

Africa's Growth Tragedy Revisited: Weak States, Strong Rulers*

Carl Henrik Knutsen, University of Oslo

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ABSTRACT

This paper investigates how democracy and dictatorship affect economic growth in Sub-Saharan Africa, and whether the effect from democracy on growth depends on the level of state capacity. Earlier studies on Africa have focused on ethnic fractionalization, state structures and economic policies as factors affecting development. This paper adds to the literature by explaining how regime type affects development through systematically affecting economic institutions and policies. The paper particularly focuses on the adverse economic effects of dictatorial regimes in countries with weak state institutions. In such contexts, leaders are free to pursue policies that are macroeconomically inefficient, but which enhance leaders' survival in office and personal increase wealth. The empirical analysis shows that democracy most likely contributes to higher growth rates in Sub-Saharan Africa, and that democracy has a larger positive effect on growth in Africa than globally. Moreover, statistical analyses, both on African and global samples, show that democracy has a particularly positive effect in countries with weak state institutions. The interaction between weak state capacity and dictatorship is a vital factor underlying Africa's many economic development disasters.

Keywords: Democracy, State capacity, Economic growth, Africa

Address for correspondence:

Carl Henrik Knutsen

Department of Political Science, University of Oslo

Contact: c.h.knutsen@stv.uio.no

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1. Introduction

Empirical studies indicate that democracy, globally, does not reduce economic growth,¹ but reduces variation in growth rates.² Democracy also increases wages,³ and induces human capital accumulation.⁴ But, does democracy enhance economic development in Sub-Saharan Africa? Some of the poorest countries and most weakly institutionalized states in the Post-WWII period have been located in Africa. The question of whether democracy enhances development in Africa therefore relates to whether democracy can contribute to economic development in poor, low-capacity states.⁵ One quite common argument among political scientists is that democracy is suitable for development in already rich countries with high state capacity, but that more authoritarian government may be needed in poorer countries with weak state institutions. In such countries, authoritarianism is argued to stabilize polities,⁶ strengthen state institutions,⁷ enhance accumulation of capital investment,⁸ and thereby ultimately generate economic development.

¹ E.g. Przeworski et al. 2000

² E.g. Rodrik 2000

³ Rodrik 1998

⁴ E.g. Lake and Baum 2001

⁵ The literature on state capacity provides a multitude of different definitions and angles to analyze the concept (see e.g. Skocpol 1985; Migdal 1988; Caporaso and Levine 1992; Fukuyama 2005). For example, Skocpol (1985, 9) relates state capacity to a state's "ability to implement official goals, especially over the actual or potential opposition of powerful social groups". State capacity is in this view closely related to, and is perhaps preconditioned on, "state autonomy", which relates to the state's (as an organization) ability to formulate and implement policies "that are not simply reflective of powerful social groups" (Skocpol 1985, 9). Moreover, state capacity is multi-dimensional, in the sense that a state's ability to formulate and implement policies vary over different issue-dimensions (see e.g. Fukuyama 2005), although a state's capacity on one type of issues (taxation and extraction of resources) is likely correlated with its capacity on other issues (like management of violence) (Tilly 1985). Some definitions of state capacity include an a priori relation to positive economic outcomes in the conceptual definition (see e.g. Englebert 2000), which makes it problematic to study the relation between state capacity and economic outcomes empirically. On the other hand, many empirical, quantitative studies focus only or mostly on a state's ability to tax (see e.g. Bussman 2009), which is too narrow. Here, state capacity relates to the broader definition given by Skocpol (1985), and draws heavily on the Weberian notion that an independent, well-functioning, rule-following bureaucratic apparatus is an important factor underlying state capacity (see e.g. Skocpol 1985; Evans 1995; Chabal and Daloz 1999). This means that personalization and informalization of political decision making goes together with a low degree of state capacity. Indeed, "quality of the bureaucracy" is used as a proxy for state capacity in the empirical analysis. The concept of state strength is used interchangeably with state capacity throughout the text.

⁶ E.g. Huntington 1968

⁷ E.g. Wade 1990; Leftwich 2000

⁸ E.g. Przeworski and Limongi 1993

Despite the arguments of skeptics on the suitability and working of democracy in poor, low-capacity states, and in Africa more in particular,⁹ there are good theoretical and empirical reasons for why democracy is beneficial for African economies, and in countries with prior weak state institutions more generally. The relevant question is not whether democracy performs perfectly in such contexts, but rather whether democracy performs better than more dictatorial regimes. Africa's most impressive economic success-stories have come in democratic Botswana and Mauritius. These countries started out dirt poor, and with bleak prospects for development, after decolonization.¹⁰ But, smart political and economic decision making helped these countries grow fast over a long time period. In contrast, few of the world's economies have performed as badly after 1960 as many African dictatorships have. Is it coincidental that most African economic disasters have been dictatorial and the few success-stories democratic?¹¹

I argue that dictatorial regimes' propensity to select bad policies are aggravated in Africa because of generally weak state institutional structures.¹² Partly due to weak institutional structures, African rulers that wanted to maximize personal wealth were able to do so at the wider economy's expense, and rulers that mostly wanted to maintain power rationally chose policies that consolidated their rules, but destroyed national economies. Bueno de Mesquita et al.¹³ find a strong correlation between bad economic policies and a ruler's tenure length. If allowed, selecting "bad policies" is often rational for survival- or consumption oriented dictators.¹⁴ Democracy tends to delimit the discretionary powers of rulers and channel their

⁹ See e.g. Chabal and Daloz 1999; Museveni 1995; see also different chapters in Lumumba-Kasongo 2005

¹⁰ See e.g. Brookfield 1959; Meade 1961

¹¹ In this study, democracy is conceptualized along the lines of Beetham (1999): Democracy is a continuous concept, where degree of democracy is related to the degree of popular control over collective decision making and degree of political equality in the populace. Particular institutions contribute to ensuring a high degree of democracy, such as free and fair elections, but also other institutional structures and political and civil rights and liberties enhance democracy (see e.g. Beetham 1999; Inglehart and Welzel 2006; Knutsen 2010a). I do not discuss these conceptual issues further below, and in the discussion I often refer to "democracies" and "dictatorships", which are shorthand for regimes that have either relatively high or relatively low degree of popular control over politics and political equality.

¹² This is at least partly attributable to the particular type of colonization experience many African states faced (Herbst 1989; Englebert 2000; Acemoglu et al. 2001). Partly, and over time, weak institutions are also endogenous to intentional policies by rulers that informalize and personalize politics (see e.g. Chabal and Daloz 1999; Knutsen 2009b). When acknowledged, the latter point adds interesting dynamics to the interaction argument between state capacity and regime type presented here.

¹³ Bueno de Mesquita et al. 2003

¹⁴ Robinson 1998; Acemoglu and Robinson 2006a

survival-oriented behavior towards economic policies that benefit broader masses of people, and thus the national economy.¹⁵ This explains why democracy outperforms dictatorship, particularly in contexts where there are few other institutional checks on rulers' behavior. This paper finds a quite strong, positive effect from democracy on economic growth in Sub-Saharan Africa. Particularly in countries with weak state institutions, democracy is important for growth. The latter result is found *both* in African and global samples. Section 2 presents earlier literature on democracy and development. Section 3 presents the argument for why dictatorship has been particularly bad for growth in Sub-Saharan Africa. Section 4 presents the empirical evidence. Section 5 concludes.

2. Earlier studies on democracy and development

Political structures matter for the economy, as they affect incentives for economic actors on everything from investment to work effort to innovation.¹⁶ Type of political regime, democratic or dictatorial, is economically important because regime type systematically affects economic policies and economic institutional structures.¹⁷ Degree of democracy, conceptualized as degree of popular control over political decision making and political equality among citizens,¹⁸ determines who are in charge of politics and how constrained leaders are in their decision making, which again has implications for economic institutions and policies. This paper mainly discusses how regime type affects *economic growth*. Since other economic factors, like education and health care spending, capital investments, trade and property rights affect economic growth,¹⁹ the discussion will deal with these as intermediary variables.

Although earlier studies found a negative effect from democracy on economic growth in global samples,²⁰ newer statistical studies relying on more proper estimation techniques and more data find either no significant,²¹ or a positive significant effect.²² Some of these studies

¹⁵ See e.g. Bueno de Mesquita et al. 2003; Olson 2003

¹⁶ E.g. North 1990

¹⁷ E.g. Rodrik 2000; Persson 2005

¹⁸ Beetham 1999

¹⁹ See e.g. Mankiw et al. 1992; Easterly and Rebello 1993; Torstensson 1994; Sachs and Warner 1995; Barro 1997

²⁰ See Przeworski and Limongi 1993

²¹ E.g. Helliwell 1994; Burkhart and Lewis-Beck 1994; Przeworski et al. 2000

also investigate the channels through which democracy affects growth. For example, democracy boosts growth through increasing human capital accumulation.²³ Several studies have also more directly established a positive effect on schooling and health related variables,²⁴ likely because increased political participation increases the responsiveness of self-interested politicians to citizens' demands for public goods.²⁵ Statistical studies also back up North's²⁶ and Olson's²⁷ proposition that democracies secure property rights better than dictatorships.²⁸ Democracy may also positively affect technological change; the most important determinant of long-term growth,²⁹ maybe even in poor countries.³⁰ Open societies, with greater flow of information, are expected to have a greater variety and better diffusion and selection of ideas and technologies.³¹ However, democracy on average seems to reduce physical capital accumulation,³² another important source of economic growth.³³ Some dictatorships have been able to provide high growth rates. The East Asian Tigers are prime examples.³⁴ Indeed, empirical analyses find no negative effect from dictatorship on growth in Asia.³⁵ However, most episodes of economic stagnation and decline globally have come in dictatorial countries.³⁶

3. Regime types and economic development in Africa

Earlier studies of Africa's growth tragedy have focused on geographic and climatic factors,³⁷ commodity dependence and decreasing (or at least volatile) terms of trade³⁸, particular

²² E.g. Leblang 1997; Tavares and Wacziarg 2001; Baum and Lake 2003; Bueno de Mesquita et al. 2003; Knutsen 2009a

²³ Tavares and Wacziarg 2001; Baum and Lake 2003

²⁴ See e.g. Lake and Baum 2001; Stasavage 2003

²⁵ Bueno de Mesquita et al. 2003; Acemoglu and Robinson 2006b

²⁶ North 1990

²⁷ Olson 2003

²⁸ E.g. Leblang 1996; Clague et al. 2003

²⁹ E.g. Romer, 1990

³⁰ Easterly 2001

³¹ Knutsen 2009d

³² E.g. Tavares and Wacziarg 2001

³³ E.g. Solow 1956

³⁴ See e.g. Wade 1990; World Bank 1993

³⁵ Knutsen 2010

³⁶ Przeworski et al. 2000; Rodrik 2000; Besley and Kudamatsu 2007

³⁷ E.g. Sachs, 2001

macro- and microeconomic policies³⁹ and ethnic fractionalization^{40,41}. However, the notion that political structures play a crucial role is not novel (and is indeed indicated in the abovementioned studies). As Ake⁴² puts it: “By all indications, political conditions in Africa are the greatest impediment to development”. I will try to specify which political conditions are particularly detrimental to economic growth.

