

**The impact of democratization
on
economic growth
&
social welfare**

Some evidence from Africa's emerging 'lions'

Centro de Estudos sobre África e do Desenvolvimento (CEsA)
Instituto Superior de Economia e Gestão/UTL
Lisboa

Giovanni Carbone
Università degli Studi di Milano
g.carbone@unimi.it

COD: studying **the consequences of democratisation**

‘Third wave’ democratisation studies main focus on:

- a) *causes* of democratic change
- b) *modes* of regime transition
- c) *characteristics* of the new political systems

But what happens *after democratic reforms* are introduced?

- does democracy has an *instrumental* as well as an intrinsic value? i.e. does it favour economic growth, social welfare, nation-building, etc.?
- *policy* implications (e.g. *good governance, democratic peace*)

A lot of myth-making,
but little research into actual consequences of democratization

E.g. **United Nations Development Programme** (UNDP)

- since 2002, «**democratic governance**» is a priority:
\$1.4bn (35%) of UNDP budget in 2009 (Norris 2012:192)
- this is not so much because for the UN democracy is a human right (i.e. a good thing *per se*) ...

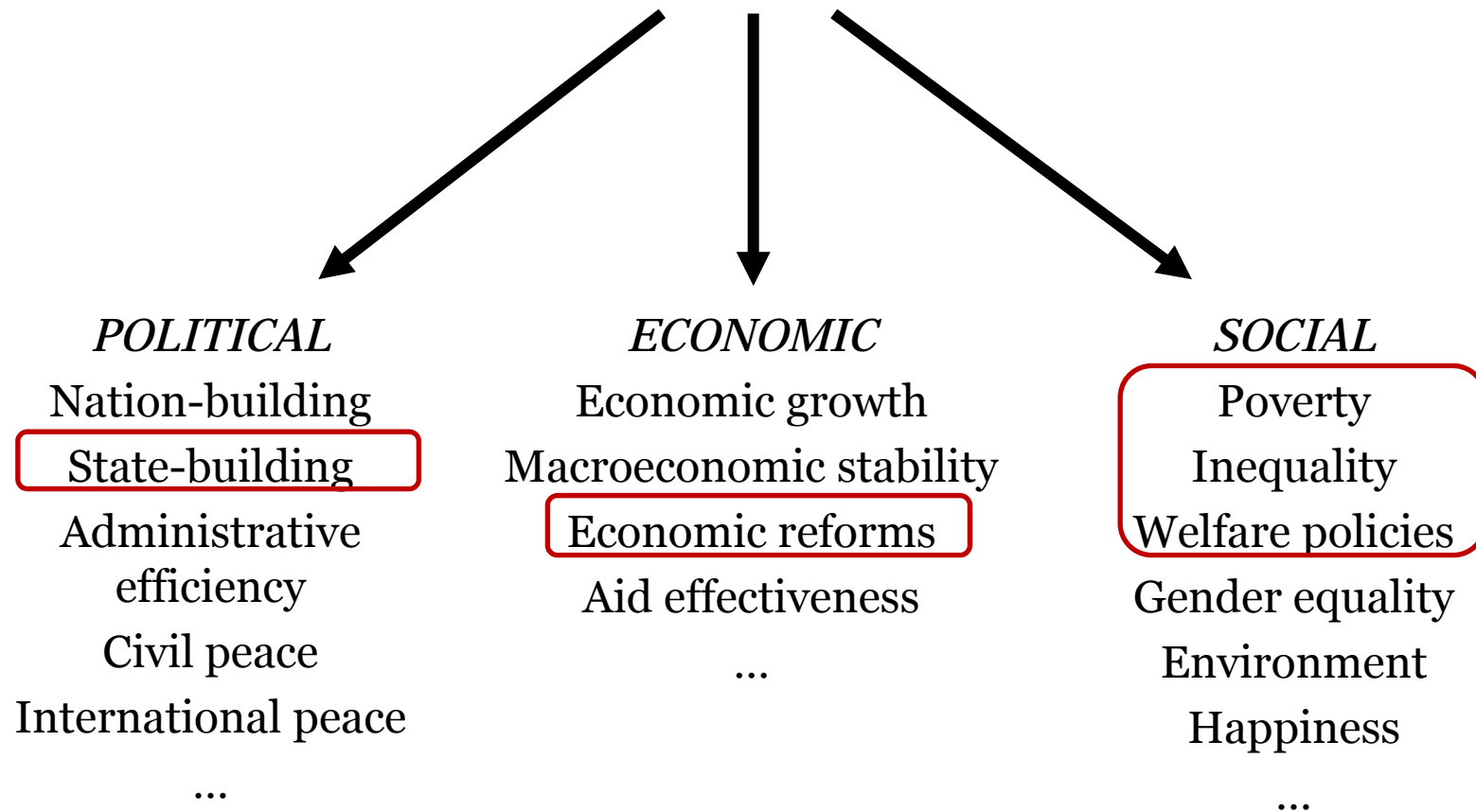
“everyone has the right to take part in the government of his country, directly or through freely chosen representatives”
(art. 21.1, *Universal declaration of human rights*, UN 1948)

... but because democracy is seen as **instrumental to development**, the core mission of UNDP.

