

Who Leads to Better Economic Growth? Dictatorship or Democracy?



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ABSTRACT

Even though democracy is the most popular form of government globally based on the rights it provides its subjects, there has always been a debate about how dictatorships have witnessed remarkable economic growth. To understand this debate, the constantly changing political and social scenarios around the world should be considered as well because, with the dawn of globalisation, the policy domains of every country witnessed a response-oriented characteristic in its decision-making. The economist and author Dambisa Moyo is one of the several intellectuals in the field of economics who deemed dictators to lead the economy better. The observation she made was targeted at the countries with economies in the worst condition. She believed democracy to be the next priority once economic stability is achieved, but this rekindles the debate of who performs better at the economic front.

KEY WORDS

Autocracy, Benevolent Dictator, Dictatorship, Democracy, Economic Growth, GDP, Immediate Consumption, Path Dependence

INTRODUCTION

“What poor countries at the lowest rung of economic development need is not a multi-party democracy, but in fact a decisive benevolent dictator to push through the reforms required to get the economy moving” - Dambisa Moyo. With this statement from her book "Dead Aid: Why Aid Is Not Working and How There Is Another Way For Africa", Dambisa Moyo adds to the long debate of Democracy versus Autocracy. She proposes an unduly simplified solution to a rather complex situation, preferring a benevolent Dictator over a multiparty democracy for better economic growth. The argument she made is not without evidence, and through various comparisons like between Senegal under democracy under-performing on the economic front and Sudan under an autocracy witnessing exceptional growth, she makes a rather convincing argument by this. However, the comparison lacks consideration for the conditions in which the democracy or dictatorship functions in both countries, rendering an erroneous conclusion (Przeworski, 2004, p.534). The impact of both regimes on the economic growth can be different from country to country and highly dependent on the response and vision of the political actor for economic policies (Przeworski, 2004); the response from regime to assist economic growth is subject to

path dependence (North, 2004 & Acemoglu, Johnson & Robinson, 2001) making the Democracy or Autocracy not the primary determinant for economic performance (Przeworski and Limongi, 1993). In order to further evaluate the merit of the statement, we shall consider the arguments for both regimes, how does the economy flourish under dictatorship and democracy with counter-arguments following it. We shall consider India and Pakistan under dictatorship and democracy over different periods as examples because drawing a rational parallel between two countries is unreliable due to the various factors the economy relies upon like size, resources and other factors. We analyse the arguments only to realise that it is not the regime but the competence of the political actor and the circumstances that manifest the economic growth. Hence, a country's polity cannot be deemed a precondition for economic growth (Khan, 2005).

ECONOMY UNDER A BENEVOLENT DICTATOR

In her statement, Moyo uses the term 'Benevolent Dictator', which is quite ambiguous itself as benevolence from the side of a dictator can be subjective, depending upon with whom the dictator chooses to be benevolent, and most of the countries that had a dictator, he turned out to be rather monstrous (Gilson and Milhaupt, 2010). To understand dictatorship regimes, we shall consider the definition used by Artige, which is the concentration of force, the political specialisation and lack of a constraint obliging the government to be continuously responsive to the preferences of citizens (Artige, 2004). Several factors establish an autocratic government's perception of being better for better economic development. We shall consider the few to understand how they enhance the economy under autocracy and the drawbacks that prove otherwise.

What makes the economy flourish under a benevolent dictator?

Autonomy: In an autocracy, the political actor heading the government enjoys autonomy in the matters of decision making, and this gives him a scope to manoeuvre the economic policies in a fashion that facilitates self-interest (Przeworski and Limongi, 1993) and the interest of his loyal who are generally the elites and freedom to extract and exploit the resources (Przeworski and Limongi, 1993, p.57 & Gilson and Milhaupt, 2010). This autonomy makes the decision-making faster and immunises his decisions from influence from the pressure groups (Goyal and Jha, 2004) to an extent. This creates a perception of decisive leadership and encourages investment by the elites, and investment into the economy is what drives the economy ahead.

