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AN INTEREST-GROUPS APPROACH TO ECONOMIC GROWTH

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Throughout history, people have fled from anarchic areas and moved even to areas with very bad governments . . . Since life in anarchy is appallingly inefficient; there are gains from making and carrying out an agreement to maintain peace and order.

Mancur Olson, 1991.

AN INTEREST-GROUPS APPROACH TO ECONOMIC GROWTH.

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I. INTRODUCTION.

This paper postulates the hypothesis that the stability of the rules under which compete the different interest groups is a relevant consideration to explain economic growth; under this hypothesis it is possible to propose indices that may capture the degree of stability of the rules of the redistributive game better than the usual measures of political stability.

We will develop our hypothesis from the interest-groups approach to public policy; approach that can be traced back as early as the beginning of this century when *The Process of Government*, seminal book written by Arthur Bentley, was first published.

In *The Process of Government* Bentley characterizes the government as a process, in which interest groups are the protagonists. Under this framework an interest group is a certain portion of the members of a society taken as a mass activity, which does not preclude anyone who participate in it from participating in many other groups. Every person has not one but many interests, the more complex their culture becomes the more interests they will have; in these terms a group and the activity of the group are equivalent. For Bentley, there is no group without its interest; an interest is the equivalent of a group. As the shared interest that defines any group declines, the group itself becomes weak and may even disappear. Interest groups are the raw material to the comprehension of government behavior, and, as we have already stated, they are the protagonists of the process of government. This process is defined as the activity of the groups in their relation with one another; in these terms no group has any meaning except in its relation to other groups. Groups are in constant activity, pressing to one another, cooperating, competing, forming offensive and defensive alliances, splitting apart, and disappearing, with new groups forever being formed. Strong groups dominate, and delineate the existing state of society; state that under this framework have to be appraisal as an equilibrium, given that it is the end result of the pressure exerted by a multiplicity of interest groups.

The interest groups theory of government is useful to explain public policies not only under democratic regimes but also under autocratic ones, since it focus on pressure groups instead of voters, politicians and political parties. Under Bentley framework it is no fair to talk of despotisms or democracies as though they were absolutely distinct types of governments. All depends for each despotism and each democracy on the given interests, their relations, and their methods of interaction.

Notwithstanding, the political success of particular interest groups is sensitive to the characteristics of the political regime, because they influence the rules under which the groups compete. This feature will prove to be of great relevance in order to develop our hypothesis.

In the following section we will illustrate the fact that the type of political regime does not seem to play an important role for economic growth, since neither democracies nor autocracies appear to have definitive advantages from a theoretical, or empirical, point of view. Section 3 will portray the relation between political stability and economic growth. Finally, Section 4 will be devoted to introduce our hypothesis; in direction to this goal we will make use of the interest-groups approach to public policy, and we will propose different indices that may capture the degree of stability of the rules of the redistributive game better than indices of political stability.

II. DOES DEMOCRACY IN THE POLITICAL REALM FOSTER OR HINDER ECONOMIC GROWTH?

> *"Social scientists know surprisingly little: our guess is that political institutions do matter for growth, but thinking in terms of regimes does not seem to capture the relevant differences."*
>
> *Adam Przeworski and Fernando Limongi, 1993.*

We will devote this section to provide examples of the different arguments usually proposed in order to support the alternative hypothesis that either a democratic political regime, or an autocratic one, provides the better conditions for economic growth. The section is closed with a table that summarizes the results of empirical studies in the issue.

Democracy protects property rights, and secure property rights are critical for economic growth.

Douglas North (1990) arguments that democratic institutions are the ones that would provide the most credible commitment that the ruler will not alter property rights for his own benefit. Since the expected returns from investments, and therefore the incentive to invest, are a negative function of the probability that the ruler will alter property rights for his own benefit, a democratic political regime provides a better soil for economic growth.

Similarly, Mancur Olson (1991) argues that an autocrat cannot credibly commit himself not to alter property rights for his own benefit, since if he runs the society, there is no one who can force him to keep his commitments.

Democracy does not protect property rights.

Adam Przeworski (1993) claims that the idea that democracy protects property rights is a farfetched one, since democracy equalizes the ability to influence the allocation of resources. Universal suffrage provides those who suffer as a consequence of private property with political power; then, they may attempt to use this power to expropriate the riches.

Democracy undermines investment.

Walter Galenson (1959) postulates that democracy unleashes pressures for immediate consumption, which occurs at the cost of investment, hence of growth. For example, unions in a democratic society must ordinarily appeal to the worker on an all-out consumptionist platform.

By the same token, Samuel Huntington and Jorge Dominguez (1975) argue that the interest of the voters generally leads parties to give expansion of personal consumption a higher priority vis-a-vis investment than it would receive in a non-democratic system.

An even more extreme position is proposed by Vaman Rao (1984), who argues that since economic development require huge investments, that imply major cuts in current consumption, there is no political party that can attain power with such a platform.

Dictatorships insulate the state from particularistic pressures.

Stephan Haggard (1990) claims that a non-democratic political regime provides insulation from distributionist pressures. These pressures come from a multiplicity of interest groups that compete for rents, each trying to maximize its redistributive success. The political insulation increases the ability of the rulers to impose the short-term costs associated with economic growth. It is said, that this argument takes two steps: first, that the insulation of the government favors growth, and second, that this insulation is only possible under non-democratic regimes.

