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25 April 2011

Online at <https://mpra.ub.uni-muenchen.de/30488/>
MPRA Paper No. 30488, posted 27 Apr 2011 18:42 UTC

Good versus Bad Political Institutions and Economic Welfare?

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April 2011

ABSTRACT

The paper finds that countries which practice democracy are less prone to unequal outcomes especially when it comes to wage inequality and income inequality whereas autocracy is associated with higher level of wage inequalities but its impact on income inequalities are insignificant. Though under good economic management, autocracies may redistribute incomes from the richest to the poorest, more generally an autocratic set up violates the median voter hypothesis. The results also show that political stability and voice and accountability are more sensitive to inequalities than democracy and autocracy which is to say that the countries which are politically stable and practice accountability also form more equal societies.

JEL Codes: F-15, I-3, O1, N40

Key Words: Institutions, Trade Liberalisation, Redistribution, Wage Inequality

1. Introduction:

In an effort to achieve economic efficiency, most countries have dismantled their barriers to international trade in goods and services during the last couple of decades. As a result, the size of world trade in goods and services has dramatically increased. Few success stories have also emerged as an outcome of contemporary globalisation. China and India, have witnessed unprecedented rise in their growth rates as well as significant poverty alleviation. However for most countries, globalisation has come with mixed experiences. Most rich and middle income countries are experiencing rising economic inequality generated by skill biased technological change, international trade and other factors related to globalisation (Smeeding, 2002). Despite integration to the world economy, most countries of Latin America, Africa (i.e, Sub Saharan Africa) and some in Asia have failed to accomplish decent growth rates. In many countries in the South, poverty has increased. Even if some could grow at a decent rate, they have failed to put a downward pressure on the increasing trends

in poverty levels. Even in China and India, the falling poverty trends are not sustainable, as there is an evidence of rapid rising inequalities.

Though the world after the very surge of colonialism transformed into a land of unequal opportunities, last century has witnessed a worse deal where global inequalities have partly lead to regional inequalities and then the come back of contemporary globalisation entailing post modernism had brought inequality to the very door step of each country where rural and urban divides have been ever increasing so much so that recently it has become of policy importance to consider inequality as a significant factor which may stifle growth promoting strategies and even reverse what good growth may bring to the society.

In the retrospect, the problem of poverty can not be separated from the way in which growth is achieved. So, other than economic growth, what is the point of reference to economic development especially when it is about ensuring equity? Under global processes of production where trading societies learn and coordinate among each other to find common grounds for carrying out contemporary social norms which fits into international standards where business protects labour rights, promotes gender sensitivity, brings efficient social welfare system while following best commerce practices, there are myriad of common institutions which simultaneously play a role in facilitating each country's smooth exposure to global markets and international competition.

One of the most commonly quoted institutional factor for determining any country's intellectual, social, economic and cultural progress is the notion of Democracy. Since all developed nations are well practiced democracies, this notion generally forms the popular opinion that democracy is the first step to any country's progress.

Thus to analyse what makes it tick for good economics where not only economic growth is achieved but its economic dividends are also distributed equally among different strata of population especially in case of developing countries, a cross section analysis of developed and developing countries has been carried out in this paper where different definitions of political institutions are employed to analyse their impact on inequality while different proxies of openness/trade policy capture the free market effect and would also work as a control group to confirm the robustness of results.

2. Data and Methodology:

To capture inequality we not only take GINI income inequality index (*Gini*) from UNU/WIDER World Income Inequality Database (WIID) but also we employ UTIP-UNIDO Theil measure (*Theil*) calculated by University of Texas Inequality Project (UTIP) which captures wage inequality between skilled and unskilled labour. This is motivated by several considerations. First, comparable and consistent measures of income inequality, whether on a household level or per head basis are difficult, almost implausible and generally fails to provide adequate or accurate longitudinal and cross-country coverage. On the other hand, inequality of manufacturing pay, based on UNIDO Industrial Statistics provides indicators of inequality that are more stable, more reliable and more comparable across countries because UNIDO measures are

based on a two or three digit code of International Standard Industrial Classification (ISIC) a single systematic accounting framework. Furthermore, manufacturing pay has been measured with reasonable accuracy as a matter of official routine in most countries around the world for nearly forty years (Galbraith and Kum, 2002). Further more we take income deciles and percentiles from UNU/WIDER World Income Inequality Database (WIID) as other proxies of inequality. Institutions or Integration will be guilty of inequality if it has the negative impact on the incomes of bottom 10 percent (*low10*) and positive impact on the income of the top 10 percent (*high 10*).

