as a distinguishing factor. For democratic change to be associated with growth, it must be linked with substantive improvements in a state's accountability institutions (and economic policies). A similar observation can be made with regards to the geographic orientation of the former Eastern bloc democratizers. Westward proximity is not a significant identifying factor for prospering democratizers or growth. It is the economic and institutional policies adopted that matter more.

Level of democracy and accountability are closely related. However, they

regularly deviate in their strength of association with prospering democratizers and with growth. Accountability is consistently more significant on both sets of factors than is democracy. This is an outcome of all five facets of accountability being relevant in both sets of estimates. Nonetheless, democracy is a stronger predictor of growth in Central Europe, Africa, and South Asia. In the latter region, this reflects the historically stronger levels of democracy in the prospering democratizers. For Central Europe and Africa, this result reveals the profound impact possible when long suppressed societies are at least partially opened. In East Asia, the FSU, the Middle East, Western Europe, and Latin America accountability is a stronger explanatory factor for growth than democracy. This distinctiveness is captured in the observation that democratizers that have some overt democratic characteristics but which lack other basic accountability institutions are unlikely to grow rapidly. Ukraine, Central African Republic, Madagascar, Guatemala, Honduras, and Haiti are lagging democratizers that have higher than median democracy scores but lower than median accountability scores. Similarly, the distinctiveness of the accountability and democracy features help explain how certain relatively less democratic states have performed relatively well economically (e.g. Iran, Tunisia, Jordan, and Ghana). In this way, the accountability measure provides a more nuanced conceptual and analytical tool for explaining how institutions affect growth. Using the accountability and democracy measures complementarily offers potential for deeper insights.

Findings from this research indicate that institutional path dependency is not so strong as to prohibit substantial change over a period of two decades. In every region

considered there have been dramatic gains made by democratizers in their levels of democracy and accountability since 1980. This has corresponded with historically rapid growth in many of these areas. In a few cases formerly full autocracies have transformed themselves into prospering democratizers. Some of these same states presently exhibit levels of civil liberties that distinguish them within their regions. History does matter, however. In most regions, formerly full autocracies were less likely to become prospering democratizers. The reverse is true for countries with previous exposure to democracy. Nonetheless, the discontinuities from historical experience caution against holding hard assumptions regarding the inability of institutional change.

Starting level of GNP/capita is rarely determinative in identifying prospering democratizers or economic growth. Economic policies and institutional strengthening are much more meaningful predictive factors. Convergence and divergence theorists predict opposing influences of starting level of GNP/capita. The results from this research indicate that the directional influence of starting income level's contribution to growth among democratizers is ambiguous. In Latin America, East Asia, the Middle East, and Central Europe income (or its proxy) is positively associated with growth. In Western Europe, South Asia, and Africa income level (or its proxy) is negatively associated with growth. While this research did not specifically attempt to gain insight into the convergence-divergence debate, the findings here emphasize the substantially greater importance of economic and institutional policy choices than starting income level in explaining growth.

An unexpected finding from this analysis is the relatively limited significance of

conflict. It was anticipated at the outset of this study that conflict would routinely show up as a strongly negative factor for both prospering democratizers and growth. However, only in the Middle East and full sample regressions is conflict a significant constraint on growth. Given that the sample considered is solely comprised of democratizers, however, this result is less surprising. As seen in the descriptive statistics section of this paper, democratizers are significantly less likely to become involved in conflict. Therefore, the frequency and variance of conflict in this sample is evidently not large enough to register significantly in the regional multivariate analyses. The lack of consistent significance for conflict does not underemphasize the debilitating effects of war. Rather, it highlights the importance of economic and institutional factors in explaining economic performance. Given the wide variance within regions on these policy-related traits, the greater likelihood of rapidly growing democratizers to pursue fiscally sound policies and create a capital enhancing climate within a system of institutional checks and balances is what stands out. While not the focus of this study, the analysis also reveals an apparent inverse relationship between accountability and conflict. As observed in the estimation process, states with stronger levels of accountability are less likely to be involved in conflict. This is consistent with the Easterly finding on the importance of institutions for mitigating conflict.

The estimates generated from this study reveal divergences in the relationships of certain human capital characteristics with growth. Specifically, improvements in infant mortality are generally more closely associated with growth than education. This observation is unanticipated as these human capital characteristics are often considered to

be reinforcing indicators of development. Subsequent analysis may explore the extent to which these differences can be generalized, with potential implications for refinements in endogenous growth modeling. As accountability is more closely associated with lower levels of infant mortality, this observation has implications for potential differences in the social welfare benefits of increased accountability, as well.

CHAPTER 7. CONCLUSION

This research began with the hypothesis that accountability institutions are a distinguishing factor of contemporary prospering democratizers. The results generated from this analysis support this supposition. In seven of the eight regions reviewed, the aggregate accountability measure stands out in multivariate analysis as a significant factor in distinguishing prospering democratizers and growth. This is the most clear-cut result observed in this analysis. Prospering democratizers have strengthened their structures of accountability in the process of democratizing to a greater extent than other democratizers. This effort is typically broad-based with prospering democratizers exhibiting strength across several accountability features. The individual features in turn are complementary in their effect on the overall relationship with growth. Incremental gains in the institutional strength of any feature, even if not significant, do make a difference for the overall relationship between accountability and prospering democratizers.

The individual feature that is most reliably significant in predicting prospering democratizers and growth is information access. Democratizers that are growing more rapidly are more tolerant of independent voices. This characteristic creates numerous channels that can contribute to economic performance. Politically, respect for an independent media and basic civil liberties provide a means to foster vertical accountability of public officials. Economically, the advantages of greater information access include a fuller examination of policies before they are undertaken, pressure to take corrective action when ineffective policies are in place, greater awareness of firm integrity and

capacity facilitating informed investment, as well as an enhanced capacity to track global trends, absorb new technology, and foster innovation among others.

This research has indicated that democratization is compatible with growth. Indeed, democratizers actually grow more quickly than other countries in their regions, with the exception of the former Soviet Union. Furthermore, even poor democratizers are capable of effectively pursuing both processes. Sixty-five percent of the current democratizers have GNP/capita incomes below US \$2,000/year. Half of these are in the prospering democratizer category. The economic and institutional policies pursued by these countries are of greater importance in explaining their rate of growth than their starting level of income.