3.1 Democracy and dictatorship when state institutions are weak

The literature indicates that the postcolonial African state is (generally) weakly institutionalized, leading “actual politics” to occur outside the orbit of formal state institutions and to personalized and informalized political decision making and implementation.⁴³ The literature also indicates some potential causes; the African state suffers from its colonial legacy in terms of how remnants of implanted colonial institutions operate, and from weak historical legitimacy and arbitrary borders.⁴⁴ State capacity and regime type are distinct conceptually. However, there is possibly a very strong interaction between state capacity and regime type on the economy. I argue that the combination of weak state institutions and dictatorship is particularly negative for economic development: If state institutions are weak, leading to few horizontal checks on rulers, the more important becomes the vertical accountability mechanisms of elections, free speech, free media and other democratic institutions in restraining leaders’ bad policies. The worst case economic scenario is weakly institutionalized, personalized dictatorship.

Indeed, when synthesizing different versions of “selectorate theory”, we should be led to expect that democracy is particularly beneficial for the economy in weakly institutionalized states: Bueno de Mesquita et al.⁴⁵ argue that broad political support bases, or winning coalitions, as exist in democracies, are conducive to policies that generate broad public goods, rather than narrow redistribution of private goods to a few supporters. Again, public

³⁸ E.g. Sindzingre 2007

³⁹ E.g. World Bank 1994

⁴⁰ Easterly and Levine 1997

⁴¹ Indeed, specific institutional structures, including democratic, can mitigate the negative effects from climatic- and disease factors (Acemoglu et al. 2001) and negative terms of trade shocks (Rodrik 1999).

⁴² Ake 1996, 1

⁴³ E.g. Jackson and Rosberg 1982; Medard 1996; Chabal and Daloz 1999; Clapham 1996 and 1998

⁴⁴ Mamdani 1996; Englebert 2000; Herbst 1989

⁴⁵ Bueno de Mesquita et al. 2003

goods provision, broadly categorized to include property rights protection, mass education and other policies that benefit large groups, are more economic growth-enhancing than narrow private goods. Democratic institutions thereby induce political survival-oriented leaders to provide growth-enhancing policies. Botswana and Mauritius are good illustrations of regimes that despite initially few resources invested in broad public goods like infrastructure, education and health care.⁴⁶

The second avenue to growth-enhancing policies, according to Besley and Kudamatsu⁴⁷, is a small winning coalition relatively autonomous from the ruler, in the sense that the supporters' future political and economic prospects are not entirely in the leader's hands. Such winning coalitions can more credibly pressure dictators to promote growth enhancing policies. The more the dictator needs the winning coalition, and the less the winning coalition needs the dictator, the better will economic policy be. Actors in relatively independent state organizations or in strong party organizations and economic elites not dependent on personal ties with the ruler may be examples of such autonomous winning coalitions. Present day China might provide an example of a dictatorship with an autonomous winning coalition. China has a strong Communist Party organization, and its bureaucracy is relatively independent, and institutionalized. In Africa, the oligarchic Apartheid regime in South Africa is another illustration.⁴⁸ In personalized, weakly institutionalized dictatorships, such autonomy is difficult to attain for a winning coalition. Take Zaire as an example, where Mobutu "kept ministers and senior officials in a constant state of flux, rotating them regularly, dismissing them or imprisoning them to ensure they represented no threat".⁴⁹ Personal rule and weak institutionalization, implying less autonomous winning coalitions, also exacerbates the "Dictator's Dilemma" related to honest reporting of information,⁵⁰ as subordinates have more to lose from falling out with the dictator. More generally, dictators in weakly institutionalized states have worse apparatuses for eliciting information about the situation on the ground. Thus, weak state structures are detrimental to the informational basis

⁴⁶ Leith, 2005; Bräutingham 1997

⁴⁷ Besley and Kudamatsu 2007

⁴⁸ When it comes to South Africa however, as selectorate theory would predict, economic growth did not benefit those outside the winning coalition, especially the black majority.

⁴⁹ Meredith 2006:305

⁵⁰ See e.g. Mueller 1995, 416-417

on which rulers make policy decisions,⁵¹ which implies that even policies resulting from development-enhancing intentions may fail. In Bratton and van de Walle's words, in neo-patrimonial regimes, where rule is based on personal loyalty, rulers "surround themselves with sycophantic lieutenants who, to protect their own positions, tell the leader what he wants to hear and shield him from dissonant facts".⁵²

Therefore, there are good theoretical reasons for why democracy is beneficial for economic development in Sub-Saharan Africa, where state capacity has been low and personalized rule has dominated.⁵³ Some point out however, that for example the neo-patrimonial character of regimes and clientilistic practices are deep-rooted, and will continue to persist in African democracies.⁵⁴ This is arguably true. Clientilism is likely persistent because of several reasons,⁵⁵ and is generally detrimental to the economy.⁵⁶ However, even if clientilism is relatively persistent, it is not necessarily constant, and, perhaps more importantly, clientilism's economic effects may be dissimilar under democracy and dictatorship. First, democracy might widen the number of clients from a few central players, like Mobutu's 200 key supporters,⁵⁷ to a broader set of the populace. Selectorate theory indicates that this should increase public goods provision and growth. Democracy may also alter the power balance in patron-client relations. As Chabal and Daloz⁵⁸ recognize, these relations are not always completely asymmetric. A vote, and other political and civil rights, may provide clients with an extra tool that allows them to somewhat more successfully contest the patron's wishes. Lindberg⁵⁹ argues convincingly that African elections discipline the democratic behavior even of old dictators, at least to a certain extent. Even if many African elections have reinstated old dictators,⁶⁰ and thus perhaps not functioned well when it comes to politician-type-selection,⁶¹ theorists point to another effect from democratic elections: the disciplining

⁵¹ See e.g. Evans 1995; Knutsen 2009d

⁵² Bratton and van de Walle 1997, 84

⁵³ African citizens also seem to endorse democracy over other types of regimes (Bratton and Mattes 2005).

⁵⁴ Chabal and Daloz 1999

⁵⁵ See e.g. Medard 1996

⁵⁶ Miquel 2007

⁵⁷ Sørensen 1998, 80-81

⁵⁸ Chabal and Daloz 1999

⁵⁹ Lindberg 2005

⁶⁰ E.g. Joseph 1997

⁶¹ See e.g. Fearon 1999

effect.⁶² The same actor does not pursue the same policies in different systems. Although elections can and have been manipulated, especially in many poorer countries,⁶³ even a small to medium probability of losing office through elections may induce leaders to promote “good policies”. Indeed, leaders’ personal characteristics matter far less for economic outcomes in democracies than in dictatorships.⁶⁴ Although clientilistic practices and voting patterns are present in contemporary African democracies, democratic rights may still have economic effects.

Summing up, in certain circumstances, it is quite rational for political leaders to take actions that hurt the economies they preside over.⁶⁵ This point is also regularly indicated in literature on African political economies.⁶⁶ This paper investigates the political conditions that exacerbate the gap between what is individually optimal for political elites and socially optimal,⁶⁷ and points to the combination of weak state structures and dictatorship. Let us now consider which particular types of “bad policies” dictators, especially in weakly institutionalized settings, may conduct.

3.2 Dictatorship and economic institutions

Democracy systematically affects economic institutions, like property rights protection and institutions that control corruption. Democracy likely reduces large-scale corruption because of increased transparency and checks on the ruling elite.⁶⁸ However, democracy may decentralize corruption, which again likely reduces economic efficiency.⁶⁹ I focus here on property rights protection, because of its important effects on capital investment, allocation efficiency and technological innovation, and thus growth.⁷⁰ North⁷¹ argues that socially non-optimal solutions in property rights design and non-optimal changes in property rights can be economically beneficial to political leaders or their supporters. If politicians are consumption-

⁶² See e.g. Ferejohn 1986

⁶³ E.g. Schedler 2002

⁶⁴ Jones and Olken 2005

⁶⁵ Robinson 1998; Bueno de Mesquita et al. 2003; Acemoglu and Robinson 2006a

⁶⁶ See e.g. Medard 1996; Clapham 1996; Chabal and Daloz 1999

⁶⁷ North 1990

⁶⁸ See e.g. Rock 2009

⁶⁹ Shleifer and Vishny 1993

⁷⁰ North 1990

⁷¹ North 2000, 51

maximizing or want to generate revenues to enhance their political survival, there will be more property rights violations in dictatorships than in democracies because of several mechanisms.⁷² Despite some arguments pointing in the opposite direction,⁷³ there is a strong association between democracy and property rights protection. Econometric studies indicate that this is not only due to property rights affecting regime type.⁷⁴ Democracy generally enhances the protection of property rights, as the broadening of the winning coalition and the increased transparency and vertical checks that follow with democracy reduce both the scope and incentives for leaders to grab property. Incentives for broad-based property protection are often weak in dictatorships, and if there are few formal-institutional constraints on dictators, they are likely to grab property. Post-colonial Africa provides some very illuminating examples: In 1973, Mobutu decided that farms, plantations and commercial enterprises in Zaire should be turned over from foreign owners to “sons of the country”,⁷⁵ which was followed by confiscation of manufacturing plants. Mobutu was so successful in enriching himself, among others from property grabbing, that he became the world’s third richest man.⁷⁶ Mobutu also enriched his winning coalition on confiscated property, people within his own tribe and leading figures from major ethnic groups he needed support from.⁷⁷ In Uganda, Amin expelled the country’s relatively wealthy Asian minority and the “shops, the businesses, the property that the Asians were forced to leave behind, even their personal possessions, were seized as spoils by Amin’s cronies”.⁷⁸ Mobutu and Amin are two (of many) examples of dictators that did not protect property rights, to their own benefit, either in terms of personal consumption or political survival.