Table 1: Summary Statistics

| Variables | Code | Source | Obs | Std . Dev |
|--|------------------|--|-----|-----------|
| <u>Dependent</u> | | | | |
| GINI Coefficient in Percentage Points as calculated by WIDER, 1995 | Gini | UNU/WIDER World Income Inequality Database (WIID) http://www.wider.unu.edu/wiid/wiid.htm | 117 | (35.00) |
| UTIP-UNIDO Wage Inequality THEIL Measure, 1999 | Theil99 | University of Texas Inequality Project (UTIP) http://utip.gov.utexas.edu | 155 | (0.099) |
| Lowest income decile, 1995 | Low10 | UNU/WIDER World Income Inequality Database (WIID) http://www.wider.unu.edu/wiid/wiid.htm | 117 | (1.05) |
| Fifth income percentile/ First income percentile , 1995 | High20/ Low20 | UNU/WIDER World Income Inequality Database (WIID) http://www.wider.unu.edu/wiid/wiid.htm | 117 | (2.28) |
| Third income percentile, 1995 | Thrd20 | UNU/WIDER World Income Inequality Database (WIID) http://www.wider.unu.edu/wiid/wiid.htm | 117 | (2.22) |
| Highest income decile, 1995 | High10 | UNU/WIDER World Income Inequality Database (WIID) http://www.wider.unu.edu/wiid/wiid.htm | 117 | (7.50) |
| <u>Endogenous Independent</u> | | | | |
| Openness Variables | | | | |
| (Exports +Imports)/GDP at current dollar prices, 1985 | Lcopen | World Development Indicators | 170 | (0.589) |
| Import Penetration: overall, 1985 | Impnov85 | Pritchett (1996) | 96 | (21.08) |
| Import Penetration: overall, 1982 | Impnov82 | Pritchett (1996) | 95 | (23.85) |
| TARS trade penetration, : overall, 1985 | Tars85 | Pritchett (1996) | 96 | (36.91) |
| TARS trade penetration, : overall, 1982 | Tars82 | Pritchett (1996) | 93 | (83.10) |
| Trade Policy Variables | | | | |
| Import duties as % imports, 1985 | Tariffs | World Development Indicators | 99 | (8.903) |
| Tariffs on international inputs and capital goods, 1985 | Owti | Sachs and Warner (1995) | 98 | (0.165) |
| Trade taxes/ trade, 1982 | Txtrdg | Pritchett (1996) | 54 | (0.031) |
| Weighted average of total import charges, 1985 | Totimpov85 | Pritchett (1996) (Available for developing countries only) | 76 | (21.30) |
| Non trade barriers frequency on intermediate inputs, 1985 | Owqi | Sachs and Warner (1995) | 96 | (0.24) |
| Non-tariff barriers Coverage: overall, 1987 | Nontarr87 | Pritchett (1996) (Available for developing countries only) | 76 | (36.305) |
| Sachs and Warner's composite openness index, 1980 | Open80s | Edwards (1998) | 61 | (0.446) |