This research has found that electoral competitiveness does make a difference in identifying prospering democratizers and growth for certain regions. However, elections alone are a narrow component of accountability in a society. By themselves, they provide limited explanatory power and are associated with declining growth in some cases. Democratizing states desiring to improve their rate of growth need to strengthen their accountability institutions across a range of features. Some democratizers have realized rapid growth without distinguishing themselves by their level of electoral competition or information access (e.g. in East Asia). However, pursuing this route requires exceptionally strong features of bureaucratic efficiency, private sector development, and judicial independence – while meeting minimal standards of electoral competition and information access. In fact, of the 46 prospering democratizers, only Tunisia had electoral competitiveness and information access scores below four (on a scale of 0-10) in 1998.

Democratizers in South Asia, the region with the fastest growth rate in the late 1990s, demonstrate an alternate institutional sequence. A history of stronger electoral and civil liberty features have been subsequently augmented by bureaucratic efficiency and private sector development. The main point is that regardless of order, democratizers that have established broader systems of accountability grow more rapidly.

This research has found a wide diversity in the complexion of the accountability-growth relationship across regions. Consequently, analyzing democratizers at the regional level provides a more nuanced understanding of the democratization process than that gained solely from a global basis, which as seen in the full democratizer sample, obscures pertinent distinctions among democratizers. A regional focus has enabled the identification of *relatively* more strongly performing democratizers – cases that would be overlooked from a global focus. Meanwhile, the distinguishing policy and institutional factors that emerge from comparisons between countries of relatively similar economic, demographic, cultural, and political backgrounds present a more meaningful base from which to guide policy.

The significant observed relationship between accountability institutions and growth portends a continuing upward growth trajectory for these countries in the near future. This is especially supported by the significance of the five year lags of accountability in the growth regressions for seven of the eight regions. The projection of continued growth may encompass a large segment of the democratizers given the substantial advancements realized in their levels of accountability. The mean improvement in accountability level for all democratizers nearly doubled (from 15 to 28) between 1980

and 1998. Furthermore, the breadth of advancement in accountability structures for the prospering democratizers, on average, suggests a greater likelihood that the changes enacted (and growth effects) can be sustained. That is, the norm of accountability has been established across sectors in many of these democratizing societies. Consequently, attempted reversals will be more difficult and time-consuming to realize than in those societies where the advances are limited to one institutional sector.

Lagging democratizers face multiple challenges. They are likely to continue growing more slowly than the prosperers, which places greater political strains on the democratization process. In addition, extensive institutional reform remains to be undertaken. The relative narrowness of their accountability advancement, on average, indicates that the societal commitment to accountability has yet to be internalized. Nonetheless, it should not be overlooked that the laggards have also made substantial progress in their accountability levels over the past two decades. Moreover, recent experience has shown that institutional norms are not immutable. Relatively rapid change is possible - though it will not have the advantage of being propelled by an overarching global restructuring such as that created by the end of the Cold War.

POLICY RECOMMENDATIONS

1) **Support Reform.** This research indicates that democratization and economic growth can occur simultaneously and are, in fact, complementary. Therefore, economic reforms should not wait for democratization to unfold or vice versa. Fiscal conservatism, domestic investment, savings, capital expenditures, and lower inflation are justifiable

targets to pursue within democratizing societies. This study did not assess the most appropriate mechanisms to reach these objectives and therefore does not endorse or condemn the structural adjustment plans promoted by the international financial institutions. However, this research does find that it is the extensiveness of institutional strengthening over time rather than the speed of reform that creates a positive economic impact for democratizers. This is supportive of the gradualism school of thought on economic reform.

2) Support Reformers. Support for democratization has frequently been considered as a competing foreign policy priority to security and economic interests in the United States. This research indicates that this is a misleading framing of the respective interests. Democratizers are more likely to grow economically and less likely to enter into conflict than other states in their respective regions. Moreover, the positive impact of democratization on economic growth is likely to be felt in the short and long-term. Foreign policy decisions based on political interests at the expense of democratization are likely to have damaging economic and institutional implications for some time to come. Moreover, given the parallel patterns of democratization within a region, signals of a declining international emphasis on democratic standards in one country will likely have broader regional implications.

2.1) Set High Standards. Commitment to norms of accountability is ultimately a choice that must be made by the citizens and leaders in the democratizing societies themselves. Nonetheless, the international community can complementarily augment these internal efforts. These include setting high

standards on what qualifies as acceptable levels of accountability across the range of features. Such standards would serve the purpose of stretching the targets set by reluctant leaders interested solely in meeting the international minimum requirement for reform. These standards would be set by regional technical bodies (e.g. journalists, judges, business professionals, public administrators, election officials) so as to minimize suggestions that the standards are imposed, as well as to facilitate greater intra-regional accountability. Through regular and high-profile publication of cross-country comparisons and collaboration with the private sector, democratizers that show greater progress in their adherence to accountability standards would be rewarded with increased private investment. The high impact of foreign direct investment on growth affirmed by this study could serve as a powerful incentive for democratizers to meet these minimum standards if their leaders conclude that the accountability norms will be consistently applied. The private sector has an incentive to collaborate in that their investment in democratizers with stronger levels of accountability can be expected to yield higher returns. Moreover, they are benefiting from free access to political risk analysis in their investment decisions.

3) Support for Information Access. Improving information flow is the single most important accountability feature for fostering growth among democratizers across regions and income levels. National and international efforts aimed at enhancing the quality and number of independent media outlets in a democratizing country merit increased support. Numbers of televisions, radios, internet service providers, and personal computers are all

positively associated with greater information access. Emphasis on local and provincial networks can enhance the diversity of information disseminated and the societal ownership and appreciation of the value gained from these multiple sources of information. In addition to the technological assistance, emphasis on management support will enable the nascent media firms to sustain these initiatives over time. Similarly, enhancing emerging media outlets' access to international networks of information is a mechanism through which these firms can develop a comparative advantage in their respective markets. This would also facilitate exposure to alternate political and economic norms compared to those observed in the newly democratizing country. Results from this research are also supportive of policies that provide increased protection of and advocacy for the rights of journalists. Given the broader economic and societal implications from a closed media, state efforts to intimidate and suppress independent journalism may warrant consideration as a violation of international human rights law. To draw greater attention to the openness of information access, national and international proponents of democratization and economic development can undertake more high profile monitoring and publication of regional, cross-national rankings of media treatment. Economic incentives along the lines outlined above should be set for democratizing states that demonstrate progress in their respect for journalistic freedom. Leaders that employ coercion against media should be condemned through bi- and multi-lateral channels with the understanding that respect for press freedom is a prerequisite for legitimacy and equal standing in regional and global fora.