Table 1 summarizes 18 empirical studies on the role played by the type of political regime on economic growth. These generated 21 findings, since some distinguished areas of periods.

TABLE 1

STUDIES OF DEMOCRACY, AUTOCRACY, AND GROWTH.

Author	**Sample**	**Time Frame**	**Finding**
Przeworski (1966)	57 countries	1949-1963	Dictatorships at medium development level grew fastest.
Adelman & Morris (1967)	74 underdeveloped countries (including communist bloc)	1950-1964	Authoritarism helped less at medium developed countries.
Dick (1974)	59 underdeveloped countries	1959-1968	Democracies develop slightly faster.
Huntington & Dominguez (1975)	35 poor nations	the 1950s	Authoritarian grew faster.
Marsh (1979)	98 countries	1955-1970	Authoritarian grew faster.
Weede (1983)	124 countries	1960-1974	Authoritarian grew faster.
Kormendi & Meguire (1985)	47 countries	1950-1977	Democracies grew faster.
Kohli (1986)	10 underdeveloped countries	1960-1982	No difference in 1960s; authoritarian slightly better in 1970s.

TABLE 1

STUDIES OF DEMOCRACY, AUTOCRACY, AND GROWTH.

Author	Sample	Time Frame	Finding
Landau (1986)	65 countries	1960-1980	Authoritarian grew faster.
Sloan & Tedin (1987)	20 Latin American countries	1960-1979	Bureaucratic-authoritarian regimes do better than democracy; traditional dictatorship do worse.
Marsh (1988)	47 countries	1965-1984	No difference between regimes.
Pourgerami (1988)	92 countries	1965-1984	Democracies grew faster.
Scully (1988, 1992)	115 countries	1960-1990	Democracies grew faster.
Barro (1989)	72 countries	1960-1985	Democracies grew faster.
Grier & Tullock (1989)	59 countries	1961-1980	Democracy better in Africa and Latin America; no regime difference in Asia.
Remmer (1990)	11 Latin American countries	1982-1988, 1982 and 1988	Democracies grew faster, but result statistically insignificant.
Pourgerami (1991)	106 less developed countries	1986	Democracies grew faster.
Helliwell (1992)	90 countries	1960-1985	Democracy has a negative, but statistically insignificant, effect on growth.

Source: Adam Przeworski and Fernando Limongi, 1993.

Among these studies, eight found evidence in favor of democracy, eight in favor of authoritarism, and five discovered no difference. Based on this fact, and on the lackness of any strong theoretical argument, the authors conclude that,

> *"We do not know whether democracy fosters or hinders economic growth . . . Clearly, the impact of political regimes on growth is wide open for reflection and research."*
>
> *Adam Przeworski and Fernando Limongi, 1993.*

III. POLITICAL STABILITY.

It is usually asserted that political instability significantly lowers private investment, as well as economic growth, since it has adverse influence on property rights, and by that on investment and growth (i.e, Robert Barro, 1991; Ross Levine & David Renelt, 1992; Paolo Mauro, 1994). Political instability may lead entrepreneurs to wait until the uncertainty is resolved, before undertaking irreversible investment projects, it also may lead to capital flight; by the same token, multinational companies may be less likely to locate their subsidiaries in countries that face the possibility of coups, revolutions, terrorism, or expropriation.

Robert Barro (1991) reports, for a sample 98 countries in the period 1960-1985, that growth rates are negatively related to measures of political instability. He makes use of variables like figures on revolutions, coups, and political assassinations, since these relations could involve the adverse effects of political instability on property rights, and therefore on private investment.

Similarly, Ross Levine and David Renelt (1992) conclude that the figure on revolutions and coups per year is robustly negative correlated with the investment share of gross domestic product. Thus, not surprisingly, countries that experience a high number of revolutions and coups tend to be countries that invest less of their resources domestically than countries with stable political environments.

By the same token, Paolo Mauro (1994), accounts that anyone of the different proxies of political stability that he analyzes is significantly positively correlated with private investment and economic growth.

It is a common view that countries in sub-Saharan Africa and in Latin America have poorer growth performance than other countries. It is said that even when it is taken into account the political stability factor it is not possible to fully capture the characteristics of the typical countries on these continents that lead to below-average economic growth. For example, Barro makes use of a dummy for the Latin American countries and found that this dummy appears to be significantly negatively related to economic growth; then, he concludes that,

> *"It appears that something is missing to explain the typically weak growth performance in Latin America."*
>
> *Robert Barro, 1991.*

One possible approach to this puzzle consists to center the attention on the characteristics of the indices of political instability utilized, since the indices used by Barro, and by most of the scholars, are built on objective attributes like the number of coups, revolutions, political assassinations, etc.; but objective measures may be misleading abound.

For instance, Argentina presents a long history of military coups d'etat; nevertheless, at present, this event is absolutely unfeasible. Then, any objective measure of political instability based on that history will be misleading. By the contrary, Chile had an extended democratic tradition, but in September 1973 most of the population expected the military coup d'etat; thus, to extrapolate the Chilean level of political instability in 1973 from its democratic past does not have any sense.