| Political Institutions | | | | |
|---|---------|--|-----|---------|
| Voice and Accountability, 1999 Range: 2.5 to -2.5 | Va | Kaufmann, Kraay and Lobaton(2003) | 170 | (0.952) |
| Political stability, 1999 Range: 2.5 to -2.5 | Ps | Kaufmann, Kraay and Lobaton(2003) | 156 | (0.954) |
| Democracy, 2000 Range = 0-10 (0 = low; 10 = high), Democracy Score: general openness of political institutions. The 11-point Democracy scale is constructed additively | Demo | Polity IV dataset | 123 | (4.33) |
| Autocracy Range = 0 to -10 (0 = low; -10 = high), general closeness of political institutions. The 11-point autocracy scale is constructed additively | Auto | Polity IV dataset | 123 | (3.69) |
| Instruments | | | | |
| Natural logarithm of predicted trade shares computed from a bilateral trade equation with 'pure geography' variables, | Lfrkrom | Frankel and Romer (1999) | 163 | (16.75) |
| Fraction of the population speaking English | Engfrac | Hall and Jones (1999) | 182 | (0.236) |
| | Eurfrac | Hall and Jones (1999) | 185 | (0.380) |
| Fraction of the population speaking one of the major languages of Western Europe: French, German, Portugese or Spanish | | | | |
| Distance from the equator of capital city measured as abs (Latitude)/90 | Disteq | Acemoglu, Johnson and Robinson (AJR) (2001) | 208 | (16.65) |

We also take income groups divided into quintiles where the effect of Institutions is anticipated to be negative for the ratio between top 20 percent and bottom 20 percent (*high20/low20*) and positive for the middle income groups (*Middle20*). The exercise on income deciles and percentiles will further shed light on how institutions and integration are related with income distribution. Especially, we are interested to know how quality of institutions is related with the incomes of the middle class or the ones living in bottom of income share. Each country observation for all inequality measures is taken for the latest year for which data is available and in most cases represent inequality in mid 1990s.

Four proxies for political institutions namely, political stability (*Ps*), voice and accountability (*Va*), democracy (*Democ*) and autocracy (*Autoc*) are used. The analysis incorporates not 1 but 12 various concepts of openness and trade policy in regression model in order to carry out a robustness check for our results on institutions.

The basic inequality and income share equations would look like:

$$Inequality = f(Political Institutions, Integration, Geography) \dots\dots\dots (1)$$

$$and \quad Income Share = f(Political Institutions, Integration, Geography) \dots\dots\dots (2)$$

Corresponding to equation 1, inequality model say based on *Theil index* has 1 equation, whereas it corresponds to different institutional or integration combination.

Then, the model specifications for *Gini*, *High20/Low20*, *Middle20*, *Low10* and *High10* contain same classification of endogenous independent variables.

$$Theil_{ii} = \alpha_1 + \beta_1 Polity_i + \chi_1 Trade_i + \delta_1 Geo_i + \varepsilon_{ii} \dots\dots\dots(3)$$

The variable *Theil_i* is Theil Index in a country i, *Polity_i* respectively measures for either political stability, voice and accountability, democracy or autocracy, whereas *Trade_i* measures general openness or trade policy in the economy and ε_i is the random error term. *Geo_i* represent distance from the equator.

There are potential endogeneity problems between institutions and integration and between institutions and inequality itself. To this effect we have first regressed our institutional, trade policy and openness proxies on a set of instruments. Frankel and Romer (1999) suggests that we can instrument for openness by using trade/GDP shares constructed on the basis of a gravity equation for bilateral trade flows. Following Dollar and Kraay (2003) and Hall and Jones (1999), we use ‘fractions of the population speaking English (*Engfrac*) and Western European languages as the first language (*Eurfrac*)’ as an instrument for political institutions. As in Rodrik et al (2004), we employ ‘distance from the equator’ as another instrument (proxy for geography) also employed by Hall and Jones (1999). Due to space constraints we directly jump to second stage results. First stage results are available on request. Suffice to say that the author runs higher order asymptotic tests and instruments mostly pass the criterion.

3. Results:

Due to the sheer number of specifications for which the regressions are carried out for six different dependent variables, it is not possible to present results for both institutions and integration together in single table. Thus, in order to cover all specifications, we discuss results by summarizing them into different categories of political institutions.