3.1) Additional Features Meriting Support. In addition to the priority of enhancing information access, particular added value for economic performance can be realized through institutional strengthening of additional accountability features in specific regions. Table 7.1 lists in order of priority, by democratizing category, those factors that offer the highest potential impact for growth. These are based on a comparison of the final estimates for each region as well as relationships observed to be of particular value in the estimation process.

Table 7.1 Priority Areas of Institutional Support by Region and Category

Region	Prospering Democratizer	Lagging Democratizer
Latin America	Judicial Independence	Electoral Competition Judicial Independence
Africa	Strengthening Private Sector Judicial Independence	Judicial Independence Bureaucratic Efficiency
Central Europe	Strengthening Private Sector	Judicial Independence Electoral Competition
FSU	Judicial Independence	Bureaucratic Efficiency Judicial Independence
South Asia	Judicial Independence Strengthening Private Sector	Judicial Independence Bureaucratic Efficiency
East Asia	Judicial Independence	Bureaucratic Efficiency Judicial Independence
Middle East	Electoral Competition Judicial Independence	Strengthening Private Sector Electoral Competition
Western Europe	Bureaucratic Efficiency	Strengthening Private Sector

FUTURE RESEARCH

This study supports previous theoretical and empirical research linking institutions and growth, for a sample of contemporary democratizers. A valuable complement to this research would involve a case study examination of several of the prospering democratizers to gain a better understanding of the political economy considerations and mechanisms through which accountability institutions are built in democratizing societies.

Furthermore, attention would be placed on assessing the thoroughness and sustainability of the institutional changes undertaken.

A natural extension to the current study would be to examine the degree to which the accountability-growth relationships observed in this sample apply to a full sample of countries. This may contribute to better understanding the rapid growth enjoyed by certain nondemocratic nations as the accountability measure would likely capture features overlooked in previous regime type-growth analyses. Inversely, to the extent that intra-national data are available, a similar analysis could help explain differences in growth within countries. Another follow-on to this study would focus on gaining a fuller understanding of the sequential evolution, if any, of the accountability features identified in this study. Specifically, to what extent are information access and judicial independence required before private sector development can take hold? Focus can be given to identifying minimum conditions of certain features that serve as a constraint to future economic development. In a similar vein, an examination of the growth impact resulting from the many avenues through which information access contributes to economic performance would be highly valuable for targeting accountability strengthening efforts for this feature. A close variant of the current study would involve substituting various social welfare indicators for growth as the dependent variable in the multivariate analysis. This would provide insight into whether accountability contributes to social welfare in a similar manner as growth and whether individual accountability features contribute disproportionately in this regard. This approach would also provide a measure of the distributional differences resulting from development in societies with stronger systems of

accountability.

Further understanding of the manner through which external political forces affect the development of accountability structures among democratizers would be particularly enlightening for policy planning. As part of this, an examination of the positive and detrimental effects from neighborhood democracy and accountability norms could provide insights into the broader ramifications caused by the strengthening or backtracking of an individual democratizer.

Finally, in the process of estimating the regional models, an apparent inverse relationship between accountability and conflict was observed. Building on some of the existing work done in this area, further exploration of this association may add insight into understanding the relationship of democratization and conflict.

Appendix A

Classification of Democratizers by Income Level at Initiation of Democratization

Lower Income (GNP/C<\$500)	Lower-Middle (\$500--\$2,000)	Middle Income (\$2-\$5,000)	Upper-Middle (\$5-10,000)	Upper Income (\$10,000<gnp/c)
Angola	Albania	Brazil	Argentina	France
Benin	Algeria	Chile	Czech Rep	Greece
Burkina Faso	Armenia	Estonia	South Korea	Spain
Bangladesh	Bulgaria	Georgia	Portugal	
C.A.R.	Bolivia	Hungary	Slovenia	
Cambodia	Cameroon	Kazakhstan		
Chad	Comoros	Lithuania		
Ethiopia	Domin. Rep	Latvia		
Ghana	El Salvador	Mexico		
Guyana	Guinea	Panama		
Haiti	Guatemala	Poland		
India	Honduras	Russia		
Kenya	Iran	Slovakia		
Madagascar	Jordan	Taiwan		
Malawi	Kyrgyzstan	Trinidad		
Mali	Macedonia	Turkey		
Mongolia	Mauritius	Ukraine		
Mozambique	Namibia	Uruguay		
Niger	Nicaragua	South Africa		
Nepal	Philippines			
Togo	Paraguay			
Tanzania	Romania			
Uganda	Slovenia			
Yemen	Thailand			
Zambia	Tajikistan			
	Tunisia			

Appendix B - List of Democratic States with Low Per Capita Incomes³⁸

Bulgaria	1990-98
Bolivia	1982-98
Botswana	1971-89*
Chile	1989-90*
Colombia	1974-94
Costa Rica	1960-98
Dominican Rep	1996-98
Ecuador	1979-98
Gambia	1966-93
Guatemala	1996-98
India	1965-98
Jamaica	1960-98
Lithuania	1991-98
Latvia	1992-98
Madagascar	1992-98
Mongolia	1992-98
Mauritius	1970-90*
Namibia	1990-98
Nicaragua	1995-98
Panama	1989-98
Philippines	1987-97
Papua New Guinea	1975-98
Poland	1990-94*
Romania	1996-98
Thailand	1993-98
Trinidad	1962-74*
Turkey	1968-70 1973-96*

* GNP/Capita expanded beyond \$3,000

Appendix C – Background Notes on Methodology

1) t-test equation

$$t_0 = \frac{\bar{X}_1 - \bar{X}_2}{\left[\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2} \right]^{1/2}}$$

where,

\bar{X}_1 and \bar{X}_2 are the means of the prospering and lagging democratizer samples, respectively, for a particular variable;

s_1^2 and s_2^2 are the respective variances of the prospering and lagging democratizer samples;

n_1 and n_2 are the number of observations in each respective sample

2) Logit Equation³⁹

The equation summarizing the logit technique is:

$$L_{ij} = \ln \left[\frac{P_{ij}}{1-P_{ij}} \right] = \beta_1 + \beta_2 X_{ij} + u_{ij}$$

