

# POLITICAL REGIMES AND ECONOMIC PERFORMANCE

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## Abstract

*The present paper brings a contribution to the research area dedicated to the relationship between political regimes and economic growth. Implicitly the interdependence relation between the two large domains, namely politics and economy will be the core of the study.*

*The major focus will be on the way politics influences the economic evolution and development of a country.*

*The premise is that political institutions play an essential part with respect to the economic performance as they have the potential to relax the constraints imposed over the economic structure and not only. The three basic dimensions used in constructing the paper are the degree of political freedom, the level of political stability and the level of political security.*

**Keywords:** *political regime and economic performance, political institutions, political freedom, political stability, political security.*

## Introduction

During the last decades, the economic, political and social development has reached new levels. Regarding the academic interest presented, political researchers, economic scientists and sociologists transformed this area of research into one of the most prosperous and dynamic fields of social sciences.

Despite the fact that the difference of development between the countries represents a reality, it is only recently that the scientists started to focus on the elements that are responsible for painting this reality and to properly examine them.

Every economy is in fact sustained by a certain political framework, therefore it is impossible for the economic agent to be insensitive to the political structure sustaining that economy. Thus, the **political regime**, along with its government and taking into account its characteristics and level of efficacy, attracts repercussions over the economic framework of the country in question<sup>1</sup>.

The level of economic development brings information not only about the implemented political regime, but also about the rules and goals of the respective country. Therefore, looking into the causes and primary elements that lead to a favorable economic performance became a topic of major interest for the 21<sup>st</sup> century scientists.

It is only recently that the existing relationship between political regime and economic performance started to be properly analyzed.

There are more and more studies pointing towards the failure at the level of governing as primary cause for the slow and inequitable economic growth, as well as the defining element of the poorest countries in the world.

It is these studies that put the form of government, including here its characteristics, on a superior level of any research agenda having as main goal a better understanding of the political economy regarding economic development<sup>2</sup>.

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<sup>1</sup> Yi Feng, *Democracy, Governance, and Economic Performance. Theory and Evidence* (Cambridge, Massachusetts, London, England: Massachusetts Institute of Technology Press, 2003), 17.

<sup>2</sup> Philip KEEFER, "Governance." *The SAGE Handbook of Comparative Politics*. (2009). SAGE Publications, accessed March, 10, [http://www.sage-ereference.com/hdbk\\_compoltics/Article\\_n25.html](http://www.sage-ereference.com/hdbk_compoltics/Article_n25.html).

The present paper brings a contribution to the interest presented in analyzing the relationship between political regimes and *economic performance*.

My target in this article is to underline the political determinants over the economic performance, meaning on the way politics affects the economic performance. Therefore, the question here is: Does politics, and here I am making reference as well to policies, play any role in determining the degree of economic performance?

Therefore, my objective is to analyze the types of political regimes capable of providing social and political conditions favorable for the economic and social development. For this I will briefly define and explain the major elements of political regimes. Afterwards I will discuss the relationship between political regimes and economic performance, having in mind the major political factors that bring along repercussions over the economic growth and development. Finally, after drawing a line, I will come up with the concluding remarks.

### Content

In a modern society, the state is often identified with the political community or with the government as such<sup>3</sup>, and implicitly with the type of political regime or the way of governing.

There is no universal definition of the political regime. From the many interpretations and visions, I chose to explain the political regime as the regime that brings into light the way of organizing and ruling a country in which it is reflected both the activity of the state institutions, as well as of the political parties, of the groups of interest or pressure groups and of the other organizations of the civil society. Such an interpretation of the political regimes is not based on the identification of those who detain state power, but on the way these exercise the power in the state<sup>4</sup>.

The tight relationship between institutions, primarily *political institutions*, and economic performance represents a major issue of academic preoccupation during the last decades<sup>5</sup>.

A rich society supposes a political regime characterized by strict rules that allow an efficient economic system and the implementation of institutions capable of sustaining this performance.

It is the state the primary mechanism of resource allocation and the one capable of stimulating or inhibiting the economic growth and therefore performance. The political institutions are those that mold the political economy<sup>6</sup>, and the political reasons spring from the welfare brought by the existence of resources.