3.3 Dictatorship, markets, industrial and monetary policy

Dictators often face political and economic incentives for conducting inefficient industrial- and trade policies, and often gain by imposing policies that generate distortions in domestic markets. If implementation of economic policy is conducted by a relatively independent and rule-following bureaucracy, and leaders more generally are constrained by other state actors, relatively dictatorial countries *can* experience growth-enhancing economic policies, as East

⁷² See Olson 2003; Bueno de Mesquita et al. 2003; North et al. 2009; Knutsen 2009c

⁷³ Przeworski and Limongi 1993

⁷⁴ Knutsen 2009c

⁷⁵ Wrong, 2000, 92

⁷⁶ Sørensen 1998, 80

⁷⁷ Wrong 2000, 93

⁷⁸ Meredith 2006, 236

Asian experiences show.⁷⁹ However, in dictatorial countries with weakly institutionalized states, this is unlikely. Bates⁸⁰ treated these issues extensively. However, it's worth reiterating one of Bates' central points, namely that especially the relatively large agricultural sector has suffered from inefficient policies in Africa. The cocoa industry in Ghana is one example. The Cocoa Marketing Board (CMB) set up to regulate the industry fixed cocoa prices so that farmers received only a fraction of world market prices. Partly because of this, Ghanaian cocoa production halved from 1965 to 1980,⁸¹ although some of this drop may have been due to Ghanaians "unofficially" transporting cocoa to sell it from neighboring countries like Cote d'Ivoire where prices were much higher.⁸² There may be rational, political calculations underlying African leaders' prioritizing of urban interests at the cost of rural, agricultural communities, for example through regulating food prices to below market level. As all dictators probably know, if there is to be a revolution or other regime-threatening uprising, it is likely to come from within the major urban areas, particularly the capital. Therefore, subsidizing the urban population with cheap food prices has historically been a standard survival tactic for dictators. Cheap food prices come at a cost for farmers and ultimately rural development however, as work effort and new capital investment does not pay off.

The Ghanaian cocoa example is instructive also because of another reason. Dictators, as democratic leaders, need to care for their winning coalition; else they could soon be out of office. However, when relying on a few selected supporters rather than the majority of the populace, efficient markets or efficient management of state resources may not be as important as doling out private goods. Therefore, the CMB in Ghana was staffed with clients of Nkrumah.⁸³ Such practices are easier for leaders to conduct if state institutions are weak and have little independence. In general, doling out work in state enterprises and the economic bureaucracy, as well as restricting entry in markets and providing licenses to political supporters, have historically been common political practices in low-capacity dictatorships.⁸⁴ The size and functioning of economic institutions is decoupled from efficiency considerations, and rather driven by leaders' political survival interests. Moreover,

⁷⁹ See e.g. Wade 1990; Evans 1995; Kohli 2004

⁸⁰ Bates 1981

⁸¹ Meredith 2006, 186; see also Leith and Soderling 2003, 21-24

⁸² Bach 1999, 9

⁸³ See Meredith 2006, 25

⁸⁴ E.g. Ayittey 2005; North et al. 2009

if firms and other economic organizations are staffed with supporters, rather than the best qualified, mismanagement is often a result.

Although economically inefficient, the policies described above are beneficial both to those who obtain the rents and the political leaders who dole them out. Inefficient economic policy making is used to the benefits of the patron and his selected clients. Examples are plentiful in African dictatorships,⁸⁵ and contrast starkly for example with the productivity-enhancing industrial policies in dictatorships in countries with a higher degree of state capacity, like Taiwan and South Korea.⁸⁶ However, the industrial policies promoted by African dictatorships also contrast starkly with the industrial policies promoted in democratic Mauritius.⁸⁷ Mauritius' textile sector grew rapidly from the 1980s onwards, benefiting from reallocated capital funds from the sugar industry, openness to foreign ideas and entrepreneurs and favorable tax and business conditions in the country's Export Processing Zones. Mauritian industrial policy seemed more tuned towards rewarding productivity enhancement and the development of new sectors than rewarding rent seeking behavior by already rich and powerful groups, as often happens when dictatorial regimes try to consolidate their power in weakly institutionalized settings. Some of the main beneficiaries of the Mauritian textile sector's growth were the country's relatively poor women, who made up a large proportion of the workforce in the new factories. Poor women seldom bear any political clout in dictatorships, but their numbers imply they are a political force in democracies.

Also monetary and exchange rate policy in several African dictatorships has been conducted to the benefit of rulers, but not to the overall economy. Printing money generates seignorage to the regime, and perhaps also reduces the regime's real debt through increasing inflation. Printed money can also be used to selectively reward crucial political backers. However, hyperinflation is disastrous to an economy and the wider population; witness Zimbabwe. One would thus not expect extreme mismanagement of monetary policy in countries with a high degree of democracy, but neither would one expect it in dictatorships with more independent and institutionalized central banks. Exchange rates have also often been set artificially high by African regimes, especially before the 1990s.⁸⁸ This decreases the prices of imported

⁸⁵ See e.g. Ayittey 2005; Meredith 2006, 277-84

⁸⁶ See e.g. Wade 1990; Evans 1995; Kohli 2004

⁸⁷ See e.g. Meisenhelder 1997; Mistry 1999

⁸⁸ van de Walle 2005, 31

luxury goods from for example Europe, which is beneficial to rich ruling elites, but increases export prices, which hurt the local agricultural and manufacturing sectors. Contrast the many artificially high exchange rates in African dictatorships with Botswana's balanced exchange rate policies.⁸⁹ However, the perhaps most spectacular monetary policy in African history was conducted by Equatorial Guinean dictator Macias Nguema who allegedly kept the entire foreign currency reserve and a large share of the country's local currency in his palace, and later in a bamboo hut where some of it rot to the ground.⁹⁰ Such policies are not reinsuring for investors. Nevertheless, personally controlling the state's financial resources allows a dictator to drain off resources for personal consumption and selectively rewarding supporters to stay in power.

3.4 Dictatorship, taxation and public (mis-)spending

African governments have generally had little money to spend. Moreover, available resources for spending on productive public goods decline further when dictators' siphon wealth from the budget for personal consumption and for paying their winning coalitions. This is far easier in weakly institutionalized states, where political power is tied more to person than institutional role. Perhaps the worst example is Mobutu's Zaire, where about "40 per cent of the government's operating budget was either lost or diverted to purposes other than intended".⁹¹ This again had repercussion effects in the economy, as soldiers who were not paid "extorted money from civilians and set up roadblocks to confiscate farmers' produce being taken to market... Hospital medicines and equipment were sold by staff for their own benefit".⁹² Przeworski et al.⁹³ argue that in poor states, democracy may not matter for economic growth through affecting public spending, because there is in any case little to spend. However, the world is replete with decreasing-returns-to-scale production processes: The first resources spent yield the largest marginal return. Basic mosquito bed-nets save more lives per dollar than expensive heart surgery, the first paved road between the capital and the second largest city has a larger effect on goods-transportation than the second, and so forth. Therefore, public revenue allocation is perhaps *particularly* important in initially poor countries.

⁸⁹ Leith 2005, 76-81

⁹⁰ Meredith 2006, 240-241

⁹¹ Meredith 2006, 301; see also Reno 1997

⁹² Meredith 2006, 301

⁹³ Przeworski et al. 2000

Several African dictators have personally pocketed substantial amounts of public revenue, thus leaving less for productive, public investment. Appropriated resources are not necessarily used for the dictator's personal consumption. Military coups have historically been the African dictator's worst threat and channeling resources to officers has therefore been of importance. Also, maintaining a repressive apparatus can be quite costly, although some types of dictators are likely to spend more on this than others.⁹⁴ More generally, African history is filled with inefficient resource allocation that could only be conducted under dictatorship. Democratic electorates in free and fair elections, enlightened by a free press, would never have approved of Bokassa's coronation ceremony in The Central African Republic, which cost about a quarter of the annual foreign earnings.⁹⁵ Neither would they have approved of Omar Bongo's 500 million dollar palace in Libreville, or the Versailles for that matter. Construction programs of this scale in poor economies consume a large chunk of the budget, which means there is less resources for education, health and infrastructure spending, which again are essential for generating growth processes in poor societies.⁹⁶ Stasavage's⁹⁷ study on education spending in Africa is particularly relevant. Stasavage finds that democracies spend far more on education, especially on primary and secondary schooling.

Dictators' personal appropriation and use of resources may not crowd out productive public spending 1:1, but rather be partly financed through higher taxation. The type of taxation pursued in countries with low state capacity, where regular monitoring and taxing of ordinary income and consumption is difficult, is extra distortionary. African countries have relied to a large extent on different license fees for generating revenues and rewarding political supporters.⁹⁸ This makes it costly to start new businesses, even when not accounting for corruption.⁹⁹ Future economic growth thus suffers. Moreover, taxes have often been levied on international trade, with very distortionary effects.¹⁰⁰

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To sum up, Africa's dictators have been extremely successful. Several skilled and strategically clever rulers have managed to become extremely wealthy and stay in power for

⁹⁴ Windtrobe 1998

⁹⁵ Clapham 1996, 188

⁹⁶ See e.g. Murphy et al. 1989; Baum and Lake 2003; Mankiw et al. 1992

⁹⁷ Stasavage 2005

⁹⁸ See e.g. Ayittey 2005

⁹⁹ La Porta et al. 1999

¹⁰⁰ La Porta et al. 1999; Sindzingre 2007

long. However, there is an inverse relationship between the personal successes of leaders and the economic success of their countries.¹⁰¹ Expropriating property, partaking in corruption, restricting entry to domestic markets, doling out profitable positions to supporters (no matter how qualified), taxing certain productive activities extensively and saving in Swiss bank accounts, rather than investing locally, hurt economic development. But, these activities may be quite rational for self-interested dictators. If there are no strong, formal institutions to restrain them or an autonomous winning coalition that desires growth, dictators can get away with such policies. Thus, the worst combination for economic growth is a weak state and a strong ruler.