Where L_{ij} is the log of the odds ratio (or logit)

P_{ij} is the probability, between 0-1, of an event occurring

B_1 is the intercept

B_2 is the slope; this measures the change in L_{ij} for a unit change in X

X_{ij} represents the series of explanatory factors

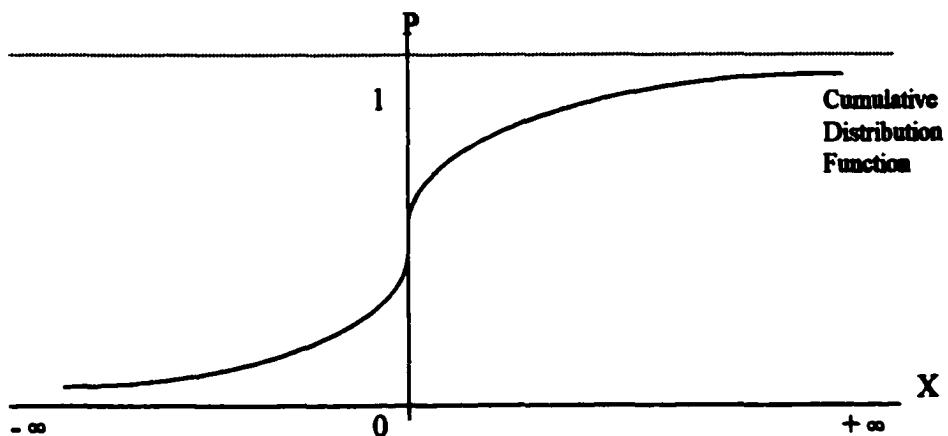
u_{ij} represents the error term capturing all unexplained effects

39 Description of logit technique based on Gujarati; Aldrich and Nelson.

This technique uses a non-linear cumulative logistic distribution function whereby as X_{ij} increases, P_{ij} increases but never exceeds one. When X_{ij} is near negative infinity, the logit function is near zero. As X_{ij} increases, the logit increases monotonically going to one as X_{ij} approaches positive infinity. This asymptotic relationship predicted resembles the S-shaped curve in figure C-1. The method guarantees that the estimated probabilities, are continuous, they lie in the 0-1 range, and that they are non-linearly related to the explanatory variables.

Taking the log of the odds ratio, which is unconstrained in range, transforms what appears to be a highly nonlinear model into one that is linear (in parameters). That is, the model is arranged such that it is not P_{ij} but the log of the odds ratio that is linearly related to X_{ij} . Thus, L_{ij} is not only linear in X but also linear in parameters. This avoids the unreliable predictions that would result from attempting to fit a linear model to a distribution of data at only two points on the Y axis.

Figure C-1 Shape of Cumulative Distribution Function



The maximum likelihood method is used to estimate the parameters. This technique selects that estimate of B_2 that would make the likelihood of observing a particular (true) Y as large as possible, given the sample of observations. Estimates thus calculated are unbiased, efficient, and normal. Unlike least squares estimation techniques, under maximum likelihood estimates, these properties improve as sample size increases. The interpretation of the logit model is that B_2 , the slope, measures the change in L for a unit change in X . That is, it tells how the log-odds in favor of being a prospering democratizer change given a one unit change of X_{ij} . The intercept can be interpreted as the log-odds in favor of being a prospering democratizer given $X_{ij}=0$.

3) Calculation of Growth Variable

As an example of the calculation of average annual growth, Table C-1 reviews Turkey's economic growth during the past two decades. $Grwth5av$ of 2.63 in 1998 is based on the average annual growth rates from 1994-1998. It is only slightly higher than the annual growth rate in 1998. However, it softens the abrupt fluctuations found in individual exceptional years, such as the 7.85 percent drop in growth in 1994. Consistently high growth over a five year period results in an elevated $grwth5av$ figure.

$Gnpch5x3$ captures the absolute rate of change in GNP/capita level over the previous five year period. This is averaged for the previous three years so as not to be unduly biased by a year with a spiked observation. To calculate $gnpch5x3$ in 1998, the percentage difference in growth in GNP/capita over the previous five years is first calculated ($gnppch5$). In this case, Turkey's GNP/capita expanded by \$380 or 13 percent. This figure

is then averaged with the two previous years to generate a moving average of five-year growth rate figures (i.e. 15.5%).

Table C-1 Economic Growth Rates in Turkey Under Various Measures

year	grwth5av	ann. grwth	gnpch5x3	gnppch5	gnp/capita
1978	2.098108	-0.830517	.1507252	.1071953	2106.262
1979	1.641387	-2.591582	.1093748	.0818333	2051.677
1980	0.185234	-3.421208	.0650077	.0059946	1981.485
1981	-0.769359	2.119422	.0163009	-.0389252	2023.481
1982	-0.839531	0.526226	-.0250662	-.0422679	2034.129
1983	-0.356134	1.586471	-.0333729	-.0189257	2066.400
1984	0.980662	4.092401	-.0042667	.0483936	2150.965
1985	2.143167	2.391316	.0469861	.1114905	2202.402
1986	2.683074	4.818956	.1002523	.1408728	2308.534
1987	4.07907	7.506206	.157484	.2200887	2481.818
1988	3.601868	-0.799530	.1841311	.1914318	2461.975
1989	2.682381	-0.505033	.1834435	.1388101	2449.541
1990	3.606134	7.010079	.1734741	.1901805	2621.255
1991	2.380217	-1.310628	.1498573	.1205815	2586.901
1992	1.811081	4.660527	.1338939	.0909197	2707.464
1993	3.331968	6.804894	.1286826	.1745466	2891.704
1994	1.862466	-7.852545	.1177583	.0878085	2664.631
1995	1.767763	6.536569	.1151168	.0829952	2838.807
1996	3.086725	5.284181	.1087229	.1553651	2988.815
1997	3.526502	6.85941	.1393331	.179639	3193.83
1998	2.634236	2.343563	.1551228	.1303644	3268.679