This type of problem motivates the use of subjective measures of political instability since they constitute a more precisely measured proxy for the representative investor's perceptions of political instability. For example, Paolo Mauro (1994) makes use of a data set consisting of subjective indices of political instability for a panel of 70 countries between 1971 and 1983. The indices are based on standard questionnaires filled in by Business International (BI) correspondents stationed in seventy countries; therefore, they reflect their subjective opinions.

In order to illustrate the advantages of this type of index we will compare the ranking of countries generated by the subjective index of political instability built by Paolo Mauro (see Table 2) with the ranking generated by an objective index built by Alberto Alesina and Roberto Perotti, 1993 (see Table 3). In both tables, the higher the quintile the higher the ranking of the country in terms of its political stability.

Mauro has built his index based on the following six subjective factors:

1. Political change (institutional): Possibility that the institutional framework will be changed within the forecast period by election or other means.
2. Political stability (social): Conduct of political activity, both organized and individual, and the degree to which the orderly political process tends to disintegrate or become violent.
3. Probability of opposition group takeover: Likelihood that the opposition will come to

power during the forecast period.

TABLE 2

SUBJECTIVE POLITICAL STABILITY INDEX, 1980.

Quintile 1	**Quintile 2**	**Quintile 3**	**Quintile 4**	**Quintile 5**
Bangladesh	Chile	Ecuador	**Argentina**	**Uruguay**
Iraq	Turkey	Greece	**Domin. Rep.**	Ivory Cost
Pakistan	Colombia	Panama	Nigeria	France
Peru	Mexico	Italy	Egypt	Japan
Thailand	Philippines	Kenya	**Venezuela**	Canada
Zaire	Spain	Taiwan	United King.	Denmark
Brazil	Zimbabwe	Germany	Malaysia	Finland
Iran	India	Ireland	United States	Netherlands
Morocco	Jamaica	Israel	Australia	Norway
South Africa	Sri Lanka	New Zealand	Austria	Sweden
				Switzerland

Source: Paolo Mauro, 1994.

4. Stability of labor: Degree to which labor represents possible disruption for manufacturing and other business activity.

5. Relationship with neighboring countries: This includes political, economic and commercial relations with neighbors that may affect companies doing business in the country.

6. Terrorism: The degree to which individuals and businesses are subject to acts of terrorism (i.e., a value of "2" describes a country where exists a constant and significant disruption of the society by organized acts of terrorism).

Alesina and Perotti derive their index by applying the method of principal components to the following variables for 1960-1985: dictatorship dummy (to correct for underreporting), political assassinations, death by mass violence, successful coups, and unsuccessful coups.

TABLE 3

OBJECTIVE POLITICAL STABILITY INDEX, 1980.

Quintile 1	**Quintile 2**	**Quintile 3**	**Quintile 4**	**Quintile 5**
Bangladesh	Brazil	Colombia	South Africa	Israel
Iraq	Iran	Mexico	India	New Zealand
Pakistan	Morocco	Philippines	Jamaica	Australia
Peru	Chile	Spain	Sri Lanka	Austria
Thailand	Turquia	Zimbabwe	Germany	Canada
Zaire	Greece	Italy	Ireland	Denmark
Ecuador	Panama	Kenya	Malaysia	Finland
Argentina	Egypt	Taiwan	United States	Netherlands
Domin. Rep.	**Venezuela**	United King.	France	Norway
Nigeria	**Uruguay**	Ivory Coast	Japan	Sweden
				Switzerland

Source: Alberto Alesina and Roberto Perotti, 1993.

Comparing both rankings we realize that some Latin American countries: Argentina, Uruguay, Dominican Republic and Venezuela, are at least two quintiles worst according to the objective measure than to the subjective one. Looking to the history of these countries it becomes clear that subjective indices seem to be more adequate proxies of the level of political stability than objectives ones.

While making use of subjective indices may improve our capacity to explain the typically weak growth performance of Latin American countries, to utilize this type of index, as well as objective ones, generates the problem to determine what are the relevant indicators to use. This question does not have a clear answer. If we look at the typical variables utilized by objectives indices like political assassinations, death by mass violence, successful coups, or unsuccessful coups, etc., we can ask ourselves why to use these variables instead of any other. Similarly, if we examine the construction of Mauro's subjective index, which is an average of the six mentioned indicators, we perceive that the index may be significantly altered even if we take into account the same indicators but we allocate different weights. This fact is illustrated by the low correlation verified between some of the indicators (see Table 4, page 13).

In the following section we will follow a different strategy. Instead of centering our attention on the characteristics of the index of political instability utilized, we will question the correctness of making use of such an indicator; since we will postulate the hypothesis that it is the stability of the rules of the redistributive game that matters for economic growth. In direction to this goal we will develop the hypothesis from the interest-groups approach to public policy, and we will propose different indices that may capture the degree of stability of the rules of the redistributive game better than the usual, objective or subjective, indices of political stability.

TABLE 4

SIMPLE CORRELATION MATRIX OF POLITICAL STABILITY INDICES.