Political stability generally measures conflict including military coup risk, major insurgency rebellion, political terrorism, political assassination, civil war, major urban riots and the new government honouring commitments of the previous government. (Kaufman et al. 2003) Although many recent studies show that conflict and civil unrest is endogenous to prevalent inequalities, it may also be that these conflicts further deepen inequalities in society. That this is exactly what happens as per the results in table 2. Political stability ensures a more equal society. High coefficients for *Gini* with negative signs and significance at 1% level in most cases show high effectiveness of political stability in decreasing income inequalities. Countries who address factors of instability and achieve greater social harmony among the population by addressing the concerns of marginalized can more effectively address the problem of rising income inequalities.

Table 2: Political Stability

| Independent Variables | Dependent Variables | | | | | |
|----------------------------------|-------------------------|--------------------------|---------------------|-------------------|-------------------|----------------------|
| | Wage Inequality (Theil) | Income Inequality (Gini) | High20/Low20 | Middle20 | Low10 | High10 |
| Political Stability (Lcopen) | -0.03 (-1.97)** | -8.70 (-4.98)*** | -6.39 (-3.57)*** | 2.19 (5.49)*** | 0.58 (3.11)*** | -6.87 (-5.10)*** |
| Political Stability (Impnov85) | -0.04 (-2.23)** | -8.71 (-3.69)*** | -6.72 (-2.67)*** | 2.17 (4.03)*** | 0.54 (2.28)** | -6.68 (-3.69)*** |
| Political Stability (Impnov82) | -0.03 (-1.76)* | -8.38 (-3.94)*** | -6.31 (-2.72)*** | 2.09 (4.20)*** | 0.54 (2.41)*** | -6.47 (-3.87)*** |
| Political Stability (Tarshov85) | -0.04 (-2.41)** | -9.10 (-3.68)*** | -6.95 (-2.69)*** | 2.24 (3.99)*** | 0.59 (2.38)** | -6.91 (-3.68)*** |
| Political Stability (Tarshov82) | -0.04 (-2.38)** | -8.73 (-3.90)*** | -6.54 (-2.70)*** | 2.17 (4.13)*** | 0.57 (2.48)** | -6.69 (-3.81)*** |
| Political Stability (Open80s) | -0.05 (-1.14) | -15.04 (-2.40)*** | -13.32 (-1.95)* | 3.21 (2.80)*** | 1.25 (2.12)** | -10.64 (-2.70)*** |
| Political Stability (Tariffs) | -0.002 (-0.02) | 22.35 (-1.91)** | -13.51 (-1.59) | 4.32 (2.01)** | 2.69 (1.61) | -14.72 (-1.95)*** |
| Political Stability (Owti) | -0.07 (-2.33)** | -13.55 (-2.83)*** | -7.36 (-2.27)** | 2.84 (3.13)*** | 1.09 (2.39)** | -9.31 (-2.94)*** |
| Political Stability (Txxtrdg) | -0.03 (-2.29)** | -14.12 (-3.49)*** | -8.26 (-2.09)** | 3.25 (3.64)*** | 1.14 (2.47)** | -11.23 (-3.54)*** |
| Political Stability (Totimpov85) | 0.0003 (0.01) | 4.63 (0.78) | -4.33 (-0.55) | -0.03 (-0.03) | -0.69 (-1.05) | 1.45 (0.33) |
| Political Stability (Owqi) | -0.09 (-1.10) | -2.84 (-0.37) | -1.16 (-0.23) | 1.28 (1.05) | 0.10 (0.17) | -3.40 (-0.75) |
| Political Stability (Ntarfov87) | -0.03 (-0.42) | -16.61 (-0.93) | -14.16 (-1.19) | 1.98 (0.98) | 0.42 (0.44) | -5.59 (-0.82) |