The group of politics that brings a solid contribution to the economic performance of a country points towards the protection of the property rights, the maintenance of macroeconomic stability, a sufficient level of economic freedom and of the free market, the assurance of a public goods network as well as the existence of a proper infrastructure and a certain level of education<sup>7</sup>.

Because the economic development takes place when the individuals put away capital and make investments, appealing to present sacrifices aiming future gaining, this cannot happen in the absence of a proper frame<sup>8</sup>.

Therefore, the economic development and performance depend on the country's ability to offer a favorable environment for the individuals to make investments in their own economy, as

<sup>3</sup>Liah Greenfeld, „Nationalism and Modernity”, *Social Research*, Vol. 63, No. 1, Spring, (1996), 20.

<sup>4</sup>T. Draganu, *Drept constituțional și instituții politice* (Bucharest: Lumina Lex, Vol. I, 1998), 266.

<sup>5</sup>Michelle Egan, "Markets", *The SAGE Handbook of European Studies* (2009), SAGE Publications, accessed March 10, 2008 <[http://www.sage-ereference.com/hdbk\\_eurostudies/Article\\_n8.html](http://www.sage-ereference.com/hdbk_eurostudies/Article_n8.html)>.

<sup>6</sup>Thad Dunning, "Resource Dependence, Economic Performance and Political Stability", *The Journal of Conflict Resolution*, Vol. 49, No. 4, Paradigm in Distress? Primary Commodities and Civil War, (Aug., 2005), 474.

<sup>7</sup>Stephan Haggard and Robert R. Kaufman, *Development, Democracy, and Welfare States. Latin America, East Asia, and Eastern Europe*, (New Jersey: Princeton University Press, 2008), 353.

<sup>8</sup>Yi FENG, *Democracy, Governance, and Economic Performance. Theory and Evidence*, (Cambridge, Massachusetts, London, England: Massachusetts Institute of Technology Press, 2003), 21.

investments have proved to be the essential component of growth, among other potential factors that can lead to a good economic performance<sup>9</sup>.

To analyze the existing differences at economic level between the world's nations, we cannot reach very far regarding the gross categories of political regimes, namely liberal-democratic political regimes, populist authoritarian political regimes, oligarchical authoritarian political regimes, totalitarian political regimes, or regarding the gross categories of the economic system, capitalism or market economy versus communist economies<sup>10</sup>.

Yet, in general terms we can talk about three types of political regimes: democratic, totalitarian and authoritarian.

A short vision of a democratic regime points towards that regime in which political parties lose elections as the results of the democratic processes are uncertain and determined by the people<sup>11</sup>. It is about the officials elected through secret vote, about free, fair and frequent elections, about the freedom of expression, alternative sources of information, freedom of association and universal suffrage<sup>12</sup>. Thus, by democracy we can understand the type of political regime characterized by civil rights, representative institutions and public liberties<sup>13</sup>.

Totalitarian regimes can be fascist or communist regimes. Both types cancel or decrease the rights and liberties of citizens, annihilate opposition and political adversaries, impose an official doctrine, manipulates the public opinion through its demagogical discourse, enforce the repressive apparatus, and so on<sup>14</sup>. In other words, the state interferes and annihilates the forces of society by creating new institutions subject to the unlimited control of the ruling elite, control which can be found in all fields, such as economy, education, culture, religion and even over the family<sup>15</sup>.

As for the authoritarian regimes, which many have evolved into dictatorships, these are characterized by the restraint of certain rights through the excessive rationalization and the marginalization of the parliament, through the restriction of political pluralism and the concentration of the political power in the hands of one authoritarian leader. Yet there is allowed the existence of autonomous groups, more if these appeared long before the regime<sup>16</sup>.

Basically, the conclusion that we can draw from here is that every time we talk about a certain political regime and about its economic performance, we must take into account its particularities, and in the context of globalization, there must be included in the general picture the cultural turning or change to which many countries are subjected<sup>17</sup>.