	(A)	(B)	(C)	(D)	(E)	(F)
(A)	1.00	0.68	0.53	0.38	0.47	0.351
(B)	0.68	1.00	0.50	0.34	0.65	0.660
(C)	0.53	0.50	1.00	0.28	0.36	0.353
(D)	**0.38**	**0.34**	**0.28**	1.00	0.24	0.36
(E)	0.47	0.65	**0.36**	**0.24**	1.00	0.49
(F)	**0.35**	0.66	**0.35**	**0.36**	0.49	1.00

Source: Paulo Mauro, 1994.

where,

A = Institutional change.

B = Social change.

C = Opposition takeover.

D = Stability of labor.

E = Neighboring countries.

F = Terrorism.

IV. THE STABILITY OF THE RULES OF THE REDISTRIBUTIVE GAME.

The stability of the property rights plays a relevant role in terms of economic growth since the expected returns from investments, and therefore the incentives to invest, are a negative function of the probability that property rights will be unexpected altered. This fact is illustrated by the following quotations,

> *One of the lamentable principles of human productivity is that it is easier to destroy than to create. A house that takes several man-years to build can be destroyed in an hour by any young delinquent . . . The power to hurt -- to destroy things that somebody treasures, to inflict pain and grief -- is a kind of bargaining power, not easy to use but used often.*
>
> *Thomas Schelling, 1966.*

> *Throughout history, people have fled from anarchic areas and moved even to areas with very bad governments . . . Since life in anarchy is appallingly inefficient; there are gains from making and carrying out an agreement to maintain peace and order.*
>
> *Mancur Olson, 1991.*

Under this framework, we have illustrated in Section 2 the fact that the type of political regime does not seem to play an important role for economic growth, since neither democracies nor autocracies appear to have definitive advantages from a theoretical, or empirical, point of view. For instance, it is possible to defend the case for authoritarism on the experiences of countries like Chile, Hong Kong, Korea and Taiwan. Pinochet force-fed Chile drastic free-market reforms that transformed that country into the most vibrant economy in South America. Authoritarian leaders in Taiwan and South Korea radically altered their economies from dependence on protected domestic markets toward active exports in the world market. The Hong Kong government, used free-market principles to convert the country into an economic powerhouse. In fact, we also can propose a case against authoritarism on the experiences of countries like Argentina, where the disastrous policies of the military rulers (but also of the civilian ones) reduced that once wealthy country to Third World status, and of most of the Latin American countries. By the contrary, democratic societies like the former West Germany and Japan present an outstanding pace of economic growth.

In Section 3 we have centered our attention on the role played by the political instability, since it may induce the instability of the property rights, and consequently it may hinder economic growth. We have illustrated the fact that political stability may play a role but, as Robert Barro points out, even when it is taken into account this factor it is not fully possible to capture the attributes of the typical countries in sub-Saharan Africa and Latin America that lead these countries to below-average growth.

As a first approach to this puzzle, we have centered our attention on the characteristics of the indices of political stability utilized; since the indices used by Barro, and by most of the scholars, were built on objective measures of political stability and therefore may be misleading abound. Consequently we have examined subjective indices; but while making use of this type of indices may improve our capacity to explain economic growth, to utilize subjective indices, as well as objective ones, generates the problem to select the relevant indicators to build them.

The lacks of a precise solution to this problem motivate us to follow a different strategy.

Instead of centering our attention on the characteristics of the indices of political stability utilized, we will inquiry the correctness of making use of such indicators by postulating the alternative hypothesis that it is the stability of the rules of the redistributive game that matters for economic growth. We will develop our hypothesis from the interest-groups approach to public policy.

The interest-groups theory of government is useful to explain public policies not only under democratic regimes but also under totalitarian ones, since it focus on pressure groups instead of voters, politicians and political parties (see Edgardo Zablotsky, 1993). Under this framework it is no fair to talk of despotisms or democracies as though they were absolutely distinct types of governments. All depends for each despotism and each democracy on the given interests, their relations, and their methods of interaction; since all political systems, including dictatorial as well democratic systems, have been subject to pressures from special interest groups that try to use their power in order to increase their welfare. Nevertheless, the political success of particular interest groups is sensitive to the characteristics of the political regime, because these attributes influence the rules under which they compete. These rules may be embodied in political constitutions and other political procedures,

> *"Suppose, for example, we take a modern battle, and note that it is fought, not with complete abandon, but under definite limitations which forbid certain cruelties, such as the poisoning of springs, the butchery of the wounded, firing upon Red Cross parties, the use of explosive bullets, or the use of balloon explosives. Or suppose we take a political campaign, and note that in one country the contestants use methods which are not used in another . . . There*

are rules of the game in existence, which form the background of the group activity. There is no savage tribe so low but that it has rules of the game, which are respected and enforced."

Arthur Bentley, 1908.

Given the significant role played by the stability of the property rights, the instability of the rules of the redistributive game may inhibit economic growth since it may discourage investments, by increasing the risk that the investors face. This fact provides support to the hypothesis that it is the stability of the rules of the redistributive game that matters for economic growth. Under this hypothesis, it may be misleading to make use of objective, and even subjective, indices of political stability since they capture events that in many cases do not alter the rules under which compete the different interest groups.