Response to Resistance: A dictator often rules with an iron fist and resorts to brute force, making it easier for them to cripple the resistance (Khan, 2005). It is believed that to keep the pressure from the unions and pressure groups under control, the government should use an iron fist when required (Papaioannou and Siourounis, 2008) in order to keep the economy moving as industries often suffer from such pressure and also investment is threatened. The labour force directly impacts the production which in return impacts economic growth, and with unions and labour organizations under control dictatorships are considered to have higher growth of labour force under them (Przeworski, 2004).

Pressure from Immediate consumption: Unlike democracy, dictatorship does not suffer from the Immediate consumption tendency (Przeworski and Limongi, 1993). In a democracy, they need a constituency to support them, as the elites who are lesser in number have far-sighted economic goals and the non-elites that makes the decisive chunk of their re-election prospect does not look so far when it comes to the development goals, and the government has to act in their interest as re-

election is their primary motive in a democracy (Schmidt, 1995). This nurtures a tendency of immediate consumption negatively affecting development (Przeworski and Limongi, 1993). Dictatorship, on the contrary, is free from any such pressure.

What hinders economic growth under a benevolent dictator?

Unrest: A dictatorship, though strong, is prone to civil unrest. For a case, if the economy is performing well and the citizens are observing a better life and earning, this might lead to the citizens seeking greater freedom (Gilson and Milhaupt, 2010, p.282) which shall be a direct opposition to the authoritative rule of the despot and creating unrest knowing the inherent character of the despot any resistance shall be dealt with brute force which will disrupt peace and harmony in society and in words of Olson "There is accordingly little or no production in the absence of a peaceful order." (Olson, 1993). With the diminished production, the revenues sink, and the economy fails to perform.

Uncertainty: The economy depends upon the investments done in the market; the higher the investment is, the greater boost it provides to the economic growth. A country might perform well under an autocracy for a time, but the growth is often short-lived due to the (Olson, 1993, p.567) uncertainty of success and succession. This discourages the economic actors from investing due to the uncertainty about the regime's future.

Property Rights: Property rights are the ones that ensure the security of an individual's property from being taken away from a person by anyone or even being expropriated by the regime (Debs, 2010 & Przeworski & Limongi, 1993). These rights are assured through the institutions of justice, and when assured, the citizens gain confidence in the regime and make further investments into the economy. These rights are often difficult to be secured under an

autocracy; due to the uncertainty of the autocracy. This can be explained using Olson's theory of 'Roving Bandit', which suggests that an autocracy, just like a roving bandit, shall try to plunder more and more from the subject (Olson, 1993) in contrast to a rational stationary bandit who would extract more over a longer time in a smaller amount. The autocracy is generally expected to be short-lived. Hence, its regime often expropriates the individual's property and hinders economic growth by discouraging investment.

ECONOMY UNDER A MULTIPARTY DEMOCRACY

What makes the economy flourish under a democracy?

In her book, even after the statement preferring dictatorship over democracy for economic growth (Moyo, 2009), Moyo does not rule out the importance of democracy and proposes a staged approach towards it, but it is not necessary that staged approach might be needed as economic development under a democracy is dependent upon various factors as it did in the case of autocracy and generalising the outcome of a few failed democracies to fit all cannot be rational. The economy under democracy depends upon several factors, which can lead the economy to flourish. A few are:

Responsive: As democracy is about the plebiscite, it includes accommodating the opinion from all the stakeholders (Khan, 2005, p.706) and not autonomous decision making as in the dictatorship. This makes democracy responsive to the opinions and accountable for the decisions made by the political actor to keep everyone satisfied by striking a balance and compensating both the winning and losing sides during a policy compensation as a popular vote chooses him. This shortens the rift between the winner and loser and gives the one witnessing a more significant loss a chance to interrupt the policy implementation (Khan, 2005, p.708).