In the case of non-democratic political regimes, power represents at any time a delicate topic. In most cases, the communist party takes control over the mobility of all important party members and officials' carriers through the nomenclature system. Personnel control is based on the core of the party's political power. Thus, on the one side, the communist ideology does not separate politics from economy, and on the other side, the communist regimes are maintained through the compensation of the right people appealing to professional promotion. The good economic performance does not necessarily describe the most loyal and important candidates for power

<sup>9</sup> Michelle Egan, "Markets".

<sup>10</sup> Harold L. Wilensky, *Rich Democracies. Political Economy, Public Policy and Performance*, (Bekerly, Los Angeles, California :University of California Press, 2002), 216.

<sup>11</sup> Adam Przeworski, *Democracy and the Market. Political and Economic Reforms in Eastern Europe and Latin America*, (Cambridge:Cambridge University Press, 1991), 10.

<sup>12</sup> Robert Dahl, *Despredemocratie*, (Institutul European, 2003).

<sup>13</sup> Morton R. Davies and Vaughan A. Lewis, *Models of Political Systems*, (London, Basingstoke: Manmillan, 1971), 98, 99.

<sup>14</sup> Cristian Ionescu, *Regimuri Politice Contemporane*, (Bucharest:All Beck, 2004), 86.

<sup>15</sup> Karen Dawisha and Bruce Parrott, *The Consolidation of Democracy in East-Central Europe*, Cambridge, (New York:Cambridge University Press, 1997).

<sup>16</sup> Dawisha and Parrott, *The Consolidation of Democracy in East-Central Europe*,

<sup>17</sup> Trevor J. Barnes, „Rethorizing Economic Geography: From the Quantitative Revolution to the Cultural Turn”, *Annals of the Association of American Geographers*, (Vol. 91, No. 3, Sep., 2001), 457.

positions in such political regimes. Finally, the economic performance of local leaders counts only in the measure these manage to bring political and financial benefits to the higher rank elites of the regime<sup>18</sup>.

As for the democratic regimes, voting on economic bases has most of the time a punishment role, and the best reward for an official is to be reelected. This comes in contradiction to the communist regimes where the economic responsibility consists in rewards, especially in promoting the official, and the punishment for incompetence represents a rarity<sup>19</sup>.

Despite the fact that many political scientists associate democracy with social and economic welfare, today's reality clearly points us that a spectacular economic performance can be obtained not necessarily by a democracy, and the best example in this case is China<sup>20</sup>.

The premise of the present paper consists in that political institutions play an essential role regarding economic growth, in the sense that it is these institutions that have the potential to relax the constraints imposed over the economic structure and not only. That is, the level of performance of the different economies consists in the political institutions belonging to the political regime that establish the political parameters regarding both the economic as well as social development. Cutting loose, the political regime, with its political institutions, generates the general political conditions for the economic performance<sup>21</sup>.

Yet, not to forget that even the political institutions and values are exposed to changes<sup>22</sup>.

Due to the fact that the paper represents a study of the connection between political regimes and economic performance, I suggest to focus primarily on three major dimensions specific to any political regime, namely the type of political regime, and here I am referring to the ***level of political freedom***, the ***level of political stability*** and the ***level of political security***.

Relating these three dimensions to economic development, it can be drawn the following: no political dimension, per se, can determine economic performance. Besides the direct impact of these dimensions in relation to the economic development, these come to affect as well the economic performance through the influence they have over other variables that are in themselves in favor or against economic growth. Thus, these dimensions constitute the political bases of the economic management and affects not only the economic performance, but also the economic growth determinants, such as inflation, investments, human capital, income distribution, property rights, population growth, and others<sup>23</sup>.

Why the three dimensions?

The degree of political freedom, political stability and political security represent the three major political dimensions that shape the political institutions of any political regime. Taking into account the fact that the political institutions are those that create the political environment for the economic growth and social and economic development, it must be underlined that also the institutions are the ones that condition and constrain the economic decisions of the individual to invest in consistent capital. Therefore, the decisions of the economic actor are influenced by the political conditions on the local market. As such, the economic growth, which is a function of accumulation for the consistent capital, will increase or decrease according to the three political variables: political freedom, political stability and political security.