Objective indices of political stability are usually based on figures on revolutions, successful and unsuccessful coups d'etat, etc. What are the distinctive characteristics of each of these classes of non-democratic transfers of government? It is usually argued that the main difference between a revolution and a coup d'etat is that in the former case, a significant proportion of the revolutionaries are not members of the government or of the ruling coalition; while in the latter, the members of the plot are part of the government,

"In contrast to revolutions, which are activities organized by persons outside the government, a coup d'etat is an attempt of a subset of this ruling coalition to overthrow from office the head of a government, together with a subset of his supporting coalition, by means of political violence . . . The basic difference

between a revolution and a coup d'etat, therefore, is that, while revolutionary activities are made, ex definitio, by individuals outside government, coups d'etat are carried out by government officials.".

Ramon Cao Garcia, 1983, p. 77.

In actuality, this definition fully applies to most, but not every type of coup d'etat; the military coups d'etat that overthrow democratic regimes should be considered an exception, given that they are headed by high ranking officers who only supposedly are part of the government. The army officers are professionals, they are neither elected officers nor are they part of the governmental coalition; therefore, the usual definition *in a coup d'etat the members of the plot are part of the government or of the ruling coalition*, is inadequate to characterize this type of irregular executive transfer. In order to characterize adequately this class of non-democratic change of government, we will make use of the following alternative definition: *A military coup d'etat that overthrows a democratic regime is characterized by the fact that its actors are supposedly, but not in fact, members of the government.*

While a revolution or a military coup d'etat that overthrows a democratic regime will alter the rules of the redistributive game, an unsuccessful coup, or even a coup d'etat that only replaces the head of the military regime by another one, will not affect these rules; therefore, objectives indices of political stability based on such indicators may not capture the relevant instability that may hinder economic growth.

A military coup d'etat that overthrows a democratic regime will alter the rules of the redistributive game, since the immediate consequence of the overthrowing of a democratic regime will be the establishment of a dictatorship, a situation that will drastically modify the structure of the political organization of the society (i.e., the Parliament will be closed, the political parties and the labor unions proscribed, antigovernment demonstrations and strikes forbidden, etc.). By the contrary, a military coup d'etat that only replaces the head of the government by another one will not affect these rules, since the structure of the political organization of the society will not be majorly altered (i.e., the Parliament has been closed when the democratic regime has been overthrown, the political parties and the labor unions have already been proscribed, etc.).

Subjective indices of political stability also capture events unrelated with the change in the rules of the redistributive game. For instance, Mauro index of political stability takes into account six indicators (see page 9): political change (institutional), political stability (social), probability of opposition group takeover, stability of labor, the relationship with neighboring countries, and terrorism; some of these indicators capture events (i.e., the probability of opposition takeover) usually unrelated with changes in the rules of the redistributive game.

A first feasible strategy to try to capture the role played by the change in the rules of the redistributive game consists to make use of a different class of index: the indices of democraticness; since the stability of the degree of democracy of a society may be a more accurate proxy for the stability of the rules of the redistributive game than objective and subjective measures of political stability.

For example, Zehra Fatma Arat (1984) has built an index of democraticness based on three principles that lead to higher levels of popular control: the degree of political participation, the competitiveness of the political system, and the coerciveness of the government:

1. Political participation: It includes measures of the extent that popular will is reflected at the legislative and executive branches of government. For the executive branch the index evaluates if the ruler was elected through popular elections; for the legislative they are taken into account three elements:

1.1. Legislative selection: The index analyzes if the legislative body of the government is elected by means of either direct or indirect popular election.

1.2. Legislative effectiveness: In situations where the legislative activity is essentially of a rubber stamp character, or the effective executive has prevented the legislature for meeting, the legislative is considered to be ineffective. In a situation in which the effective executive's power substantially outweighs, but does not completely dominate that of the legislature, the legislative is considered partially effective. The legislative process is defined as effective when there is significant governmental autonomy in regard to taxation and disbursement, and the power to override executive vetoes of legislation.

1.3. Competitiveness of the nomination procedure: A non-competitive procedure refers to a process where the public does not have an opportunity to influence the options. Although competition may be allowed, in countries that have essentially non-competitive nomination procedure, the options are mostly predefined and the choice is dictated by a dominant organ that ultimately provides a single slate of nominees.

2. Competitiveness of the political system: The index takes into account the following characteristics:

2.1. Party legitimacy: This indicator evaluates if there is significant exclusion of parties (i.e., only a dominant party is allowed, only extremist parties are excluded, etc.).

2.2. Party competitiveness: This index measures the proportion of votes held by the largest party. The largest this proportion, the lower the competitiveness.

3. Coerciveness of the government: This index evaluates the degree of civil and political liberties. If the government of a country employs more sanctions than the others given equal levels of unrest, Arat index qualifies it as a more coercitive regime.

Arat index of democraticness possesses two attributes: the first one, that most of its different components are highly correlated (actually only the degree of coercitiveness presents a low correlation with any other variable); this fact is reported in Table 5 (see page 22). The second attribute is its high degree of correlation respect to alternative indices, built by different scholars, with dissimilar methodologies, and making use of different indicators. This fact is reported in Table 6 (see page 23). Both attributes provide confidence that the behavior of this class of index may capture the degree of stability of the rules of the redistributive game, regardless of the specific indicators chosen to built the index, and the weights assigned to each of the indicators.