This responsiveness is because of the competition from the other political actors as re-election is the primary concern of a political actor in democracy (Schmidt, 1995), and for re-election, one has to be more responsive than the other. This helps create accountability of the actor as his decisions will be affected by the information he receives from the opposition and colleagues, which shall help him avoid any blunders that an autonomous decision could have led (Khan, 2005).

Stability: Unlike dictatorship, democracy does not suffer from uncertainty during the transition from one ruler to another. This is achieved by the regulations created in a democracy for the transfer of power from one actor to another at the time of elections, and this smooth transfer of power results in a stable government that can better foster privileges for the citizens like the property rights, which will encourage the investors to invest in the economy and keep holding the share they currently have (Khan, 2005 & Olson, 1993) contributing to the economic growth. This stability attracts new investors, and due to an open entry for non-elites as well, the economy expands ahead (De Luca, Litina and Sekeris, 2015).

What hinders economic growth under a democracy?

Pressure from Immediate Consumption: In a democracy, the political leader at the helm is dependent upon the support from a constituency, which is generally not the elites. The general voters seem to vote for the actor who promotes his economic interest and this section of non-elite voters lives from edge to edge. It might not accept even the slightest loss in hope for a far-sighted profit, which is better understood by the elites who aim for the economic fortunes at the horizon (Gilson & Milhaupt, 2010). This shall discourage the democratic government that needs their votes for re-election and avoid radical decisions which can be possibly good for the economy in the long run.

This situation creates a problem of immediate consumption under democratic regimes (Przeworski & Limongi, 1993).

Response to Resistance: Unlike a dictatorship, democracy is not immune to resistance from pressure groups. On the contrary, they often try to avoid any confrontation that might lead to any catastrophe (Khan, 2005). The democracy allows its subject to create resistance if they are affected by any decision made by a political actor (Khan, 2005, p.708); through the institutions of justice that safeguard the rights of the citizen, democracy cannot use an iron fist to address the grievances of the union or citizen organisations as their fate is bound to elections and it's easier to change a government in a democracy if it fails to satisfy with the economic performance (Przeworski & Limongi, 1993). This creates a rather unpropitious working environment for production, with labour unions and pressure groups constantly pressuring the government.

Understanding the economic growth in India and Pakistan under Democracy and Dictatorship:

To understand the effect of the regime on economic growth and then draw a comparison to find the one who has a better claim, the majority of studies have been comparing two countries as Moyo did in her book. However, such a comparison cannot render reliable results as even if we are considering the two countries over the same period, the circumstances that the regime faces cannot be precisely the same for both. The type of economy the countries have, the size of the economy, and how integrated it is with the global market make the comparison unduly complex if considered and unreliable if not (Przeworski, 2004). We shall consider the case two cases of India and Pakistan and try to understand the difference in the economic growth under the two regimes without over different periods. We do not intend to

draw a parallel between the two nations but study the growth pattern for both separately.

Pakistan: In 1947, when India gained independence from British Colonial rule, Pakistan split from the newly formed Union of India. Like India, Pakistan started as a democracy, but it has witnessed military dictatorship during 1958-1971, 1977-1988 and 1999-2008. The economy of Pakistan saw stable economic growth in around an average of 5% over the past decades, making it 2% more than that rate of South Asia until the 1990s when it started to decline but has faced three successful military coups and three failed coups attempts make the case of Pakistan much interesting to consider.

In the initial period of 1958-1971, Pakistan grew, having been a newly formed country began with a decent start on the economic front but there existed no data about the GDP of Pakistan until 1958, when the Pakistani Army General Ayub Khan took over Pakistan under whom Pakistan's economy grew steadily at 5.82%. Then from 1971-1977 with the restoration of democracy, the average GDP growth during the period of democracy was 3.6%. Then from 1977-1988 with the second successful military coup by General Zia-Ul-Haq under whom the GDP was 6.5%. Then from 1988-1999 democracy followed again with two democratically chosen governments; first government enjoying a GDP of around 2% and the next government around 4.3%. Then from 1999-2008 Pakistan saw its third military coup by General Pervez Musharaf on average 4.6%, with the highest being in 2004 at 7.55% (data.worldbank.org, n.d.).