Various studies have concluded that the lower the probability for the regime to survive or the higher the level of political instability, the lower the level of economic growth. Moreover, the more

<sup>18</sup> Gang Guo, „Retrospective Economic Accountability under Authoritarianism: Evidence from China”, *Political Research Quarterly*, (Vol. 60, No. 3, Sep., 2007), 380.

<sup>19</sup> Gang Guo, „Retrospective Economic Accountability under Authoritarianism: Evidence from China”, p. 382.

<sup>20</sup> Henry Wai-Chung Yeung and George C.S. Lin, „Theorizing Economic Geographies of Asia”, *Economic Geography*, (Vol. 79, No. 2, Clark University, Apr. 2003), 107.

<sup>21</sup> Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 11.

<sup>22</sup> Morton R. Davies and Vaughan A. Levis, *Models of Political Systems*, 92.

<sup>23</sup> Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 1.

polarized the position of the parties in opposition or the higher the degree of uncertainty or security, the lower the degree of performance. Finally, the more repressive a political regime is, meaning the lower the level of political freedom, the lower the growth rate<sup>24</sup>.

It is important to underline that the lack of political freedom is about the impossibility of the individual to reach a certain goal, and not about the incapacity of reaching that goal as when the individual is too poor to obtain what he wants without confronting any legal interdictions.

For a political regime to be firm, this has to be accepted by the society. As for the political stability, it is the form of government rather than its content. The public officials and policies are subject to change, rather they remain firm in the sense that the political institutions show a capacity of resistance without any major change of the model.

The radical political changes that lead to the replacement of the political regime are those to increase the level of uncertainty when it comes to investments, the main element of performance, thus there is place for negative effects.

Political security, the third major dimension, can be understood as the absence of disagreement over the public policy between government and opposition. The uncertain policy impedes growth and investments through the increase in the retained goods and the decrease of the present investment value.

Studies in the field have shown that irrespective of the degree of political freedom, a secure and stable society is preferred instead of a stable but insecure society or secure but unstable society<sup>25</sup>.

Again, none of the three variables represents a necessary or sufficient condition for the economic growth. An undemocratic regime can enjoy a favorable economic performance if this is politically stable or if it is economically efficient<sup>26</sup>. On the other side, a democratic regime, which most of the times is conceived to promote growth and development, can experience an economic slow down if it is affected by the lack of political stability and security<sup>27,28</sup>.

The life of a political regime is associated in a positive manner with the level of economic growth. The higher the economic performance of a regime, the more popular the party in power.

Besides the direct and visible effects created by political freedom, political security and political stability, the indirect effects present quite a similar importance. The determinants of economic growth such as inflation, human capital, investments, income distribution, property rights, population increase, affect both the economic and social evolution of any country.

Inflation, which is both an economic and a political phenomenon, brings negative effects over the private investments and therefore over the economic growth rate, and it represents a consequence of the macroeconomic uncertainty<sup>29</sup>. The lower the level of political security, the higher the level of inflation. The higher the level of political stability, the lower the inflation rate. Yet there cannot be said if a democracy can bring lower rate of inflation than a nondemocratic regime. What is sure is that political instability brings a major impact over inflation, as it can come up with devastating consequences over the price stability<sup>30</sup>.

Investments represent another key element for the economic growth. Irrespective of the type of political regime implemented, the government has to be consistent in executing the policy. Even though we might deal with a bad policy which is going to be carried out, the investor may still find ways to make money. The really important aspect here is consistency in carrying out the policy. Besides the domestic political institutions that affect the level of savings and investments, the international factors also have to be taken into consideration. Many times the domestic environment

<sup>24</sup>Yi Feng, *Democracy Governance, and Economic Performance.Theory and Evidence*, 21.

<sup>25</sup>Yi Feng, *Democracy Governance, and Economic Performance.Theory and Evidence*, 37.

<sup>26</sup>This is the case Of Taiwan during 1970's and 1980's.

<sup>27</sup>This can be the case of Russia and Poland at the beginning of the 1990's.