In order to illustrate this fact, we have classified from the Arat sample 17 countries under the label of *first world countries* (the Western European countries in addition to the USA, Canada, Australia and New Zealand), and 19 under the label of *Latin American countries* (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela). Table 7 (see page 24) reports the average index of democraticness for the First World and the Latin American countries, respectively. The country scores, which are ranked in the (0-20) interval, fluctuates between 0.55 and 18.91; the higher the rank, the higher the degree of democraticness.

TABLE 5

SIMPLE CORRELATION MATRIX FOR THE INDEX OF DEMOCRATICNESS.

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
(A)	1.00						
(B)	0.56	1.00					
(C)	0.67	0.67	1.00				
(D)	0.68	0.72	0.86	1.00			
(E)	0.59	0.40	0.82	0.75	1.00		
(F)	0.53	0.35	0.68	0.66	0.77	1.00	
(G)	- 0.13	- 0.05	- 0.10	- 0.14	- 0.14	- 0.11	1.00

Source: Zehra Fatma Arat, 1984.

where:

A = Effective executive.

B = Legislative selection.

C = Legislative effectiveness.

D = Nomination process.

E = Party legitimacy.

F = Party competitiveness.

G = Coerciveness.

TABLE 6

CORRELATION BETWEEN MEASURES OF DEMOCRACY.

Author	Countries	Time Frame	Correlation with Arat Index
Coleman, 1960	75	1958-1959	0.73
Cutright, 1963	76	1940-1960	0.75
Cutright and Wiley, 1969	40	1927-1966	0.91
Smith, 1969	110	1946-1965	0.82
Adelman and Morris, 1971	73	1957-1962	0.74
	74	1963-1968	0.67
Dahl, 1971	114	circa 1969	0.85
Jackman, 1973	60	circa 1960	0.71
Fitzgibbon and Johnson, 1977	20	1945-1950	0.83
		1950-1955	0.79
		1955-1960	0.75
		1960-1965	0.77
		1965-1970	0.76
		1970-1975	0.71
Bollen, 1980	113	circa 1960	0.91
	123	circa 1965	0.92
Coulter, 1975	85	1950-1970	0.75

Source: Zehra Fatma Arat, 1984.

TABLE 7

ARAT INDEX OF DEMOCRATICNESS.

Year	First World	Latin America
1950	19.39	11.11
1955	19.43	10.21
1960	19.35	11.70
1965	19.42	10.64
1970	19.36	9.96
1975	19.42	7.51

Source: Edgardo Zablotsky, 1992.

The average index for the First World countries presents, not only higher values than the average index for the Latin American countries, but also a higher stability. This fact is illustrated in Figure 1 (see page 25), which compares the behavior between 1951 and 1976 of the average index of democraticness for the First World and the Latin American countries.

The clear instability of the average index for the Latin American countries is consistent with our proposed hypothesis, since it reflects a lower stability of the rules of the redistributive game, and therefore it may constitute a deterrent to invest; thus, it may be related with the unexplained low growth performance of the Latin American countries.