4. Empirical analysis

4.1 Benin and Togo

Consider Benin and Togo; two relatively similar countries, which after Benin's democratization in 1990 have had different regime types. Both countries are small, poor West African neighbors, with a relatively similar ethnic fragmentation structure, French colonial history (although Togo was first colonized by Germany), a post-colonial history of military rule (although Benin had less political stability) and even a shared currency (the CFA). A comparison of these countries therefore comes close to a quasi-experimental study on democracy's economic effects.

Benin's democracy after 1990 has been plagued by deficiencies.¹⁰² Many saw it as a troubling sign of the Beninese democracy's quality that old military dictator Mathieu Kerekou was rejuvenated as an elected leader in 1996. Although there were allegations of fraud under Kerekou's period in office,¹⁰³ Benin has had (at least) partially free and fair elections since 1990.¹⁰⁴ Benin is in any case an unlikely democratic success story,¹⁰⁵ and there have been alternations of executive power. Civil liberties, like freedom of press, speech and assembly, are also relatively well protected.¹⁰⁶ In Togo, long time ruler Gnassingbe

¹⁰¹ Bueno de Mesquita et al. 2003

¹⁰² See e.g. Magnusson 2005

¹⁰³ See e.g. Lindberg 2001; Magnusson 2005

¹⁰⁴ Lindberg 2006

¹⁰⁵ Magnusson 2005, 77-79

¹⁰⁶ Lindberg 2006; Freedom House 2008a

Eyadema and his supporters, managed to block the introduction of democracy in the early 1990s, after initially yielding for pressure to institute a multi-party system.¹⁰⁷ Although elections have been held, Eyadema, and to a somewhat lesser degree his son who succeeded him in 2005, picked broadly from the “menu of election manipulation”.¹⁰⁸ The Togolese courts are also heavily influenced by the ruling regime, freedom of assembly has not been present and there has been extensive government control over the media.¹⁰⁹ Benin and Togo have thus differed on degree of democracy after 1990, which make them well fit for a “most similar systems” comparison.

Figure 1 shows Benin and Togo’s GDP per capita in constant 2000 US\$ from 1960 to 2008. The figure shows general economic stagnation at a very low level of development for both countries. However, the divergent economic development paths of Benin and Togo, and indeed Benin’s pre- and post-1990 record, may suggest an economic growth benefit from democracy.

****FIGURE 1 HERE****

In terms of PPP-adjusted income, the picture of divergence is even clearer. According to this statistic, an average Beninese was 30 percent wealthier than a Togolese in 1990. In 2008 however, he or she was 77 percent wealthier. The PPP-adjusted GDP per capita of Benin in 2008 was 1357\$, compared to 767\$ in Togo. Benin is still poor, but it has improved on some key factors that earlier held the economy back, like human capital. According to the World Development Indicators (WDI), the gross secondary school enrollment ratio in Benin improved from 9 to 32 percent between 1990 and 2005. The primary enrollment ratio in the same period doubled from 48 to 96 percent. Although data are scarce, Benin’s health expenditure also seems to be on the rise. According to the WDI, the population-share with access to “improved sanitation facilities” improved from 12 to 30 percent between 1990 and 2006. In Togo, the equivalent number sank from 13 to 12 percent. However, the picture is not unequivocal. Togo has improved on some accounts, and Benin has for example regressed when it comes to the percentage of roads that are paved. Nevertheless, Benin seems to have

¹⁰⁷ See e.g. Bratton and van de Walle 1997

¹⁰⁸ Schedler 2002

¹⁰⁹ Freedom House 2008b

made more progress after 1990 than Togo. Is this related to its more democratic political system? If yes, does the positive economic effect from democracy hold more generally in Africa? To find out, I conduct a statistical analysis, controlling for a wide set of variables. Some samples contain data from 1960 to 2004, and the most inclusive covers 45 out of the current 48 Sub-Saharan states (Cape Verde, The Seychelles and Somalia lack data).

4.2 Methodology and data

The unit of analysis is country-year, which allows us to utilize information from both cross-sectional and within-nation variation. I utilize OLS with Panel Corrected Standard Errors (PCSE).¹¹⁰ These models take into account heteroskedasticity and contemporaneous correlation between panels and AR1 autocorrelation within panels. However, although these models include several control variables, there might still be omitted factors that bias results, for example country-specific historical factors. Therefore, I also utilize Fixed Effects (FE) models. These models are relatively restrictive, as they only use within-nation variation. The Random Effect (RE) models are milder versions of the FE, which assume that country dummies are drawn from a common distribution.¹¹¹

I operationalize democracy with the Freedom House Index (FHI); an average of Freedom House's Political Rights and Civil Liberties indexes, with data back to 1972.¹¹² The index ranges from 1 (most democratic) to 7 (most dictatorial). As countless observers recognize, there have been discrepancies between the ideal functioning of formal democratic institutions and the actual functioning and practice in African politics. Therefore, we should use measures that capture the functioning of institutions, and not only their formal-constitutional existence, when investigating the effects from democracy.¹¹³ The FHI is such a measure. As a robustness check, I use the more formal Polity Index (PI), which does not include civil liberties. The PI incorporates institutional factors such as competitive elections, degree of participation and checks on the executive.¹¹⁴ The PI ranges from -10 (most dictatorial) to 10 (most democratic). The PI, combined with the other variables, yield time series that go back

¹¹⁰ Beck and Katz 1995

¹¹¹ See e.g. Greene 2003

¹¹² See Freedom House 2008c

¹¹³ This point relates to the favored conceptual definition of democracy in this study, discussed in note 11, with democracy being a political regime with relatively high degree of popular control over political decision making and relatively high degree of political equality.

¹¹⁴ See Jagers and Gurr 2002

to 1960 for some countries. The Pearson correlation coefficient between the FHI and PI is -0.91 globally (negative values of FHI indicates more democratic) and -0.84 in Sub-Saharan Africa, indicating a somewhat larger discrepancy between formal democratic institutions and actual protection of political and civil rights on the continent. I also use two operationalizations of economic growth, measured as annual percentage change in real GDP per capita. One uses exchange rates (to the dollar) to calculate GDP. However, prices, especially on non-traded goods, vary between countries. Therefore, PPP-adjusted GDP, which takes into account local prices, is a better welfare measure. I use both measures since the exchange rate-adjusted has more data. Both measures are from the WDI.

The models incorporate several control variables. One is the logarithm of GDP per capita level, as income may affect both subsequent growth and regime type. Another control is the logarithm of population size, also collected from the WDI. The logarithm of regime duration, taken from Polity IV, is entered to control for political stability. Since ethnic fractionalization impact on economic growth,¹¹⁵ and perhaps regime type, I include the ethnic fractionalization index from Alesina et al.¹¹⁶ These data are unfortunately time-invariant. Plurality religion (Sunni Islam, Catholicism, Protestantism and indigenous religions) and colonizer (British, French, Belgian and Portuguese) are also entered as control dummies. The sets of plurality religion and colonizer dummies are from Knutsen.¹¹⁷ The models also incorporate decade dummies to control for temporal effects. Economic growth has been uneven in Africa, with a particularly hard decade in the 1980s, and democracy has been more prevalent in certain time periods, particularly after 1990.

4.3 Democracy's growth effect in Africa

The number of African electoral democracies has grown over the past two decades, albeit unevenly.¹¹⁸ As Figure 2 shows, the share of democratic countries has also expanded when we use a more substantive democracy measure: The number of countries that scores above the middle value of the FHI (3.5) has increased from 4 in 1972 (and in 1988) to 18 in 2005.

****FIGURE 2 HERE****

¹¹⁵ Easterly and Levine 1993

¹¹⁶ Alesina et al. 1997

¹¹⁷ Knutsen 2007

¹¹⁸ Lindberg 2005

Figure 3 presents average GDP per capita growth for relatively democratic and relatively dictatorial countries. The FHI is used, and the cut-off is set to 3.5. Democracies clearly outgrew dictatorships before 1990. However, democracies also outpaced dictatorships after 1990, with a slight exception around the mid-1990s. On average, African democracies seldom had negative growth rates during the period, in stark contrast with dictatorial countries. African democracies grew at quite decent rates, also when compared with countries on other continents.

****FIGURE 3 HERE****

To investigate whether the trends from Figure 3 are due to other factors (or coincidence), I run regression analyses. Table 1 shows results for models using exchange rate-adjusted GDP. Table 2 shows results for PPP-adjusted GDP models. The different models draw on between 1060 and 1516 country-years.

****TABLE 1 HERE**¹¹⁹**

****TABLE 2 HERE****

As seen from Tables 1 and 2, all models yield an estimated positive effect from democracy. Moreover, the effects are quite sizeable. According to the lowest FHI-estimate, (Fixed Effects with PPP), which is the only insignificant at the 5%-level, a change from most dictatorial (7) to most democratic (1) increases annual GDP per capita growth with about 1.7 percent. According to the estimate, if we consider two otherwise equal countries, one dictatorship and one democracy, starting out equally poor in 1960, the democracy would be twice as rich around 2000. The highest estimate comes from the exchange rate-adjusted RE model, which indicates a growth effect from full democracy of 3.6 percent. This is about equal to the difference in post-1980 growth rate between Mauritius and Rwanda, or Botswana and Sudan. The models using the more formal PI do not yield equally strong results. Three out of six models yield a significant effect from democracy at the 10%-level, and only two at the 5%-level. However, the lowest (insignificant) point estimate indicate a growth increase of about

¹¹⁹ In all tables, * → p<0.10, ** → p<0.05, *** → p<0.01 and **** → p<0.001.