<sup>28</sup>Yi Feng, *Democracy Governance, and Economic Performance.Theory and Evidence*, 37.

<sup>29</sup>Yi Feng, *Democracy Governance, and Economic Performance.Theory and Evidence*, 126.

<sup>30</sup>Yi Feng, *Democracy Governance, and Economic Performance.Theory and Evidence*, 157.

for investments is constrained by the economic relationships between countries and by the international security. Also there must be pointed out the consequences of international economic sanctions or international conflicts. What is certain is that the more obvious the growth is in the past, the more probable is for investors to make investments in the future<sup>31</sup>. Political corruption affects as well the level of investments<sup>32</sup>.

Instability and economic stress bring consequences too over the level of investments by destroying the confidence that the political arrangement will remain untouched<sup>33</sup>. Only a capable, stable and powerful government is able to maintain the political capacity consistent with the desired politics and the stability of political freedom and of the civil liberties.

Between politics and education there is an obvious connection, as the state is the one shaping the educational system with the purpose of realizing its political agenda, and science is the one ensuring the progress of society and the improvement of the human quality of life. If democracies, through the production of human capital, manage to enlarge the formation of human capital necessary for the economic growth, for the authoritarian regimes sometimes science can harm its political control<sup>34</sup>.

As for the income distribution, a democratic regime has more chances to reduce income inequalities than a nondemocratic regime. For the latter, the strong minority holds the power as well as the motivations to influence the political elite when favourable politics for the income augmentation need to be adopted<sup>35</sup>.

The relationship between economic freedom and political freedom is important for our study. Political freedom is an important factor, if not a condition for economic freedom. As for the economic freedom, this presents two major components, the protection of private property and the freedom of usage and exchange of the property. Two conditions are required. First, when the purchased property takes the legal and peaceful way, it is protected against the physical invasion of others, and secondly, when the individuals enjoy their freedom to use, exchange or offer their property as long as by their actions no identical rights of other are being violated<sup>36</sup>.

The birth rate brings also indirect effects over the economic performance of a country. In case of a stable, capable and free government, the birth rates face a decline.

In order to make applicable its agenda, a country has to spend. If in the case of the democratic regimes, the political leaders are compensated or punished by the electorate by renewing or not their mandate, in the case of non-democratic regimes, while the stake is the promotion of the national good, the compensation or the punishment for the local leaders in conformity with the economic records of their jurisdictions can represent an efficient strategy to enforce the legitimacy of the political regime<sup>37</sup>.

## Conclusions

The premise of the paper states that the political institutions play a major role regarding the economic performance as it is them that have the potential to relax the constraints imposed over the economic structure and not only. It is the political institutions of the regime as such, including its particularities and the cultural turn, that establish the political parameters not only for the economic

<sup>31</sup> Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 172.

<sup>32</sup> Stephen Knack and Phillip Keefer, „Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures”, *Economics and Politics*, (1995), 7:207-227.

<sup>33</sup> Jeffrey E. Cohen, „Economic Perceptions and Executive Approval in Comparative Perspective”, *Political Behavior*, (Vol. 26, No. 1, Mar., 2004), 30-31.

<sup>34</sup> Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 193.

<sup>35</sup> Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 193.

<sup>36</sup> Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 252-253.

<sup>37</sup> Gang Guo, „Retrospective Economic Accountability under Authoritarianism: Evidence from China”, 379.

development as for the social development as well. Thus, the political regime, with its political institutions, generates the general political conditions for the economic performance.

As a general rule after years of studies, the conclusion in the field is that for a certain and continuous economic growth, a country has to maintain a stable political atmosphere, to improve both economic and political freedom, to maintain a capable and efficient government. Political stability and governmental efficiency have been declared stimulators for economic performance.

The accent fell on three major dimensions: the degree of political freedom, the level of political stability and the level of political security.

In the case of economic performance, political stability is preferred to instability, and in the case of instability, the lower it is, the better. Yet, if there is a high level of instability, as long as the existing policy is maintained in the future, its negative effect can be significantly reduced. Political liberty is important as well as the political reform towards a higher level of openness can lead to a better economic performance, and more as the democratic institutions bring important effects over the degree of competition. Yet, irrespective of the degree of freedom, investors prefer a stable and secure society.