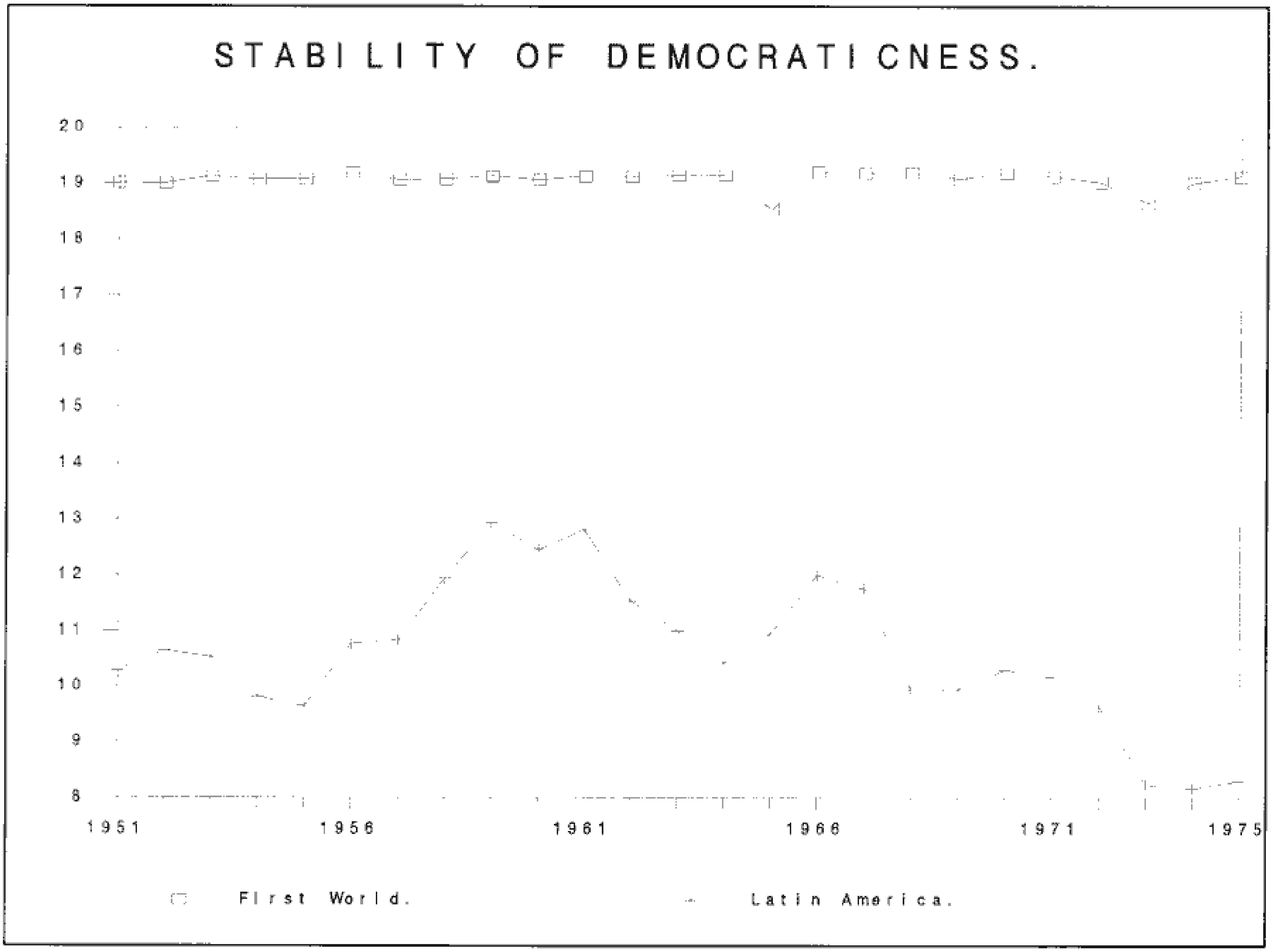

FIGURE 1.

Source: Own elaboration, based on Zehra Fatma Arat, 1984.

Given that most of the indicators taken into account by Arat are highly correlated between themselves, and that Arat index itself is highly correlated with many other measures of democraticness, we will examine the possibility that a single indicator: the degree of stability of the type of political regime, may function as a simple proxy for the stability of the different measures of democraticness. Table 8 reports the evidence.

TABLE 8

INSTITUTIONAL STABILITY AS A PROXY OF THE STABILITY OF THE ARAT INDEX.

Type of change of government.	**Arat index was increased.**	**Arat index was not modified.**
Changes of regimes:	**12**	**1**
Military coups d'etat overthrow democratic regimes.	6	0
Democratic regimes are restored.	6	1
Changes of rulers:	**0**	**10**
Military coups d'etat overthrow military regimes.	0	7
Democratic presidential transitions.	0	3
No changes:	**0**	**100**

Source: Own elaboration, based on Zehra Fatma Arat, 1984.

We have defined that the *Arat index was increased* if the observation of the year when the event takes place exceeds the mean of the time series by at least one standard deviation; otherwise, we conclude that the *Arat index was not modified.* Since the evidence strongly supports the hypothesis that the stability of the type of political regime is a good proxy for the stability of Arat index, we will qualify the stability of the type of political regime as a second candidate in order to try to capture the degree of stability of the rules of the redistributive game.

Actually, fast growing countries present a common characteristic despite the type of political regime, its stability. This is a common characteristic of democratic countries like the former West Germany and Japan, and dictatorships like Chile and Korea. By the contrary, most of the Latin-American countries present, during a large part of this century, a large cycle of military (dictatorships) and democratic regimes and also a negative performance in terms of economic growth.

A third candidate to try to capture the degree of stability of the rules of the redistributive game is provided by a subset of the indicators usually employed to build indices of political stability. For example, indicators like Mauro subjective index of political change (the possibility that the institutional framework will be changed within the forecast period by election or other means) may be useful itself; but not as a component of an index of political stability.

Finally, a last candidate is to make use of the so-called Bentley Index (Edgardo Zablotsky, 1992). The Bentley index is a crude indicator suggested by Eliakim Katz and Jacob Rosenberg (1989) as a quantitative measure of the proneness of a country to respond to pressure groups in determining the composition of their spending. We have used it as an index that would reflect changes in the outcome of the political game,

$$\text{Index}_t = 1/2 \sum_{i=1...n} | S(t)_i - S(t-1)_i |$$

where $S(t)_i$, $S(t-1)_i$ are the proportions of the government's budget going to purpose i in years t and t-1 respectively, and n is the number of categories in the budget. Then, the value of the index in year t represents the total sum of the absolute changes in the proportion allocated to the different categories in year t over year t-1. Under the assumption that every change in the proportion of the government's budget spent for a given purpose occurs as a result of the pressure exerted by interest groups, changes in the outcome of the political game would be reflected by increases in the index. In these terms, it is expected that the index will be able to identify changes of political regimes but not changes of rulers.

We have produced time series of this index for 15 countries, and we have analyzed 30 changes of government (Edgardo Zablotsky, 1992). The evidence looks promising; the index significantly was increased after changes of political regimes in 79 % of the cases, but it was not mostly modified after changes of rulers in 87 % of the cases.

Table 9 reports the subset of this evidence that corresponds to the changes of government considered in Table 8. The degree of stability of the type of political regime looks to be as an adequate simple proxy for the stability of the Bentley index, as it was for the stability of the different measures of democraticness.