0.8 percent from full democratization, and the highest (significant) estimate about 2.0 percent. Generally, these results indicate a positive effect from democracy on growth in Africa, and even a stronger effect in Africa than globally. Corresponding results for global samples indicate an effect from democracy of about 1 percent extra growth.¹²⁰

When it comes to the control variables, the models replicate the large, negative effect from ethnic fractionalization found in Easterly and Levine.¹²¹ Quite depressing is also the positive effect from initial income level, which indicates that poorer countries grow slower in Africa. Some models also indicate that larger countries grow faster, and some show a significant, positive effect from political stability, although this finding is far from robust. Plurality religion generally does not matter for growth, but some models show a negative effect from Belgian and French colonization experiences.

I conducted robustness check on the exchange rate adjusted models.¹²² First, I ran the RE and FE models with robust standard errors. This did not change the results much. Then, I tested whether Botswana and Mauritius may drive the results, because of these democracies' exceptional economic performance. However, even when excluding these countries, the FHI models showed a positive and significant effect from democracy at least at the 5%-level. The Polity models also showed positive estimated effects, although these were insignificant at the 5%-level. Despite this, excluding Botswana and Mauritius from the sample does not cast serious doubts on the effects from democracy on growth in Africa.

Thereafter, I tested the models with further control variables, in order to mitigate the chance of omitted variable bias. First, Africa has experienced several civil wars in its post-colonial history, and although such conflicts are likely endogenous to regime type,¹²³ one could argue that prevalence of conflict affects both regime type and growth. I therefore tested models including a dummy that captured ongoing civil war with data from Gates and Strand.¹²⁴ I tested models that only controlled for ongoing conflict, and models that also incorporated dummies that captured post-conflict country-years (both 3- and 5 year post-conflict periods).

¹²⁰ Knutsen 2009a

¹²¹ Easterly and Levine 1997

¹²² All results from these robustness checks are available on request.

¹²³ Hegre et al. 2001

¹²⁴ Gates and Strand 2006; see also Gleditsch et al. 2002

Although the estimated effect and t-values related to the democracy indexes were slightly reduced in some models, the results were qualitatively similar to those above. The positive, significant effect from democracy survives in models that control for intrastate conflict. However, there may be geographical and economic-structural factors that bias the effect from democracy. I therefore also ran models that controlled for landlockedness, absolute latitude, trade as share of GDP, and urban as share of total population. But, adding these controls only strengthened the results related to the positive effect from democracy. Adding data on energy production as share of GDP and metal exports as a share of exports from the WDI reduces the number of units with about $\frac{3}{4}$. The insignificant effects in these models are therefore not critical to the above results. In any case, the FE models above pick up country-specific characteristics, such as the prevalence of diamonds in Sierra Leone and Botswana.

However, the results are not robust to specification of time lag. Most models that lagged the independent variables with between two and five years showed a non-significant effect at the 5%-level, although many coefficients indicate effects from full democratization on growth of about 1 percent. This is disturbing for the robustness of the results, and casts some doubts on the validity of the findings. It is also puzzling, given the strong finding by Papaioannou and Siourounis¹²⁵ that the growth-effect from democracy increases over time. However, no models show a significant negative effect from democracy on growth, and the findings above at least validate a preliminary belief that democracy is good for growth in Africa. However, the finding needs further corroboration (or falsification).

As a final robustness check, I ran Arellano-Bond (AB) dynamic panel data models, which incorporates lagged economic growth as a regressor in the baseline model above.¹²⁶ One interpretation of the democracy-coefficient in such models is the effect an increase in degree of democracy in year t has on the change in growth rates from year $t-1$ to t , which, if positive and significant, enhances the credibility of the claim that the correlation between democracy and growth is at least partly due to an effect from democracy on growth.¹²⁷ The results from the AB models were quite strong. The models incorporating only the one-year lag yielded a

¹²⁵ Papaioannou and Siourounis 2008

¹²⁶ See Greene 2003, 307-314

¹²⁷ In order to further enhance the credibility of this claim, one could have run instrumental variable regressions. However, I do not have any good suggestions for valid instruments for democracy, when growth is the dependent variable, in the African context.

positive, significant effect from democracy at the 1%-level when using the FHI, and at the 5%-level when using the PI as democracy indicator. When including both the one- and two-year lags of growth as regressors, the FHI model still showed a significant effect from democracy at the 1%-level, but the PI model yielded an insignificant effect from democracy on growth, although the coefficient's sign was still positive.

4.4 Is democracy particularly beneficial in Africa?

The results above indicate a stronger effect from democracy in Africa than globally.¹²⁸ The models in Table 3 perform so-called Chow-tests on the contingent effects from democracy on economic growth in a global sample (3984 and 4778 country-years).¹²⁹ The models include a Sub-Saharan Africa dummies and interaction terms that multiply the dummy with the democracy measure. These interaction terms, independent of democracy indicator and estimation technique, indicate that the effect from democracy on economic growth is significantly (at least 1%-level) more positive in Sub-Saharan Africa than in the rest of the world. As argued above, this is likely due to the weak structure of African state institutions, which induces dictators to select “bad policies” to stay in power or increase personal consumption. Somewhat simplistically stated, democracy is relatively beneficial to African economies because the alternative is so bad. An earlier study showed no significant, neither positive nor negative, effect from democracy on growth in Asia.¹³⁰ Asian dictators have faced more autonomous winning coalitions, for example in the form of strong party organizations, and stronger state institutions, which have forced them to select growth-enhancing economic policies.¹³¹ Asian dictators have also to a larger extent than African been faced by severe external security threats in the form of foreign armies threatening invasion, inducing these dictatorships to industrialize and grow to modernize and strengthen their militaries.¹³² To sum up, it is not multi-party democracy that is ill-suited for generating development in the African context, but rather power concentration and dictatorial rule.

Other interesting findings also emerge from Table 3. No model find a significant baseline effect from democracy on growth at the 10%-level, indicating that the global association

¹²⁸ See e.g. Przeworski et al. 2000; Knutsen 2009a

¹²⁹ Greene 2003

¹³⁰ Knutsen 2010b

¹³¹ Besley and Kudamatsu 2007

¹³² Knutsen 2009b

between democracy and growth, at least after 1960, is mainly driven by African experiences. Moreover, once political regime and stability, ethnic fractionalization, colonial history and other variables are controlled for, there is no negative Africa-effect on growth. Actually, the models indicate a positive and significant Africa effect. Africa's detrimental post-colonial growth record is explainable by "conventional" variables.

****TABLE 3 HERE****

4.5 Democracy, dictatorship and state capacity

I argued that dictatorship was particularly harmful in Africa because of the interaction between weak state institutions and dictatorship. By the same logic, one should observe an interaction effect between regime type and state capacity when studying intra-Africa variation. There are few good quantitative measures of state capacity.¹³³ Many studies try to proxy state capacity with taxation or public spending as a share of GDP. This is problematic, not only because state capacity is multi-dimensional and incorporates more than a state's ability to tax.¹³⁴ For example, a large informal economy, arguably a sign of weak state capacity, would reduce the size of measured GDP, thus increasing taxes and spending as a share of GDP. However, state capacity, defined as states' ability to autonomously design, conduct and implement policies,¹³⁵ is connected to institutionalization of political decision making and implementation. Such institutionalization is tied to rule-following behavior of state agents rather than personal and contingent decision making.¹³⁶ This depends, as Chabal and Daloz¹³⁷ notes, on the functional separation of politics from the social and economic spheres and ultimately on the development of a "Weberian" bureaucracy.

A decent proxy for state capacity is thus the Bureaucratic Quality Index (BQI) from ICRG,¹³⁸ where "high points are given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services... [and where] the bureaucracy tends to be somewhat autonomous from political

¹³³ See e.g. Bussman 2009

¹³⁴ See e.g. Tilly 1985; Fukuyama 2005. See also the discussion in note 5.

¹³⁵ E.g. Skocpol 1985

¹³⁶ See e.g. Chabal and Daloz 1999; Evans 1995

¹³⁷ Chabal and Daloz 1999

¹³⁸ ICRG 2009

pressure and to have an established mechanism for recruitment and training”. The time series unfortunately start in 1984, and several countries (e.g. Benin and Mauritius) lack data altogether. The lowest score is 0 (assigned to for example Mali and Somalia for several years), and the highest is 4 (assigned to South Africa from 1984 to 1994), with differentiation allowed also on the decimals. There is substantial intra- and between-nation variation. Cote d’Ivoire for example had its BQI reduced from 3 to 0 during the period, whereas neighboring Ghana had almost the opposite movement, particularly in the latter years of Rawlings’ military dictatorship. The BQI and the democracy measures are not highly correlated in Africa: There is almost no correlation between the PI and BQI.¹³⁹ The FHI has a correlation coefficient of -0.13 with the BQI. However, in global samples the respective correlation coefficients are 0.48 and -0.59, likely due to high bureaucratic quality in Western democracies. I enter interaction terms (democracy measures*BQI) and BQI linearly in the different models from Table 1. Table 4 presents the results from the Sub-Saharan sample.

****TABLE 4 HERE****

The results are striking. Both the linear democracy terms and the interaction terms are statistically significant at least at the 5%-level in most models, with the expected signs. Dictatorship is detrimental to growth, but only in countries with weak state capacity. The linear BQI term is negative, and significant in two models, indicating no positive growth effect from higher state capacity in democracies. This is surprising given the strong theoretical arguments and interpretations of case-based evidence from the political science and political economy literature on the importance of state capacity for economic development.¹⁴⁰ Nevertheless, state capacity moderates the negative effect from dictatorship. Figure 4 shows the estimated effect from a one-point decrease in the FHI for different levels on the BQI. State capacity matters for development, but its effect on prospects for economic growth is contingent on political regime type.

****FIGURE 4 HERE**

¹³⁹ The low correlation between these variables is noteworthy and perhaps surprising, but has been indicated earlier in the literature: Although he uses different concepts, Kohli (2004, 401-402) notes the minimal degree of overlap between state characteristics and regime type in the developing world.