50 or more distinct hypotheses
in a very fragmented literature on the COD!

DEMOCRACY

as an independent/explanatory variable

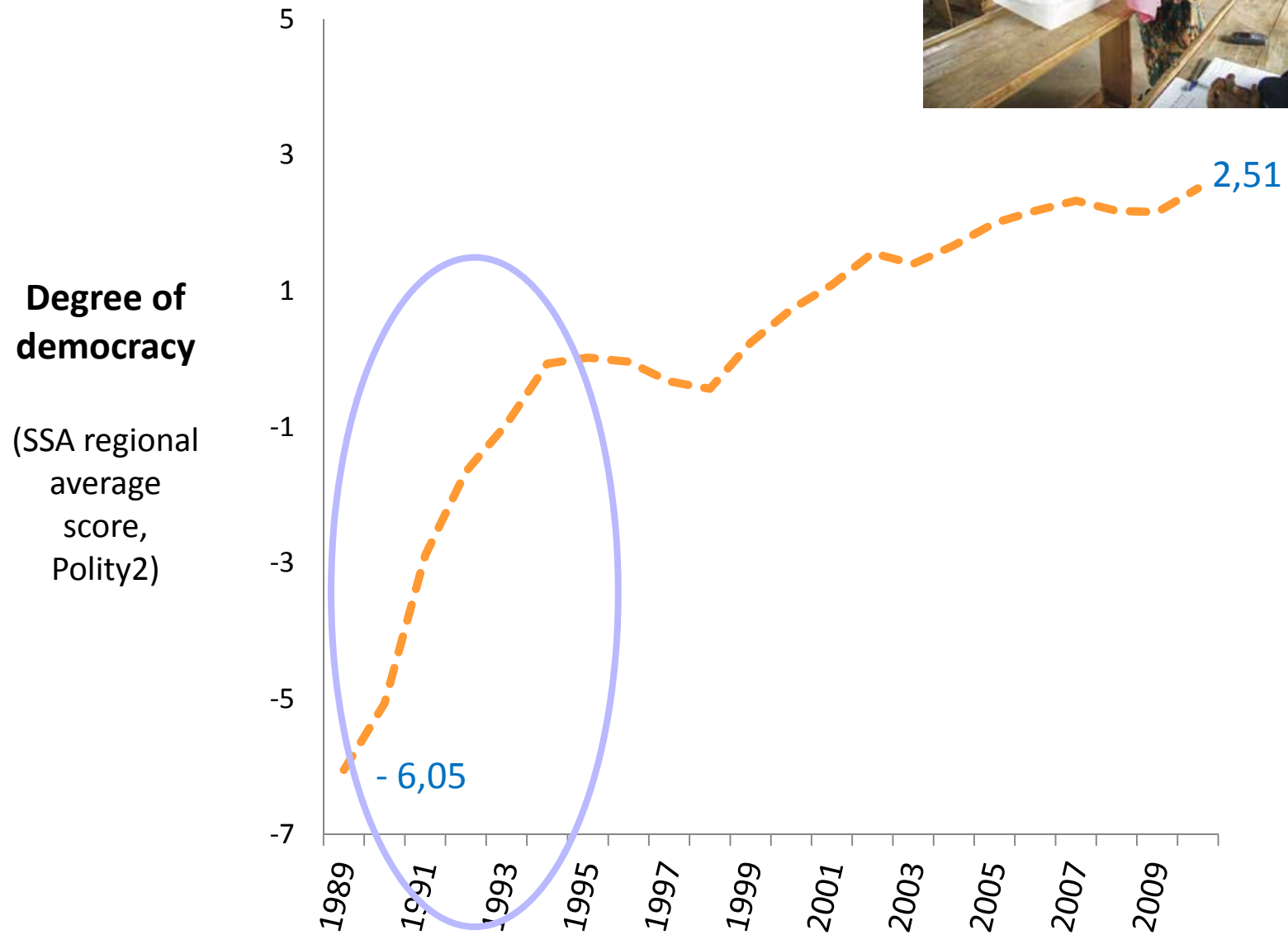


Democratic reforms and economic growth in contemporary Africa