***, **, * corresponds to 1%, 5% and 10% level of significance respectively.

- Control variables are in parentheses in the first column

In comparison to *Gini*, low coefficients of *Ps* for *Theil99* suggest that good politics has a limited role to play for smoothening out the average wage rate in favor of unskilled. Nevertheless, for a sample of developed and developing countries, a negative relationship between *Theil99* and *Ps* means that politically stable economies, which are also democracies in most instances pay higher average wages in labor markets thus putting a downward pressure on wage inequality. (Rodrik, 1998) For businesses to perform better, stable political landscape is a pre-requisite. All politically stable economies also have thriving manufacturing sectors with profitable industries and high rates of employment - both skilled and unskilled. All such countries would also pay relatively higher wages to unskilled due to, probably, higher profits and thus a downward pressure is exerted on relative wage gap. There is a strong redistributive effect present for *Ps* which further suggests that internal conflict resolution leads to populist governance structures which redistribute resources from the very rich to the lesser. Opposite of political stability – occurrence of internal conflict may indicate towards power struggle between different interest groups or different classes which would then be highly correlated with concentration of wealth in the hands of the few elites. The results suggest that politically stable societies not only redistribute incomes to the middle-income groups, but they also benefit the lowest segments of society equally as coefficients of *low10* are close to the half of the coefficients for *Middle 20*.

Table 3
Voice and Accountability

| Independent Variables | Dependent Variables | | | | | |
|---------------------------------------|-------------------------|--------------------------|---------------------|-------------------|-------------------|---------------------|
| | Wage Inequality (Theil) | Income Inequality (Gini) | High20/Low20 | Middle20 | Low10 | High10 |
| Voice and Accountability (Lcopen) | -0.02 (-1.50) | -5.46 (-4.04)*** | -4.04 (-2.92)*** | 1.43 (4.74)*** | 0.259 (1.71)* | -4.37 (-4.20)*** |
| Voice and Accountability (Impnov85) | -0.03 (-2.07)** | -5.28 (3.03)*** | -4.53 (-2.28)** | 1.39 (3.38)*** | 0.17 (0.87) | -3.99 (-2.82)*** |
| Voice and Accountability (Impnov82) | -0.02 (-1.64)* | -5.63 (-3.34)*** | -4.29 (-2.62)*** | 1.51 (4.05)*** | 0.26 (1.49) | -4.50 (-3.51)*** |
| Voice and Accountability (Tarshov85) | -0.03 (-2.27)** | -5.35 (-2.96)*** | -4.68 (-2.25)** | 1.42 (3.31)*** | 0.187 (0.91) | -4.07 (-2.76)*** |
| Voice and Accountability (Tarshov82) | -0.04 (-2.48)** | -5.60 (-3.43)** | -4.81 (-2.57)** | 1.52 (3.91)*** | 0.28 (1.51) | -4.48 (-3.37)*** |
| Voice and Accountability (Open80s) | -0.06 (-1.12) | -4.20 (-1.21) | -6.18 (-1.28) | 1.13 (1.54) | -0.11 (-0.24) | -3.01 (-1.14) |
| Voice and Accountability (Tariffs) | -0.05 (-0.75) | -19.34 (-1.05) | -16.18 (-0.90) | 3.91 (1.10) | 2.34 (0.89) | -11.68 (-1.05) |
| Voice and Accountability (Owti) | -0.05 (-2.21)** | -5.80 (-2.11)** | -4.14 (-1.42) | 1.50 (2.13)** | 0.23 (0.64) | -4.39 (-1.81)* |
| Voice and Accountability (Txtrdg) | 0.08 (1.10) | -12.74 (-2.33)** | -7.76 (-1.58) | 3.15 (2.52)** | 0.82 (1.46) | -10.76 (-2.40)** |
| Voice and Accountability (Totimpov85) | 0.01 (0.47) | 3.06 (0.91) | -0.34 (-0.08) | -0.56 (-0.76) | -0.69 (-1.84)* | 2.59 (1.02) |
| Voice and Accountability (Owqi) | -0.07 (-1.24) | 0.70 (0.09) | 0.924 (0.17) | 0.27 (0.17) | -0.46 (-0.52) | 0.054 (1.01) |
| Voice and Accountability (Ntarfov87) | -0.03 (-0.67) | -0.61 (-0.14) | -3.77 (-0.72) | 0.16 (0.17) | -0.26 (-0.52) | -0.06 (-0.02) |