¹⁴⁰ See for example Wade, 1990; Evans, 1995; Leftwich, 2000; Kohli, 2004; Fukuyama, 2005

The estimates indicate that among low-capacity states, democracies have higher growth rates, and that among high-capacity states, dictatorships have higher growth. We have not strictly significance tested these propositions, but we have established a significant interaction between regime type and state capacity: The effect from democracy on economic growth decreases in state capacity. We have focused on low-capacity, dictatorial countries, but theoretical arguments could yield some support for the proposition that dictatorship enhances growth rates in high-capacity countries.¹⁴¹ The combination of checks on the ruler from strong institutions and the autonomy of an authoritarian regime from broader social forces may contribute to growth-enhancing policies, which may or may not be popular among citizens. Examples of such policies are strict limitations on consumption loans coupled with incentives for saving and investment, or microeconomic reforms that lead to short-term hardship for certain consumers and producers, but which are efficiency-enhancing in the long run. Several empirical examples of such policies can be taken from the histories of the authoritarian, high-capacity East Asian Tigers.¹⁴²

If the interaction argument on state capacity and regime type is valid, we should also observe the pattern in a global sample, and not only in the African sample. Table 5 presents the global results, and they confirm the picture above. The linear democracy coefficient is significant with expected sign, and so is the interaction term in most models. However, the coefficient-sizes are smaller in the global sample, indicating among others a less strong interaction effect globally than in Africa. The estimates indicate a negative effect from dictatorship among medium-capacity countries in the global sample, but there are no large growth differences between democracies and dictatorships among high-capacity countries. Low-capacity dictatorships, however, perform far worse than low-capacity democracies also globally.

****TABLE 5 HERE****

Taken together, these estimates indicate that democracy matters for economic growth, but the effect is contingent. Countries with low state capacity need democratic institutions in order to provide minimum constraints on their rulers and to channel rulers' policies towards public goods provision and otherwise decent economic management. Left unconstrained, dictators in

¹⁴¹ See Knutsen 2010b

¹⁴² See e.g. Wade 1990; Young 1995; Chang 2006; Knutsen 2010b

pursuit of securing their office, increasing their grip on society and pocketing private wealth, can wreak havoc to their economies. This is likely a large part of the reason why many African countries have experienced such miserable economic fortunes. Luckily however, Botswana, Mauritius and perhaps even recent developments in for example Ghana and Benin indicate that African countries can prosper if they switch to more accountable forms of government. However, high growth rates do not transform into prosperity over night. Botswana and Mauritius are still not rich when compared to Western countries. But, they overturned their almost damning economic prospects at decolonization.¹⁴³ In the long run, economic development stabilizes democracies,¹⁴⁴ and democracy again fosters higher growth rates. Even if we are, as Keynes said, in the long run all dead, the children and grandchildren of today's citizens in poor African democracies may enjoy more prosperous economies.

5. Conclusion

The argument and empirical results of this paper indicate that many prominent political scientists have got it backwards: The benefits of democracy, at least its economic benefits, are likely larger in countries with weak state institutions. Therefore, doubts about the benefits and appropriateness of democratization in poor and weak states are probably exaggerated. Democracy is beneficial in such contexts simply because the alternative is so much worse.

When it comes to Africa, there has been much skepticism regarding both the prospects of substantial democratization and democratic consolidation, also after the wave of democratic transitions in the beginning of the 1990s.¹⁴⁵ However, it seems that the pessimistic view regarding durability, and maybe even regarding quality, of democracy in Africa was unwarranted.¹⁴⁶ Although, many democratic reforms were blocked or eventually overturned by old or new elites,¹⁴⁷ several young democracies have survived, and even experienced improved protection of political rights and civil liberties.¹⁴⁸ There has also been skepticism related to whether democracy can contribute to economic development in the African

¹⁴³ See e.g. Brookfield 1959; Meade 1961

¹⁴⁴ Przeworski and Limongi 1997; Boix and Stokes 2003

¹⁴⁵ E.g. Bratton and van de Walle 1997

¹⁴⁶ Lindberg 2005

¹⁴⁷ See e.g. Diamond and Plattner 1999; Villalón and Von Döepp 2005

¹⁴⁸ Lindberg 2005

context.¹⁴⁹ However, this paper arguably shows that democracy outperforms dictatorship when it comes to economic growth in Africa, although the results are not entirely conclusive. The diverging development paths of Benin and Togo after 1990, for example, are likely not due to coincidence, but rather due to Benin's more democratic regime. One may say that democracy enhances growth in Africa because of African dictatorships' disastrous performances. The weak state structures of many African states contributed to the negative effect from dictatorship on growth, as unconstrained political elites were allowed to (in self-interest) pursue policies with adverse economic effects. In the medium run, also strength of state institutions is endogenous. Dictatorial rulers may have an interest in building down state institutions' capacity gradually, thus exacerbating the negative effects of dictatorship over time. The literature on African political economies suggests that rulers may have strong interests in "informalizing politics".¹⁵⁰ One variable that could counter this incentive is the presence of external security threats, as possible invasions increase the need for a strong state, a strong economy and a strong army.¹⁵¹ The *dynamics* of the regime type-state capacity nexus thus remains to be explored in further detail.

¹⁴⁹ E.g. Chabal and Daloz 1999

¹⁵⁰ E.g. Chabal and Daloz 1999; Clapham 1996

¹⁵¹ Knutsen 2009b

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Figure 1: Real GDP per capita in Benin and Togo from decolonization to present