Appendix D – Variable Descriptions

Variable	Description	Source
Accountability	Composite measure assessing the extent to which institutional checks and balances are in evidence in a society. Institutions considered include the electoral checks on the chief executive, separation of state and political party activities, separation of private and political power, an autonomous judiciary, and information accessibility as captured by a free press and civil liberties.	Constructed for this analysis based primarily on Polyarchy Index, ICRG, WDI2000, and Freedom House's Press and Freedom surveys.
Democracy	0-10 scale assessing competitiveness of executive recruitment, openness of political recruitment (conditional on competitiveness), constraints on chief executive, and competitiveness of political participation.	Polity IV
Full Autocracy	Scores of 8-10 on autocracy scale based on openness of executive recruitment (if executive is selected), constraints on chief executive, regulation on political participation, and competitiveness of political participation.	Polity IV
Years Since Democratization	Ordinal numbering starting in first year in which democratizing country advanced by one point in its democracy score from its pre-democratization benchmark during the study timeframe.	Calculated for this study based on Polity IV data
Legal History	Origin of legal code: British, French, Socialist, German, Scandinavian	World Bank's Global Development Network Growth Database
Primary School	Primary school enrollment (net %)	WDI 2000
Secondary School	Secondary school enrollment (net %)	WDI 2000
Infant Mortality Rate	Mortality rate per 1,000 live births	WDI 2000
Life Expectancy	Life expectancy at birth, total (years)	WDI 2000
Urbanization	Percentage of total population living in urban areas.	WDI 2000
Population Density	People per square kilometer	WDI 2000

Conflict	Episodes of political violence resulting in 1,000+ directly-related deaths in a year.	Center for Systemic Peace; State Failure Task Force
Kms to Brussels	Distance from respective capital city to Brussels.	Portland House Atlas
Ethnic Fractionaliz.	Average value of multiple indices of ethnolinguistic fractionalization, which calculates the chances of any two citizens of a country being from the same group. Higher values indicate greater levels of ethnic diversity.	World Bank Global Development Network Growth Database; Levine-Loayza-Beck
GNP79; GNP89	GNP/Capita in 1979 and 1989, respectively (constant 1995 US\$)	WDI 2000
Trade	Trade (% of GDP)	WDI 2000
Resource Balance	Resource Balance (% of GDP)	WDI 2000
Current Account Balance	Current Account balance (% of GDP)	WDI 2000
Gross Domestic Fixed Investment	Gross Domestic Fixed Investment (% of GDP)	WDI 2000
Capital Expenditure	Capital Expenditure (% of total expenditure)	WDI 2000
Foreign Direct Investment	Foreign Direct Investment (% of GDP)	
Fiscal Balance	Overall annual budget deficit (% of GDP)	WDI 2000
Inflation	Inflation in consumer prices (annual %)	WDI 2000
Gross National Savings	Gross national savings, including NCTR (% of GDP)	WDI 2000
Fuel Exports/Imports	Fuel exports/imports (% of merchandise EX/IM)	WDI 2000
Exports of ores/metals	Ores/Metals Exports (% of merchandise exports)	WDI 2000
Agriculture Value Added	Agriculture, value added (% of GDP)	WDI 2000
Roads	Percentage of paved roads.	WDI 2000

Appendix E. Country Listings by Polity IV Democracy Level in 1999

0	1	2	3	4	5	6	7	8	9	10
Afghanistan	Angola	Burkina	Cambodia	Djibouti	Kyrgystan	Armenia	Argentina	Bolivia	Botswana	Australia
Arab Emirates	Algeria	Jordan	Ethiopia	Iran	Malaysia	Albania	Chile	Brazil	Bulgaria	Austria
Azerbaijan	Cameroun	Kenya	Ghana	Mali	Russia	Bangladesh	El Salvador	Colombia	Czech Rep	Belgium
Bahrain	Chad	Senegal	Liberia	Niger		Benin	Estonia	Domin Rep	Cyprus	Canada
Belarus	Comoros	Singapore	Zambia	Nigeria		C.A.R.	Fiji	Ecuador	France	Costa Rica
Bhutan	Guinea	Tajikistan		Peru		Georgia	Honduras	Indonesia	India	Denmark
China	Kazakhstan	Tanzania				Guatemala	Latvia	S. Korea	Jamaica	Finland
Cote d'Ivoire	Togo	Tunisia				Guyana	Malawi	Turkey	Nicaragua	Germany
Congo-B	Uganda					Haiti	Nepal		Slovakia	Great Britain
Cuba	Yemen					Macedonia	Panama		S. Africa	Greece
Egypt						Madagascar	Philippines		Taiwan	Hungary
Eritrea						Mexico	Romania		Thailand	Ireland
Gabon						Moldova	Venezuela		Uruguay	Iceland
Gambia						Mozambique				Israel
Eq Guinea						Namibia				Italy
Iraq						Paraguay				Japan
Kuwait						Sri Lanka				Lithuania
Lao						Ukraine				Luxembourg
Libya										Mauritius
Myanmar										Mongolia
Mauritania										Netherlands
Morocco										Norway
Oman										New Zealand
Pakistan										P.N. Guinea
North Korea										Poland
Qatar										Portugal
Rwanda										Slovenia
Saudi Arabia										Spain
Sudan										Sweden
Somalia										Switzerland
Swaziland										Trinidad
Syria										USA
Turkmenistan										
Uzbekistan										
Vietnam										
Yugoslavia										
Congo-K										
Zimbabwe										

Appendix F - Variables and Datasets Considered in Construction of Accountability Measure