***, **, * corresponds to 1%, 5% and 10% level of significance respectively.

- Control variables are in parentheses in the first column

Internal conflicts can be resolved and political stability can be achieved only through a transparent political process which takes on board all stakeholders and give equal space to each to raise their respective concerns and by holding fair accountability for all. If rich can get away with accountability process through manipulation of justice system, then larger public discontent may lead to public unrest resulting in the possibility of a violent conflict where larger segments of the society would take law in their hands. Class struggles in many developing countries have lead to civil unrest and cause internal conflict. The origins of many ethnic conflicts have also arisen due to lack of equal representation in sharing public offices and other positions of power by minorities. The root cause of every civil conflict links up with discontent which aggrieved parties show towards biased accountability process where one law is for the powerful and another is for the Junta. Results in table 3, indicate that voice and accountability is another important institutional process for an equal society. A strong evidence of redistribution is present in line with other empirical literature: 'The channels of communication are vital for development, particularly for electoral democracies in the process of establishing effective political and economic institutions. In societies where press freedom is combined with widespread access to mass media, this is positively associated with good governance and with human development, through the role of the press in promoting the voice of disadvantaged groups in the policymaking process and strengthening the accountability of governments to citizens and thus decreasing inequality.' (Norris 2001: 8).

Table 4: Democracy

| Independent Variables | Dependent Variables | | | | | |
|------------------------|-------------------------|--------------------------|---------------------|-------------------|-------------------|--------------------|
| | Wage Inequality (Theil) | Income Inequality (Gini) | High20/Low20 | Middle20 | Low10 | High10 |
| Democracy (Lcopen) | -0.004 (-1.65)* | -0.77 (-1.84)* | -0.649 (-1.66)* | 0.23 (2.68)*** | -0.01 (-0.25) | -0.63 (-2.15)** |
| Democracy (Impnov85) | -0.005 (-1.73)* | -0.69 (-1.84)* | -0.79 (-1.65)*** | 0.21 (2.13)** | -0.01 (-0.02) | -0.51 (-1.56) |
| Democracy (Impnov82) | -0.004 (-1.94)* | -0.88 (-2.20)** | -0.915 (-1.99) | 0.27 (2.93)*** | 0.02 (0.36) | -0.74 (-2.41)** |
| Democracy (Tarshov85) | -0.006 (-1.77)* | -0.62 (-1.92)* | -0.79 (-1.56) | 0.19 (1.90)** | -0.01 (-0.27) | -0.45 (-1.33) |
| Democracy (Tarshov82) | -0.005 (-1.50) | -0.91 (-2.15)** | -0.97 (-2.02)** | 0.27 (2.79)*** | 0.02 (0.51) | -0.73 (-2.27)** |
| Democracy (Open80s) | -0.007 (-1.15) | 0.56 (0.57) | -0.67 (-0.67) | -0.02 (-0.11) | -0.17 (-1.32) | 0.34 (0.48) |
| Democracy (Tariffs) | -0.01 (-1.81)* | 2.09 (0.95) | 0.43 (0.33) | -0.39 (-0.81) | -0.24 (-1.10) | 1.58 (0.92) |
| Democracy (Owti) | -0.007 (-1.99)** | 0.33 (0.38) | 0.13 (0.19) | -0.05 (-0.24) | -0.13 (-1.12) | 0.41 (0.53) |
| Democracy (Txtrdg) | 0.023 (1.14) | -1.83 (-1.80)* | -1.16 (-1.13) | 0.52 (2.20)** | 0.06 (0.55) | -1.72 (-2.06)** |
| Democracy (Totimpov85) | 0.0009 (0.17) | -1.35 (-2.25)** | 0.59 (0.74) | 0.24 (1.84)* | 0.19 (2.86)*** | 0.97 (2.11)** |
| Democracy (Owqi) | -0.01 (-1.87)* | 0.74 (0.37) | 0.40 (0.06) | -0.07 (-0.17) | -0.13 (-0.72) | 0.458 (0.31) |
| Democracy (Ntarfov87) | -0.007 (-1.13) | 0.96 (1.30) | 0.44 (0.85) | -0.19 (-1.28) | -0.12 (-1.50) | 1.52 (-0.61) |