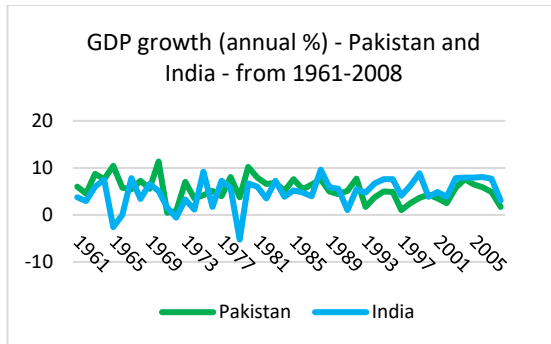
The GDP data clearly shows that if GDP is to be considered as the variable of comparison, Pakistan did fairly well under the dictatorships, but many other variables are also to be considered, like unemployment, which was seen to be higher under the dictators (Nauman Hayat et al., 2016). The example of Pakistan shows that

it had better economic growth overall under the dictatorship.

India: India had the same independence time as Pakistan had a completely different story. India has been a democracy since independence except for the imposition of Emergency in 1975 for two years by the former Prime minister of India, Indira Gandhi. All the fundamental rights were suspended, and all parliament dissolved with all the opposition leaders jailed (Lockwood, 2015). The economy of India had been growing at a stable pace through the decades, with exceptions of the years of war in 1962, 1972 and the economic crisis of 1991, which saw a sharp fall in the GDP growth. After all the mentioned slowdowns, the rate of recovery in India has been fast, but we shall be considering the GDP in India over a span of four years to realise the impact of a non-democratic authoritative regime on the GDP its recovery under a democracy. The span shall be from 1973-1977. During 1973 India had a GDP growth of 3.2%; in 1974, it fell to 1.18%, following a sharp rise in 1975 but with the imposition of Emergency, the GDP growth hit the ground at 1.663% in 1976. The imposition was removed in early 1977, and the GDP grew back to 7.25% (data.worldbank.org, n.d.). Following the GDP growth, India saw a fall under an authoritarian regime while its growth was considerably higher under a democracy.

With the example of India and Pakistan, we can see that it is not the regime that made a difference. Pakistan's economy responded well to the dictatorship, whereas India performed well under a democracy. Even the comparison I drew above is only based on a single variable, i.e., GDP growth, and drawing conclusions over the observations would be a gross simplification of a complex problem. Two countries that started at the same point had a completely different response to both the regimes, and this is particularly due to the variation in the size of the economy, the primary resources that drive

it and apart from anything else, the integration of their economy with the international markets (Verma, 2000). The regimes are more generally responding to the conditions they are faced with; it is not their idiosyncratic approach that they resort to but highly path-dependent policy action that they are forced to opt for (North, 2004 & Acemoglu, Johnson & Robinson, 2001).



Source: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2008&locations=IN-PK&start=1961>

CONCLUSION

Through our analysis, we can say that the statement by Moyo fails to convey the complexity that the issue she is addressing harbours. We discussed various variables within the two regimes that encourage or hinder economic growth. Having discussed through examples the inherently different manner in which any country would respond to either regime elucidates that inconclusiveness of the debate the statement forwards and the other much important factors like path-dependence that might be more affecting the economic development than the regime. The statement by Moyo recommends a *Benevolent Dictator* over *Democracy*, but it should instead be a case for an *Economically Benevolent Regime*. Thus, regardless of the regime, economic development can be achieved by a better understanding of the factors that affect economic growth (Khan, 2005).

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