Constraints on Executive	Separation of Party and State	Separation of Political and Economic Power	Independent Judicial Systems	Information Access	Social Capital
Executive xconst – Polity IV xrcomp – Polity IV competit – Polyarchy polconv – Political Constraints Index polconiii – PCI eiec – Database of Political Instit’s finitrm – DPI tensys – DPI Legislature L1 – PCI L2 – PCI legfra_1 – PCI legfra_u – PCI checks1 – DPI checks2 – DPI polariz – DPI Decentralization F – PCI auton – DPI stconst – DPI muni – DPI state – DPI author – DPI	Opposition ipcoh – DPI liec – DPI prtyin – DPI allhouse – DPI govfrac – DPI herfgov – DPI herfopp – DPI oppfrac – DPI frac – DPI herflot – DPI oppmajh – DPI oppmajs – DPI mdms – DPI polright – F. House Bureaucracy bureaucr – ICRG red_tape – ICRG goveffec – Kaufmann accountg – Levine bureauc eff – Levine it_mlt_w – WDI Corruption corruption – ICRG governme – ICRG graft – Kaufmann corrupt. perception - Transparency Int’l corruption – Levine	Central Bank 17 var.s’ - cbi Firm Entry regburdn – Kaufmann busreg97 – Levine econ freed - fraser econ freed – heritage bussproc – Djankov busstime – Djankov busscost – Djankov patents - WDI Credit for Priv. Sec fs_ast_p – WDI fs_ast_d – WDI ne_gdi_p – WDI fra_pcap – Fraser hrt_inv – Heritage hrt_bnks – Heritage SOE’s gb_soe_2 – WDI gb_soe_d – WDI gb_soe_e – WDI gb_soe_g – WDI cm_mkt_1 – WDI soe – Levine	Free Press freepress – F.House voi_acct – Kaufman. bm_gsr_c – WDI Free Speech/Civil Liberties civlibert – F.House parreg – Polity IV ip_jrn_a – WDI it_cel_s – WDI it_cmp_p – WDI it_fax_m – WDI it_int_t – WDI it_mlt_m – WDI it_hosts – WDI it_rad_s – WDI it_tvs_s – WDI it_tvs_c – WDI	Rule of Law ROL – ICRG polconvj – PCI j – PCI rol_kauf – Kaufmann rulelaw – Levine Contracts/Property contract – ICRG expropri – ICRG exprisk – Levine proprt97 – Levine fra_rol – Fraser hrt_prop – Heritage	Equity gini – Deininger-Sq quintile – Deininger-Sq landgini – Squire WIID – UNDP distribu – ICRG middle_c – ICRG Homogeneity racial_t – ICRG social_s – ICRG ethnicfr – Easterly-Hu/ Levine et al Trust trust – Knack-Zak

Appendix F (Continued) – Index of Variables

xconst - constraints on chief executive	allhouse – executive control of all relevant houses
xrcomp – competitiveness of executive recruitment	govfrac – fractionalization of legislatures
competit – electoral competition	herfgov – Herfindahl index for government
polconv – political constraints index with 5 veto points	herfopp – Herfindahl index for opposition
polconiii – political constraints index with 3 veto points	oppfrac – opposition fractionalization
eiec – executive index of political competitiveness	oppmajh – opposition party majority in House
finitrm – finite term in office	oppmajs – opposition party majority in Senate
tensys – tenure of system of government	mdms – mean district magnitude (Senate)
L1 – effective lower legislative body	polright – political rights index
L2 – effective upper legislative body	bureaucr – bureaucratic quality
legfra_l – legislative fractionalization, lower body	red_tape – administrative delays
legfra_u – legislative fractionalization, upper body	goveffec – government effectiveness
checks1 – number of veto players	accountg – established accounting standards in practice
checks2 – number of veto players supporting opposition	bureauc eff – bureaucratic efficiency
polariz – difference of orientation among government parties	it_mlt_w – waiting time for telephone mainline
F – effective state or provincial authority	corruption – corruption
auton – autonomy of regions	governme – government corruption
muni – locally elected municipal governments	graft – respect by the state for rules governing interactions
state – state/provincial governments elected	corruption perception index
author – taxation/regulatory authority at sub-national level	cbi – central bank index
ipcoh – index of political cohesion	regburdn – regulatory burden
liec – legislative index of political competitiveness	busreg97 – extent of business regulation in 1997
prtyin – length of time in office for executive's party	econ freed – economic freedom index
	bussproc – number of procedures required for firm entry
	busstime – average time required for firm entry

busscost – average cost required for firm entry
patents – patent applications by residents

fs_ast_p – credit to private sector
fs_ast_d – domestic credit by banks
ne_gdi_p – private investment
fra_pcap – measure of capital and financial markets
hrt_inv – openness of capital and investment
hrt_bnks – restrictions of private banks

gb_soe_2 - % of employees working with state owned enterprises
gb_soe_d - % of credit to SOEs
gb_soe_e - % of economic activity generated by SOEs
gb_soe_g - % of gross domestic investment to SOEs
cm_mkt_l – listed domestic companies
soe – extent of state owned enterprises

freepress – measure of press freedom
voi_acct – voice and accountability
bm_gsr_c – imports of communications/computers

civlibert – civil liberties index
parreg – regulation of political participation
ip_jrn_a - number of technical journals/capita
it_cel_s – number of cell phones/capita
it_cmp_p – number of personal computers/capita
it_fax_m – number of fax machines per capita
it_int_t – minutes of international telephone calls
it_mlt_m – number of telephone mainlines per capita

it_hosts – number of information technology hosts per capita
it_rad_s – radios per capita
it_tvs_s – televisions per capita
it_tvs_c – cable televisions per capita

ROL – rule of law
polconvj – measure of judicial independence with 5 veto points
j – effective judiciary
rol_kauf – rule of law
rulelaw – rule of law

contract – contract repudiation
expropri – expropriation risk
exprisk – risk of expropriation
proprt97 – property rights rating
fra_rol – property rights and rule of law
hrt_prop – property rights protection

gini – gini coefficient
quintile – share of total income by quintile
landgini – proportionate distribution of land ownership
WIID – measure of gini coefficient
distribu – measure of distribution of wealth
middle_c – extent of middle class

racial_t – racial and national tensions
social_s – social stability
ethnicfr – measure of ethnolinguistic fractionalization

trust – measure of levels of trust

Appendix G – Description of Variables Included in Accountability Measure

Competitiveness is constructed from the Polyarchy Index by Tatu Vanhanen and the International Peace Research Institute. It represents the extent of electoral competition in a society. It is calculated by subtracting the percentage of votes won by the largest party by 100 in elections for chief executive. A maximum limit of 70 percent is set to avoid the bias of proportional representation systems with many small parties. If data on the distribution of votes are not available or not meaningful, the value is calculated on the basis of the distribution of seats in parliament (Vanhanen). Observations are available for 187 countries from 1810-1998. (For documentation see <http://www.svt.ntnu.no/iss/data/vanhanen>). To provide a sense of the robustness of this measure, correlations between competition and: Polity's executive constraints is 0.83, Polity's democracy is 0.86, the Political Constraints Index's (PCI) legislative fractionalization index (0.84) (Henisz), and with PCI's political constraints (0.82).