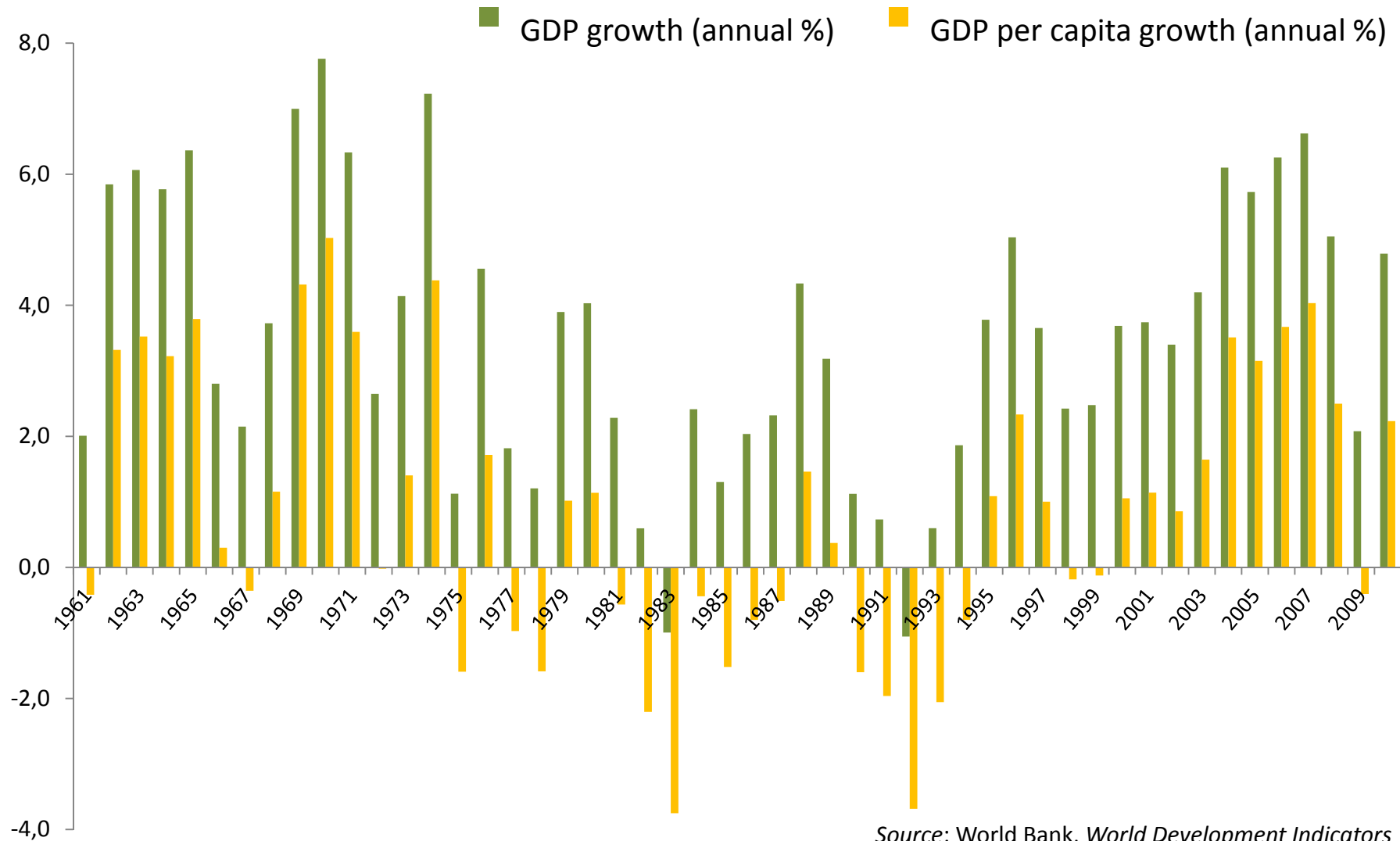
Is democracy playing a role in
Africa's current economic performance?

If we look back at the past two decades,
timing seems to point to a close connection