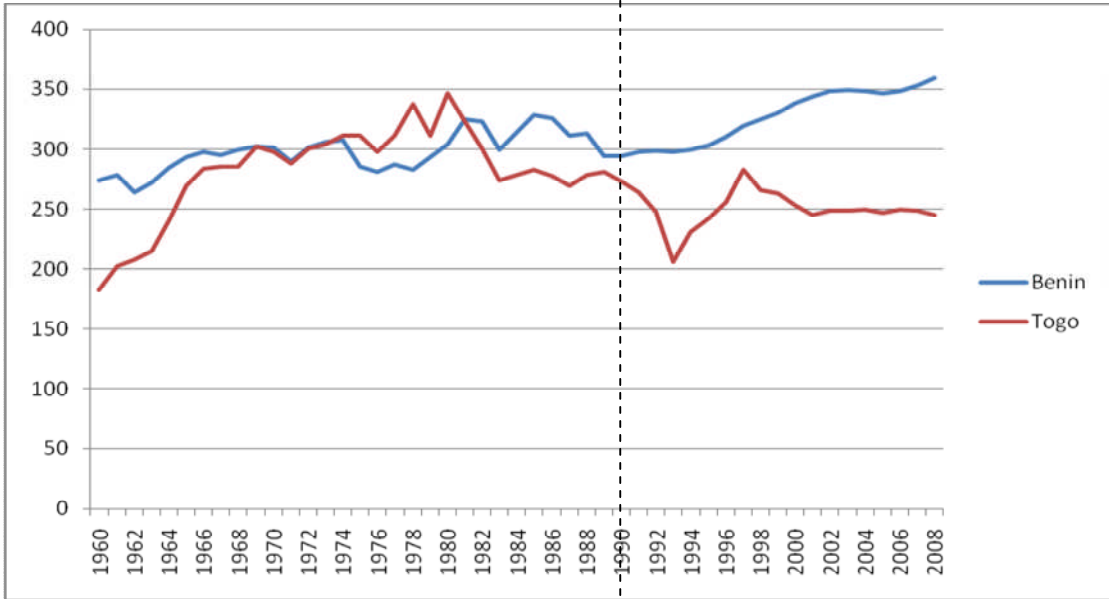


Figure 2: Percentage relatively democratic Sub-Saharan African countries

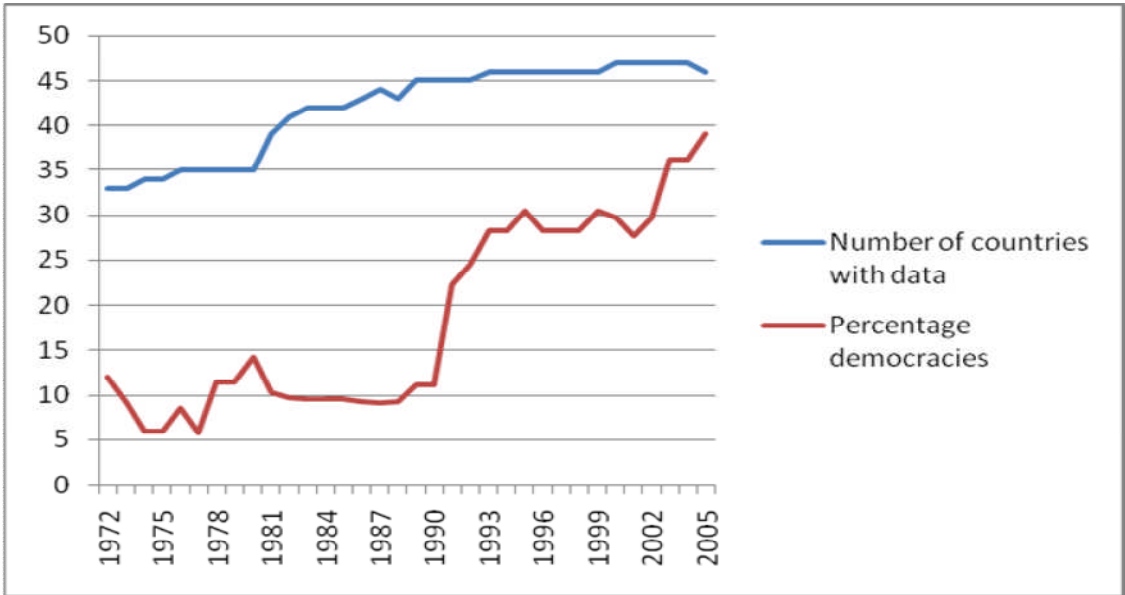


Figure 3: Real GDP per capita growth for African democracies and dictatorships

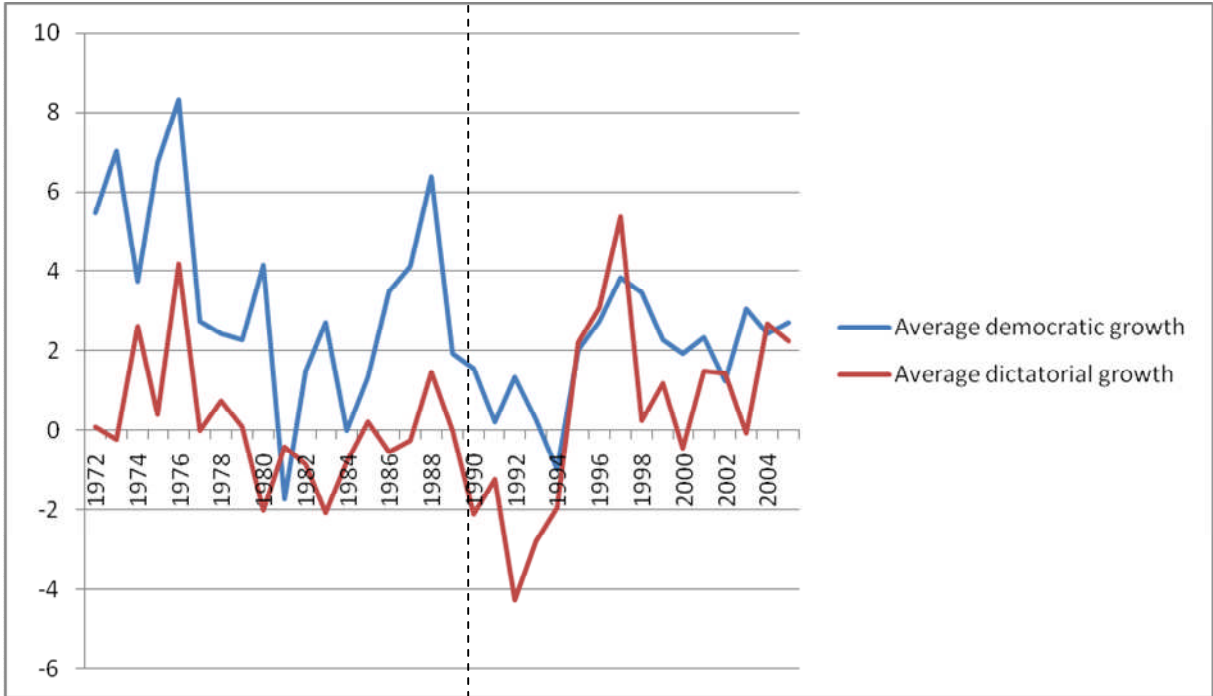


Table 1: Regressions with exchange rate-adjusted GDP per capita growth as dependent

	OLS PCSE b/(t)	OLS PCSE b/(t)	RE b/(t)	RE b/(t)	FE b/(t)	FE b/(t)
FHI	-0.559**** (-3.70)		-0.604**** (-3.03)		-0.547** (-2.46)	
Polity		0.042 (1.30)		0.078* (1.84)		0.070 (1.41)
Ln GDP pc	0.258 (0.75)	0.345 (1.15)	0.428 (1.01)	0.384 (1.13)	3.063**** (3.48)	0.632 (0.83)
Ln Reg. dur.	0.496** (2.28)	-0.324* (-1.66)	0.379* (1.74)	-0.371* (-1.74)	-0.041 (-0.17)	-0.614** (-2.57)
Ln Pop.	0.253 (1.16)	-0.139 (-0.66)	0.232 (0.69)	-0.236 (-0.91)	6.647**** (2.88)	-2.026 (-1.07)
Ethn. Fr.	-3.027** (-2.09)	-1.682 (-1.49)	-4.499** (-2.27)	-2.10 (-1.35)		
Catholic	0.852 (0.53)	-0.811 (-0.57)	1.424 (0.54)	-0.057 (-0.03)		
Protestant	-1.082 (-0.83)	-2.340** (-2.07)	-0.603 (-0.24)	-1.542 (-0.77)		
Indigenous	-0.977 (-0.65)	-2.434* (-1.87)	-0.043 (-0.02)	-1.337 (-0.59)		
Sunni	-0.771 (-0.55)	-2.339* (-1.92)	-0.323 (-0.12)	-1.573 (-0.73)		
British	0.007 (0.01)	-2.409 (-1.35)	-0.457 (-0.36)	-2.238** (-2.20)		
French	-0.224 (-0.14)	-2.764 (-1.56)	-0.685 (-0.61)	-3.039**** (-3.42)		
Portugese	0.75 (0.42)	-2.144 (-1.12)	0.101 (0.06)	-1.958 (-1.41)		
Belgian	-1.958 (-0.85)	-4.015* (-1.82)	-3.491* (-1.73)	-4.444**** (-2.78)		
Dec60s		1.021 (1.08)		1.460* (1.96)		-0.515 (-0.26)

Dec70s	0.548 (0.58)	0.509 (0.58)	0.657 (0.90)	0.786 (1.15)	5.443*** (3.04)	-0.586 (-0.37)
Dec80s	-1.147 (-1.25)	-1.239 (-1.40)	-1.215* (-1.82)	-1.167* (-1.80)	2.044* (1.67)	-1.867* (-1.73)
Dec90s	-0.723 (-0.86)	-0.238 (-0.29)	-0.91 (-1.53)	-0.254 (-0.43)	0.418 (0.57)	-0.626 (-0.91)
Constant	-0.006 (-0.00)	7.704* (1.77)	0.827 (0.13)	8.651* (1.73)	-119.970*** (-3.23)	30.881 (1.01)
N	1310	1516	1310	1516	1310	1516

Table 2: Regressions with PPP-adjusted GDP per capita growth as dependent

	OLS PCSE	OLS PCSE	RE	RE	FE	FE
	b/(t)	b/(t)	b/(t)	b/(t)	b/(t)	b/(t)
FHI	-0.329** (-2.13)		-0.378** (-2.02)		-0.283 (-1.37)	
Polity		0.088** (2.42)		0.102** (2.14)		0.084 (1.58)
Ln GDP pc	0.994** (2.12)	0.918* (1.94)	1.293** (2.46)	1.387*** (2.62)	5.246***** (5.33)	6.047***** (5.97)
Ln Reg. dur.	0.508** (2.39)	0.221 (0.99)	0.391* (1.93)	0.114 (0.49)	0.005 (0.02)	-0.248 (-1.01)
Ln Pop.	0.424** (2.03)	0.406** (1.96)	0.293 (0.95)	0.256 (0.83)	7.821***** (3.52)	8.018***** (3.65)
Ethn. Fr.	-2.727* (-1.95)	-2.825** (-2.12)	-3.588* (-1.94)	-3.262* (-1.76)		
Catholic	-0.676 (-0.41)	-0.747 (-0.46)	0.855 (0.36)	1.064 (0.44)		
Protestant	-1.155 (-0.85)	-1.56 (-1.19)	-0.721 (-0.32)	-0.78 (-0.34)		
Indigenous	-0.385 (-0.24)	-0.674 (-0.44)	1.501 (0.57)	1.491 (0.56)		
Sunni	-0.197 (-0.14)	-0.413 (-0.31)	0.89 (0.36)	0.997 (0.40)		
British	-0.976 (-0.77)	-1.169 (-0.86)	-1.975 (-1.56)	-1.853 (-1.47)		
French	-1.753 (-1.22)	-2.062 (-1.41)	-3.292** (-2.55)	-3.364*** (-2.60)		
Portugese	-0.644 (-0.43)	-0.298 (-0.19)	-2.240 (-1.30)	-1.716 (-0.99)		
Belgian	-1.487 (-0.64)	-1.696 (-0.75)	-4.268** (-2.31)	-3.967** (-2.10)		
Dec70s	-0.065	0.52	0.114	0.825	5.264***	6.335*****

	(-0.06)	(0.52)	(0.15)	(1.08)	(3.21)	(3.88)
Dec80s	-1.104	-0.816	-0.886	-0.427	2.843**	3.599***
	(-1.33)	(-0.99)	(-1.50)	(-0.71)	(2.46)	(3.14)
Dec90s	-0.863	-0.321	-0.915*	-0.317	0.671	1.448**
	(-1.15)	(-0.43)	(-1.76)	(-0.60)	(1.02)	(2.19)
					-	-
Constant	-8.758	-8.382	-7.635	-9.419	160.152*****	170.002*****
	(-1.50)	(-1.49)	(-1.12)	(-1.38)	(-4.34)	(-4.70)
N	1134	1060	1134	1060	1134	1060

Table 3: Global sample, exchange rate-adjusted GDP per capita growth as dependent

	OLS PCSE	OLS PCSE	RE	RE	FE	FE
	b/(t)	b/(t)	b/(t)	b/(t)	b/(t)	b/(t)
Africa*FHI	-0.787**** (-4.12)		-0.769**** (-3.90)		-0.801**** (-3.65)	
FHI	0.221 (1.64)		0.053 (0.43)		-0.018 (-0.13)	
Africa*Polity		0.111*** (2.88)		0.166**** (4.21)		0.186**** (4.32)
Polity		-0.039* (-1.80)		-0.040* (-1.69)		-0.038 (-1.40)
Africa	4.163**** (3.75)	1.351*** (2.75)	4.610**** -3.43	2.032** (2.57)		
Ln GDP pc	0.018 (0.09)	0.156 (0.99)	-0.024 (-0.11)	0.152 (0.84)	0.667 (1.43)	0.109 (0.31)
Ln Reg. dur.	0.622**** (4.35)	0.307** (2.49)	0.879**** (7.48)	0.441**** (4.07)	0.897**** (7.01)	0.417**** (3.52)
Ln Pop.	0.217** (2.44)	0.165 (1.59)	0.076 (0.40)	0.048 (0.31)	-0.729 (-0.82)	-1.894**** (-2.98)
Ethn. Fr.	-2.442**** (-4.15)	-2.461**** (-5.19)	-2.328* (-1.73)	-2.658** (-2.42)		
Catholic	-0.948* (-1.75)	-1.376*** (-2.87)	-0.963 (-1.18)	-1.039 (-1.54)		
Protestant	-1.616**** (-3.94)	-1.883**** (-5.05)	-2.044* (-1.93)	-1.965** (-2.27)		
Indigenous	-1.876** (-2.55)	-1.695*** (-2.67)	-2.016 (-1.34)	-1.902 (-1.55)		
Sunni	-1.265*** (-2.97)	-1.408**** (-4.06)	-1.30 (-1.55)	-1.798** (-2.56)		
British	-0.323 (-0.75)	-0.624* (-1.70)	-0.404 (-0.53)	-0.399 (-0.64)		
French	-0.324 (-0.63)	-1.007** (-2.19)	-0.552 (-0.58)	-0.843 (-1.09)		