Bureaucratic Quality – From the International Country Risk Guide (ICRG)⁴⁰, this variable is based on the institutional capacity and quality of the civil service. It assesses how much strength and expertise bureaucrats have and how able they are to manage changes in governing party without drastic interruptions in government services. Specific criteria examined include (1), autonomous bureaucracies, (2) freedom from political pressures, and (3) an established mechanism for recruitment and training. Compiled since 1982, the index has data for 160 countries in 1998.

40 Produced by the private corporation, Political Risk Services (<http://www.prsgroup.com>), the ICRG provides assessments of political, economic, and financial risks. These assessments are based on the analysis of a worldwide network of experts and are subject to a peer review process at subject and

Corruption – Also from ICRG, this variable measures corruption within the political system that distorts the economic and financial environment, reduces the efficiency of government and businesses by enabling individuals to assume positions of power through patronage rather than ability, and introduces an inherent instability in the political system. The most common form of corruption identified is financial corruption in the form of demands for bribes connected with import and export licenses, exchange controls, tax assessments, police protection, or loans.

The bureaucratic quality and corruption (correlation of 0.75) variables were weighted evenly in the calculation of this feature. Several of the other variables considered for this category were used to screen outlying observations as well as fill in missing observations. These include Kaufmann et. al.'s government effectiveness (correlation = 0.95), Transparency International's corruption perception index (correlation=0.90), and WDI's waiting time for telephone mainline (correlation = 0.74).

Credit for Private Sector – From the WDI (<http://www.worldbank.org/data/wdi>), this variable assesses the level of credit in a country that is extended to the private sector as a percentage of GDP. Observations for this variable are available for 173 countries in 1998.

Checks for robustness included correlation's with WDI's domestic credit by banks (correlation = 0.71), Fraser Institute's private capital (correlation = 0.80), and Kaufmann et. al.'s regulatory burden (correlation = 0.67). The credit for private sector variable did not correlate closely with the central bank index (CBI) generated by Webb et. al.

However, neither the aggregate CBI measure nor its component parts correlated very

regional levels to ensure the coherence and comparability of countries (Kaufman et al.)

closely with any of the comparable factors considered in this analysis. One explanation for this is that the CBI only has observations through the 1980s.

Rule of Law - Based on ICRG's Law and Order variable that assesses the strength and impartiality of the legal system as well as the popular observance of the law. Data for 160 countries are available in 1998. Comparing this factor with comparable indices finds correlations with Fraser Institute's rule of law (correlation = 0.82) and Kaufman et. al.'s rule of law (correlation = 0.88).

Press Freedom – This variable is from Freedom House's Press Freedom Country Ratings from 1979-1999. (For documentation see <http://www.freedomhouse.org/pfs2000>). It assesses the degree to which a country permits the free flow of information based on (1) the laws and administrative decisions affecting the content of the news media, (2) the degree of political influence over the content of the news systems, (3) the economic influences exerted by the government or private entrepreneurs on news content, and (4) actual violations against the media such as murder, physical attack, harassment, and censorship. This data covers 186 countries in 1998.

Civil Liberties – Developed by Freedom House's Annual Survey of Freedom, 1972-2000 (<http://www.freedomhouse.org/ratings>), this variable assesses the freedom to develop views, institutions, and personal autonomy apart from the state based on (1) freedom of expression and belief, (2) association and organizational rights, (3) rule of law and human rights, (4) personal autonomy and economic rights. Data is available for 188 countries in 1998.

The press freedom and civil liberties indices (with a correlation of 0.90) were

evenly weighted to generate the information access feature. A robustness check of information access with Kaufmann et. al.'s voice and accountability produces a correlation of 0.94. Correlations with WDI's variables for per capita numbers of telephone mainlines, televisions, and radios are between 0.54-0.62.

The cross-correlations generated from the individual accountability features generally fall in the range from 0.29 to 0.47 indicating a substantial degree of distinctiveness. The strongest correlations are between electoral competition and information access (0.76) and bureaucratic efficiency and legal system independence (0.65). A full listing of the cross correlations are as follows:

Feature	Competition	Bureaucracy	Priv. Credit	Legal System.	Information
Competition					
Bureaucracy	0.33				
Priv. Credit	0.29	0.41			
Legal System.	0.35	0.64	0.38		
Information	0.76	0.37	0.47	0.45	