While the stability of the Arat index of democraticness may capture the degree of stability of the rules of the redistributive game from it sources, the Bentley index may capture the degree of stability from its effects. For example, Figure 2 (page 30) illustrates the behavior of both indicators during the period 1962-1974 in the Dominican Republic.

TABLE 9

INSTITUTIONAL STABILITY AS A PROXY OF THE STABILITY OF THE BENTLEY INDEX.

Type of change of government.	Bentley index was increased.	Index was not modified.
Changes of regimes:	**10**	**3**
Military coups d'etat overthrow democratic regimes.	5	1
Democratic regimes are restored.	5	2
Changes of rulers:	**2**	**8**
Military coups d'etat overthrow military regimes.	0	4
Democratic presidential transitions.	2	4
No changes:	**8**	**72**

Source: Own elaboration, based on Edgardo Zablotsky, 1992.

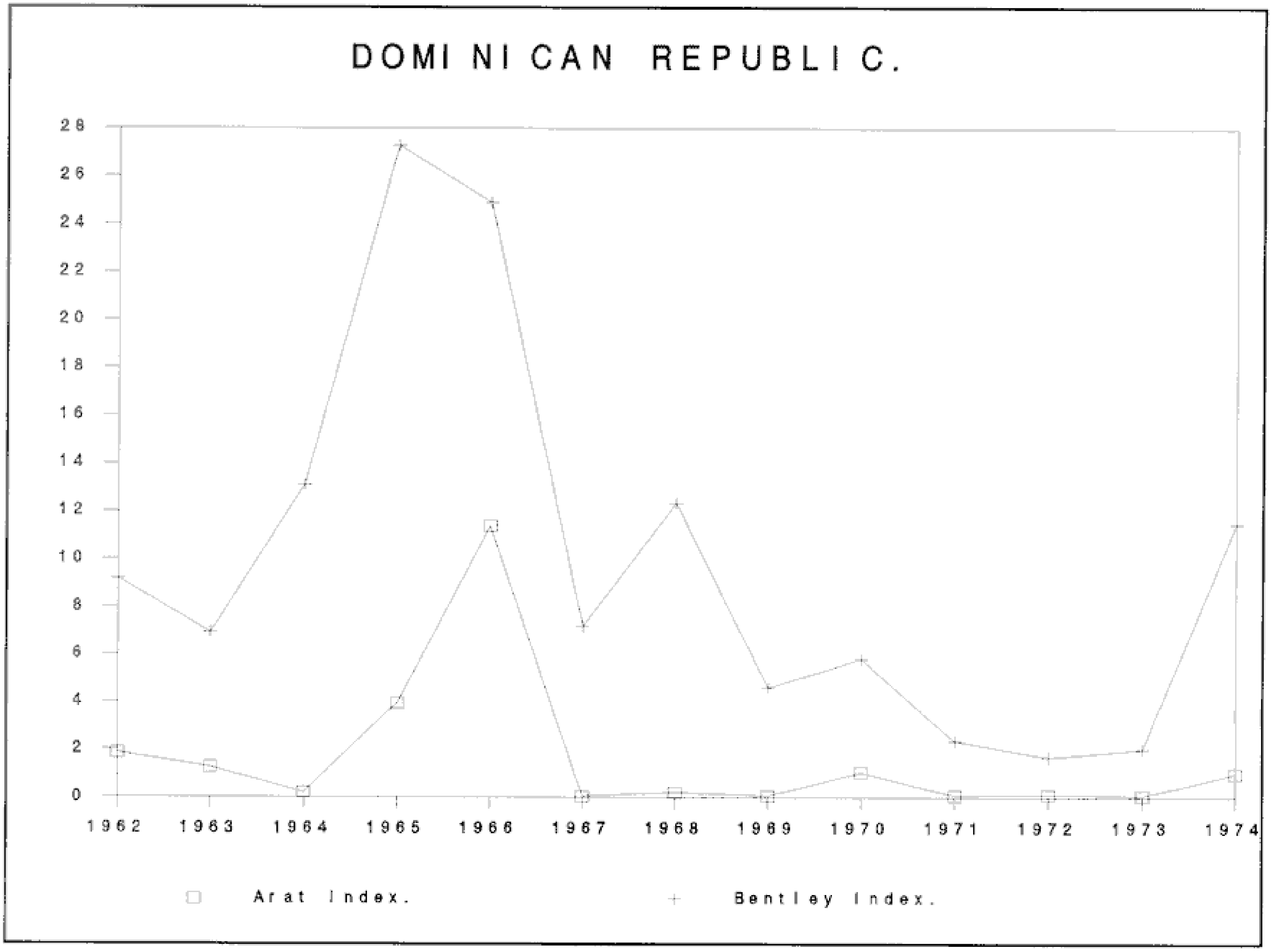

FIGURE 2.

Source: Own elaboration, based on Edgardo Zablotsky, 1992.

A vast literature uses cross-country regressions to search for empirical linkages between long-run average growth rates and a variety of political and institutional factors. This paper has proposed the hypothesis that the stability of the rules of the redistributive game may be a relevant institutional factor to explain economic growth. Under this hypothesis we have proposed different indices that may capture the degree of stability of these rules better than the usual measures of political stability. Our plan of further research consists to evaluate the explanatory power of each of these indices.

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