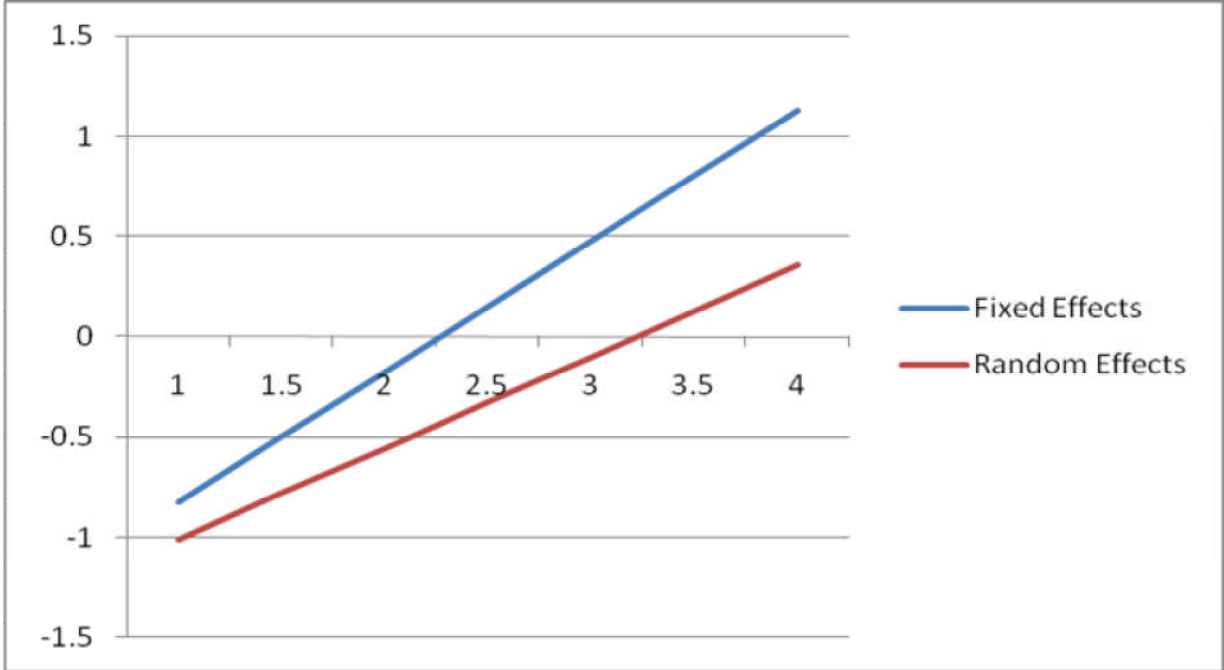
Portugese	0.766 (1.03)	0.305 (0.49)	0.744 (0.42)	0.375 (0.26)		
Belgian	-0.927 (-0.92)	-1.480* (-1.81)	-2.121 (-1.03)	-2.428 (-1.45)		
Dec60s		0.946 (1.36)		0.872** (2.44)		-0.585 (-0.91)
Dec70s	0.231 (0.33)	0.287 (0.43)	0.146 (0.42)	0.134 (0.41)	0.035 (0.06)	-0.922* (-1.82)
Dec80s	-1.599** (-2.35)	-1.709*** (-2.58)	-1.919***** (-6.19)	-2.045***** (-6.74)	-1.936***** (-4.38)	-2.647***** (-6.89)
Dec90s	-1.021 (-1.47)	-1.006 (-1.48)	-1.433***** (-5.08)	-1.536***** (-5.61)	-1.403***** (-4.53)	-1.768***** (-6.11)
Constant	-1.69 (-0.54)	0.139 (0.05)	1.246 (0.32)	1.895 (0.61)	8.392 (0.53)	31.968*** (2.81)
N	3984	4778	3984	4778	3984	4778

Table 4: Interaction between state capacity and regime type; African sample

	OLS PCSE b/(t)	OLS PCSE b/(t)	RE b/(t)	RE b/(t)	FE b/(t)	FE b/(t)
FHI	-1.743***** (-3.76)		-1.463***** (-3.60)		-1.478*** (-3.12)	
FHI*BQI	0.777***** (3.29)		0.454* (1.91)		0.651** (2.43)	
Polity		0.165** (2.32)		0.154 (1.58)		0.158 (1.53)
Polity*BQI		-0.109** (-2.36)		-0.076 (-1.33)		-0.152** (-2.32)
BQ	-3.914*** (-3.08)	-0.412 (-0.99)	-2.413* (-1.89)	-0.171 (-0.41)	-3.158** (-2.13)	-0.13 (-0.27)
Ln GDP pc	1.291** (2.08)	0.088 (0.22)	0.287 (0.69)	-0.194 (-0.37)	2.031 (1.28)	-2.271 (-1.35)
Ln Reg.	0.201	-0.802**	0.196	-0.836***	-0.021	-0.990***

dur.						
	(0.63)	(-2.36)	(0.70)	(-2.82)	(-0.06)	(-3.02)
Ln Pop.	0.749**	0.12	0.541*	-0.015	16.576*****	7.170*
	(2.38)	(0.50)	(1.88)	(-0.04)	(4.11)	(1.91)
Ethn. Frac.	-7.282**	-0.121	-4.858*	-3.222		
	(-2.24)	(-0.04)	(-1.77)	(-0.89)		
Catholic		2.557	-0.138	-0.481		
		(0.47)	(-0.12)	(-0.30)		
Protestant	2.154	3.365	0.262			
	(1.36)	(0.70)	(0.20)			
Indigenous	2.155*	3.785		0.544		
	(1.91)	(0.68)		(0.32)		
Sunni	2.554	3.473	0.431	-0.36		
	(1.64)	(0.71)	(0.48)	(-0.27)		
British	-0.202	-2.204	0.925	-1.671		
	(-0.12)	(-1.35)	(0.85)	(-1.18)		
French	-1.085	-3.177	0.187	-3.017**		
	(-0.50)	(-1.45)	(0.17)	(-2.14)		
Portuguese	2.024	-0.187	2.497*	-1.159		
	(0.80)	(-0.08)	(1.76)	(-0.60)		
Belgian	1.179	-4.185	-1.852	-3.679		
	(0.31)	(-1.16)	(-0.86)	(-1.11)		
Dec80s	0.002	-0.912	-0.73	-0.792	5.602***	1.464
	(0.00)	(-0.92)	(-0.83)	(-0.99)	(3.11)	(0.89)
Dec90s	-0.769	-0.657	-1.221*	-0.682	1.753*	0.204
	(-0.83)	(-0.79)	(-1.70)	(-1.05)	(1.69)	(0.22)
Constant	-7.035		0.423	9.279	-	-98.838
	(-0.81)		(0.07)	(1.21)	273.178*****	(-1.62)
N	634	578	634	578	634	578

Figure 4: Change in annual GDP per capita growth when FHI is reduced with one point, for different levels of state capacity.



y-axis: GDP per capita growth; x-axis: BQI score

Table 5: Interaction between state capacity and regime type; Global sample

OLS PCSE b/(t)	OLS PCSE b/(t)	RE b/(t)	RE b/(t)	FE b/(t)	FE b/(t)	OLS PCSE b/(t)
FHI	-0.843*** (-3.16)		-0.849***** (-4.50)		-1.042***** (-4.74)	
FHI*BQI	0.253** (2.52)		0.280***** -3.52		0.369***** (3.58)	
Polity		0.084* (1.73)		0.114** (2.56)		0.160*** (3.26)
Polity*BQI		-0.018 (-0.80)		-0.038* (-1.87)		-0.068*** (-2.87)
BQ	-1.063** (-2.16)	0.137 (0.53)	-1.266***** (-3.34)	0.053 (0.29)	-1.784***** (-3.64)	0.037 (0.18)
Ln GDP pc	0.102 (0.44)	-0.044 (-0.22)	-0.051 (-0.23)	-0.196 (-0.91)	2.467***** (3.30)	0.449 (0.60)
Ln Reg. dur.	0.355** (2.13)	0.003 (0.02)	0.440***** (3.30)	0.031 (0.23)	0.294* (1.84)	-0.097 (-0.60)
Ln Pop.	0.368***** (4.32)	0.187 (1.55)	0.24 (1.53)	0.11 (0.67)	5.779***** (4.12)	3.337*** (2.59)
Ethn. Frac.	-1.549*** (-2.80)	-1.514** (-2.37)	-2.191** (-2.03)	-2.123* (-1.90)		
Catholic	-3.108***** (-4.50)	-2.644***** (-4.32)	-2.441***** (-3.71)	-2.358***** (-3.47)		
Protestant	-2.140***** (-3.43)	-2.186***** (-3.80)	-1.742** (-2.14)	-1.719** (-2.07)		
Indigenous	-3.072** (-2.53)	-1.276 (-0.98)	-2.776** (-2.24)	-0.821 (-0.64)		
Sunni	-1.933*** (-2.72)	-1.501*** (-2.96)	-1.793** (-2.56)	-1.764** (-2.41)		
British	-0.27 (-0.53)	-0.272 (-0.54)	-0.216 (-0.37)	-0.361 (-0.60)		
French	-0.202 (-0.34)	-0.987 (-1.48)	-0.733 (-0.96)	-1.921** (-2.39)		

Portuguese	1.623* (1.73)	1.39 (1.35)	0.989 (0.76)	-0.095 (-0.07)		
Belgian	-1.518 (-0.66)	-2.842 (-1.08)	-3.40 (-1.41)	-3.364 (-1.21)		
Dec80s	-1.333** (-2.47)	-1.404** (-2.56)	-1.421**** (-4.56)	-1.333**** (-4.50)	0.791 (1.49)	-0.21 (-0.42)
Dec90s	-1.024** (-2.31)	-0.993** (-2.22)	-1.001**** (-3.72)	-0.871**** (-3.55)	0.088 (0.26)	-0.35 (-1.13)
Constant	1.167 (0.49)	2.013 (0.65)	4.78 (1.38)	5.217 (1.47)	- 107.735**** (-4.42)	-55.800** (-2.47)
N	2270	2186	2270	2186	2270	2186