***, **, * corresponds to 1%, 5% and 10% level of significance respectively.

- Control variables are in parentheses in the first column

According to Glaeser et al. (2004), good leadership is what matters and not whether a country is a democracy or a dictatorship. Irrespective to their convincing argument, there is a strong correlation run from democracy to redistribution through political stability: ‘Regimes controlled by rich elite often collapse and make way for democracy amidst widespread social unrest. Such regime changes are often followed by redistribution to the poor at the expense of the former elite.’ (p683) Our empirical analysis also finds that democracy is significantly and negatively related with income inequality, but the relation is indeed weak as can be seen by the low coefficients of *Demo* for *Gini*. In comparison to other measures of political institutions, a high number of cases of insignificance are observed in table 4.

A comparison of results for *Auto* in table 5 and *Demo* in table 4 for *Theil99* suggests that democracies put a downward pressure on wage inequality while autocracies may favor skilled over unskilled. In light of redistributive potential of democracy, this result shows presence of skill bias among autocracies. Since a comparison is drawn between democracies and autocracies for a sample of developed and developing countries, this result on autocracies is more relevant for developing countries that may represent dictatorships who may promote such growth policies which would have unequal outcomes in labor markets. Literature also suggests that differentiation between political make-ups is important in determining the wage structure in a country. For example, democracies on average pay higher wages to the manufacturing sector. Rodrik (1999) finds out that average wages improve in the manufacturing sector with the enhancement of democratic institutions: ‘average wages in a country

like Mexico would be expected to increase by 10 to 40 percent were Mexico to attain a level of democracy comparable to that prevailing in United States.’ (p.707) Rockey (2007) adds up to this evidence as he finds that it is parliamentary democracies that are more effective in raising the average wage share of labor in manufacturing when compared to Presidential democracies.

Table 5: Autocracy

| Independent Variables | Dependent Variables | | | | | |
|------------------------|-------------------------|--------------------------|------------------|--------------------|------------------|--------------------|
| | Wage Inequality (Theil) | Income Inequality (Gini) | High20/Low20 | Middle20 | Low10 | High10 |
| Autocracy (Lcopen) | 0.006 (1.64)* | 0.37 (0.70) | 0.70 (1.11) | -0.17 (-1.49) | 0.07 (1.23) | 0.38 (0.98) |
| Autocracy (Impnov85) | 0.006 (1.35) | 0.43 (0.75) | 0.92 (1.45) | -0.16 (-1.20) | 0.06 (0.96) | 0.29 (0.65) |
| Autocracy (Impnov82) | 0.0041 (1.85)* | 0.69 (1.20) | 0.64 (0.97) | -0.26 (-1.94)* | 0.03 (0.49) | 0.63 (1.43) |
| Autocracy (Tarshov85) | 0.006 (1.65)* | 0.29 (0.49) | 0.94 (1.43) | -0.12 (-0.92) | 0.07 (1.06) | 0.17 (0.37) |
| Autocracy (Tarshov82) | 0.005 (1.84)* | 0.63 (1.08) | -0.19 (-0.18) | -0.23 (-1.74)* | 0.02 (0.38) | 0.55 (1.22) |
| Autocracy (Open80s) | 0.004 (0.75) | -1.69 (-1.47) | -0.47 (-0.38) | 0.26 (1.11) | 0.27 (2.02)** | -1.16 (-1.39) |
| Autocracy (Tariffs) | 0.01 (2.39)** | -1.899 (-1.19) | -0.71 (-0.75) | 0.361 (1.00) | 0.21 (1.38) | -1.14 (-1.15) |
| Autocracy (Owti) | 0.008 (2.04)** | -1.13 (-0.96) | -0.55 (-0.34) | 0.23 (0.77) | 0.22 (1.60) | -1.04 (-1.04) |
| Autocracy (Txtrdg) | -0.02 (-0.97) | -0.70 (-0.46) | -0.88 (-0.93) | -0.04 (-0.12) | 0.25 (1.28) | -0.03 (-0.03) |
| Autocracy (Totimpov85) | 0.0002 (0.04) | -1.78 (-2.43)** | -0.62 (-0.44) | -0.31 (-2.07)** | 0.23 (2.88)* | -1.28 (-2.34)** |
| Autocracy (Owqi) | 0.011 (1.88)* | -0.10 (-0.45) | -0.25 (-0.62) | 0.13 (0.26) | 0.18 (0.91) | -0.68 (-0.40) |
| Autocracy (Ntarfov87) | 0.008 (1.86)* | -1.27 (-1.54) | -0.44 (-0.25) | 0.27 (1.59) | 0.16 (1.64) | -1.11 (-1.83)* |