Appendix H. Aggregate Accountability Listings by Country in 1998

Latin America	Africa	Cent. Europe	FSU	South Asia	East Asia	Middle East	Western Europe
Barbados 42.5	Mauritius 40	Czech Rep 40	Estonia 38	India 31	Japan 45	Israel 40	Luxem. 50
Chile 41	Namibia 36	Hungary 38	Lithuania 33	Nepal 26.5	S. Korea 41	Morocco 35.5	Netherl. 50
Bahamas 38	Cape Verde 33.8	Slovenia 36	Latvia 31	Banglad. 26.5	Taiwan 40	Lebanon 32	Switzerl. 49
Belize 37.5	Botswana 32	Poland 35	Moldova 27.5	Sri Lank. 25.5	Singapore 38	Kuwait 31	Austria 47.5
Uruguay 37	South Afr 32	Slovak Rep 35	Armenia 26.5	Pakistan 23	Thailand 37	Jordan 29	Germany 47
Costa Rica 35	Comoros 29.2	Romania 32	Russian 26.5	Myanmar 7	Philippines 36	Iran 26	Finland 47
Trinidad 35	Benin 28	Croatia 29.5	Ukraine 23.5		Malaysia 35	Tunisia 25	Norway 47
Argentina 35	Malawi 28	Bulgaria 26	Georgia 23.5		Fiji 30	Egypt 25	Cyprus 47
Guyana 35	Senegal 27.5	Macedonia 25	Kyrgyzstan 19		Mongolia 30	U.A.E. 24	Iceland 47
Bolivia 33	Guinea 26.3	Bosnia 21.3	Azerbaijan 16.5		P.N. Guinea 29	Bahrain 23	Sweden 46
Panama 33	Ghana 26	Albania 21	Belarus 15		Indonesia 25.5	Qatar 22.5	Ireland 45
Ecuador 31	Gambia 25	Yugoslav 18.8	Kazakhstan 13		Brunei 23.8	Oman 22	Denmark 45
Nicaragua 31	Burkina 24.5		Tajikistan 11		China 23	Algeria 18	France 45
Suriname 30	Mozambique 24.5		Uzbekistan 8.8		Cambodia 19	Yemen 18	Gr. Britain 45
Jamaica 30	Tanzania 24.5		Turkmenist 6.3		N. Korea 12.5	S. Arabia 18	Belgium 43.8
Dominica 29	Togo 24				Vietnam 11.3	Syria 13	Spain 43
Paraguay 29	Madagasc 23.5				Laos PDR 10	Libya 8.8	Portugal 43
Mexico 28.5	Uganda 23.5					Iraq 3.8	Italy 43
Brazil 27.5	Lesotho 22.5						Malta 41
Peru 27.5	Djibouti 22.5	Africa (cont'd)					Greece 35
El Salvador 27	Zimbabwe 22	Niger 15					Turkey 27
Colombia 26.5	Kenya 22	Cameroon 14					
Guatemala 24.5	Ethiopia 21.5	Angola 14					
Venezuela 24	Gabon 20.5	Congo, R 11					
Honduras 24	Zambia 20.5	Nigeria 9.5					
Haiti 16	Mali 20	Sudan 9					
Cuba 15	Guinea-B 20	Sierra L 8					
	CAR 19.5	Rwanda 7.5					
	Mauritania 18.8	Burundi 7.5					
	Chad 17.5	Eq. Guin 6.3					
	Cote d'Ivoire 17.5	Somalia 2.5					
	Swaziland 16.5	Congo, D 2.5					
	Liberia 16.3						

Appendix I - Comparisons with Barro Estimates

In addition to being a leader in the empirical literature on economic growth modeling, Robert Barro has been actively involved in the debate over sequence between economic growth and democracy (Barro 1997). He concludes that there is bi-directional causality, however, it is stronger in the growth to democracy models. He finds democracy is a positive contributing factor to growth, though primarily at the early stages of development. A squared democracy is negatively significant in his growth estimates leading to the interpretation that there is a maximum level of democracy that is economically efficient. In the context of the mid 1990s, the ideal level of democracy would be that exhibited by Mexico or Malaysia. He argues that democratic reforms in Taiwan, Thailand, and Korea have gone too far from an economic efficiency perspective.

While not accepting some of Barro's underlying theoretical assumptions, it is instructive to compare Barro's results with the findings observed in this study. Table I-1, model I, reproduces Barro's results from a growth regression assessing the contribution of democracy as well as conditional convergence (Barro, 1997). These are based on a panel of 100 countries observed from 1960 to 1990. The dependent variable is growth rates of real per capita GDP over three periods 1965-1975, 1975-1985, and 1985-1990. The estimation is by three-stage least squares with different instrumental variables for each equation. The instruments used are earlier (lagged) values of the regressors. The results indicate that conditional convergence is predicted (given the negative log of GDP) coefficient. In addition, human capital factors (male education and life expectancy) are positively associated with growth as are rule of law and terms of trade. Meanwhile,

government consumption, inflation, and fertility are negatively related to growth. The negative education-income interaction term implies that more years of schooling raises the sensitivity of growth to the starting level of GDP. The opposing signs in the democracy and democracy squared variables reflect a declining contribution of democracy to growth after a certain level.

Table I-1. Barro (1997) Growth Regression and Comparison

Dependent Variable: GDP/Capita Growth Rate

Variable	I		II	
	Coefficient	t-score	Coefficient	t-score
Log GDP	-0.0226	-7.03	1.189	5.29
Male second/higher education	0.0098	3.92	0.012	0.52
Life Expectancy	0.0418	3.01	-0.095	-3.51
Log GDP*male education	-0.0052	-3.06	-0.002	-0.59
Log Fertility Rate	-0.0135	-2.55	0.842	7.73
Gov't Consumption	-0.1150	-4.26	-1.6e-9	-1.55
Rule of Law	0.0262	4.76	0.326	5.99
Terms of Trade	0.0127	4.23	-0.009	-2.71
Democracy	0.0940	3.48	-0.360	-3.23
Democracy Squared	-0.0910	-3.79	0.043	3.48
Inflation	-0.0390	-4.89	-0.001	-5.49
Africa	-0.0042	-0.98	-0.420	-1.05
Latin America	-0.0540	-1.69	0.554	1.94
East Asia	0.0050	1.22	3.471	8.00
N	84		1425	
Adjusted R ²	0.52		0.29	

Notes for Model II: Dependent Variable is annual GNP/capita (5 year average). OLS results are Cochrane-Orcutt corrected for first order auto-correlation. Log of GNP is substituted for Log GDP. Secondary education is used in lieu of male secondary education and above. Population growth is substituted for fertility rate.

For comparative purposes, the factors found significant in Barro's work are replicated here (as closely as possible) (see table I-1, model II). This assesses how closely

Barro's model fits the sample of democratizers examined in this study from 1980 to 1998 using OLS (i.e. the method used throughout this analysis). The results find few similarities with the Barro findings⁴¹. Only the strongly positive association of rule of law and the negative relationship of inflation to growth are consistent between the two models. Factors that are significant in the opposite direction include log of GNP/capita (i.e. suggesting divergence), trade, and population growth. None of the human capital factors considered are significant in the replicated model. The democracy and democracy squared combination reveal a converse interpretation to that generated by the Barro estimation – initial increases in democracy are negatively associated with growth, though this reverses to a positive association after a certain level of democracy has been reached.

In sum, there is little consistency between the Barro model applied to the sample considered in this study. The differences in sample (solely democratizers) and sample period (including post-Cold War) used in the current study do not make this a very reliable direct comparison, however. Meanwhile, it is noteworthy that Barro does not include terms for conflict, domestic investment, and foreign direct investment – all factors that are strongly significant in explaining growth in the full sample estimate for this study.

41 Using annual GNP/capita as the dependent variable, all variables except the law and order factor are insignificant. Therefore, the comparative model uses five year average growth as the dependent variable.

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