Economic growth is sustained by savings and investments. A regime that is unstable determines its consumers to reduce economies and to increase consumption. In case of political uncertainty, both demand and supply for capital go down. More, the political instability makes the working opportunities less attractive and available, decreasing this way the potential for savings.

Yet, none of the three variable represents a sufficient and necessary condition to ensure a good economic performance. But a combination of the three creates effects over the economic growth. A regime deprived of freedom, unstable and uncertain is destined to have a disabled economy, and this because the political repression, instability and uncertainty define and constrain the economic decisions taken by the individuals on the market<sup>38</sup>.

A non-democratic country can enjoy a good economic performance if it is politically stable or if it is economically efficient<sup>39</sup>. A democracy, which most of the times is conceived as promoting growth and development, can experience an economic slow down as result of the lack of political stability and security<sup>40</sup>.

Besides the direct impact of these three dimensions, there stand the indirect influences over other variable that can be either for or against economic growth. These dimensions constitute the political basis for the economic management and affect not only the economic performance, but also the determinants of economic growth, such as inflation, investments, human capital, income distribution, property rights, and population increase<sup>41</sup>.

The economic growth and development depend on the capacity of the regime to offer a favourable environment for the individuals to invest in their own economy, as investments represent one of the potential factors which sustain economic performance.

Drawing a line, the key to success seems to consist in a group of policies that sustain economic growth. This group includes the protection of property rights, the maintenance of macroeconomic stability, the control of inflation as a major economic objective, a sufficient degree of economic freedom and the existence of a free market, the insurance of a public goods network as well as infrastructure and education<sup>42</sup>.

Despite the fact that most political scientists tended to associate democracy with the social and economic welfare, the case of Asia comes to question this assumption.

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<sup>38</sup>Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 89, 90, 296.

<sup>39</sup>The case of Taiwan during 1970's and 1980's.

<sup>40</sup>The case of Russia and Poland at the beginning of the 1990's.

<sup>41</sup>Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 1.

<sup>42</sup>Stephan Haggard and Robert R. Kaufman, *Development, Democracy, and Welfare States. Latin America, East Asia, and Eastern Europe*, (Princeton, New Jersey Princeton University Press, 2008), 353.

Most recent studies in the field have concluded that the effects of democracy over the growth are statistically insignificant. Democracy can promote performance through the facilitation of certain factors as investments, inflation, education, birth rates, economic freedom/ property rights, income distribution, political stability, factors that by themselves lead to an improvement of the level of performance. Despite the fact that democracy does not bring a direct effect on economic performance, due to its principles, primarily a strong middle class, responsibility in front of the electorate, etc., it can decrease the degree of political instability, improving indirectly the economic performance<sup>43</sup>.

Economic performance is not about democracy or non-democracy, but about a secure, firm, strong and in a continuous development economy.

No matter the type of political regime, the government has to be consistent in the execution of its policy. In the case of a bad policy, but consistent, investors can still find ways of making money.

The impact that political regimes can have over the economic institutions can be critical. The maintenance of economic freedom depends not only on the tradition of respecting the property rights, but also on a political system consistent with the economic freedom. Thus, while the direct effect of democracy over the growth has an ambiguous character, its indirect effects can have a positive impact due to the secure property rights and other economic liberties<sup>44</sup>.

To conclude, about the three main dimensions it can be said that first, the lower the probability for the regime to survive, the higher the level of political instability and as such the lower the rate of economic growth; second, the more polarized the position between the opposition parties or the higher the degree of uncertainty/ insecurity, the lower the degree of performance; and finally, the more repressive a regime is, that is the lower the level of political freedom, the lower the rate of growth.

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<sup>43</sup>Yi Feng, *Democracy Governance, and Economic Performance. Theory and Evidence*, 90, 93.

<sup>44</sup>Yi Feng, *Democracy Governance, and Economic Performance.Theory and Evidence*, 273, 274.



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