-***, **, * corresponds to 1%, 5% and 10% level of significance respectively.

- Control variables are in parentheses in the first column

Coming back to the results on autocracy, they reveal that autocracies also perform poorly in favor of redistribution and if anything they are negatively related with the incomes of the poor and the middle class. In contrast, democracies seem to favor middle-class more than anybody else, confirming the median voter argument that democratized countries with greater inequality of factor income tend to redistribute from more to the less affluent. (Milanovic 2000)

4. Conclusions:

So what lessons are available from these results? Should it be that a country might compromise on democracy and follow a politically repressed system of dictatorial rule? Both questions are applicable to developing countries where most of the underperforming economies are lead by dictatorial regimes whether in Asia, Africa or Latin America. However, there are salient exceptions too where it seems that the definition of western democracy remains unfulfilled but an enlightened model of economic management has been adopted and success has been achieved as far as growth dividends are concerned. So how may one contrast such exceptions with the

ones where autocracy has led to repressed market structures? Is it all about market efficiency to defend an autocratic structure? The present results illuminate these questions of whether equity and not only growth is the objective for a developing country's policy apparatus. If somehow a less democratic political system may strengthen legal, social and economic institutions and promote political stability, it would not matter whether a western model of democracy is implemented by its word and spirit or some case specific combination of political and social methodologies adopted.

Democracy is definitely not a sufficient condition in itself for contributing towards the equity or even economic progress of a country. Rather democracy is just another part of the jigsaw puzzle, which may only fit in properly at its right time when other institutional variables have evolved appropriately to support its conceptual application. Most democracies must have been autocracies or near autocracies when the political process started out and this means mere concentration on democracy is futile to find solutions for institutional or macroeconomic progress. Rather consider democracy a notion suggesting an objective and well-developed end for the confirmation of economic, social, cultural and scientific development rather than a means to an end. However, in today's rapidly transforming world where some developing countries may benefit from global markets more than others, they would find themselves under increasing pressure from their populations to transform into a more democratized system of governance once they witnessed higher levels of economic and institutional development. In such scenarios, countries that may be doing well under well-defined autocratic set ups may not only have to decide to bring western models of democracy to align their social development with global standards, but more importantly, they have to decide the timing of such critical transitions. This will ensure the sustainability of the economic progress they achieved as any abrupt changes always carry higher risks. (Rodrik and Wacziarg, 2005)

Nevertheless, all such autocratic regimes which are controlled by ruling elites have a high risk of collapse amidst widespread social unrest. Thus it is beneficial for the ruling class to bring increased democratization in the country because temporary concessions in light of social pressure can be viewed as a sign of weakness and this may give way to further unrest and cause dramatic change in regimes and increasing the risk of a civil war unless the most generous concession, a transition to full democracy, is not made. Finally, democratization lies in the very interest of autocracy while the transition to democracy is often followed by redistribution to the poor at the expense of the former elite. Acemoglu and Robinson (2000)

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