A) Africa's electoral revolutions in the early 1990s



B) economic growth in Africa: the revival begins in the mid-1990s



Source: World Bank, World Development Indicators

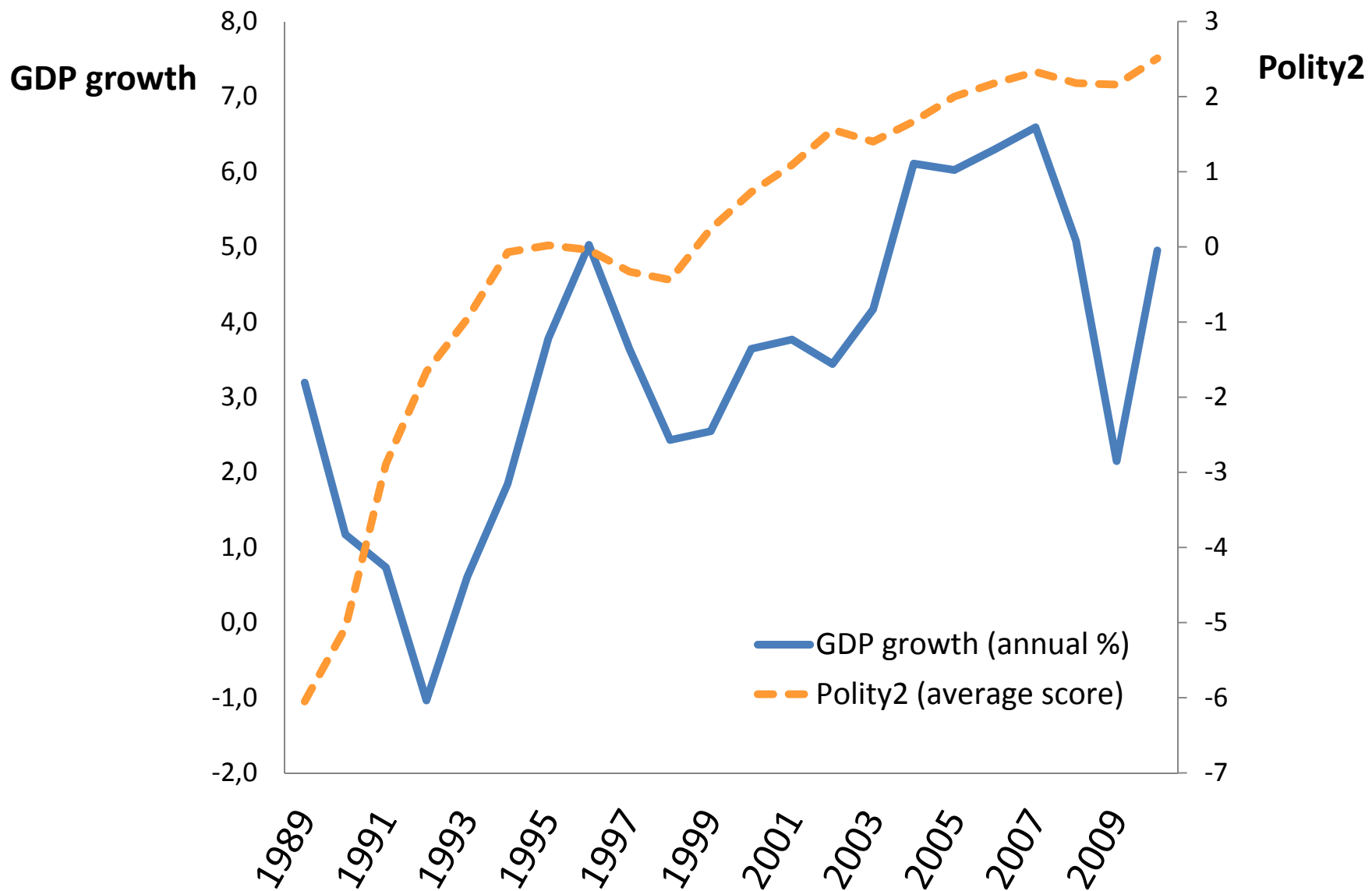
The coming of *the lions*?

7 sub-Saharan countries
among the world's 10 **fastest-growing economies***

2001-2010	
Angola	11.1
China	10.5
Myanmar	10.3
Nigeria	8.9
Ethiopia	8.4
Kazakhstan	8.2
Chad	7.9
Mozambique	7.9
Cambodia	7.7
Rwanda	7.6

2011-2015 (forecast)	
China	9.5
India	8.2
Ethiopia	8.1
Mozambique	7.7
Tanzania	7.2
Vietnam	7.2
Congo DRC	7.0
Ghana	7.0
Zambia	6.9
Nigeria	6.8

*Annual average GDP growth (%). Excluding countries with population < 10m, Iraq and Afghanistan. Source: *The Economist*, 6 Jan. 2011, IMF data.



Many **observers quickly established a nexus**, e.g.:

“(Africa’s recent economic) growth can be a proxy for other good things: more sensible economic policies; *more democratic, accountable governments*; and a greater commitment to improving people’s living standards ... better policies, better governments, new technology and other benefits *are starting to bear fruit*”
(*The Economist*, 19 May 2012)

“Since 2000, autocratic governments in Africa have typically generated economic performance that is 40% slower than that of democracies”
(*Africa Center for Strategic Studies*, 2011:33)

“Regime type does appear to influence economic performance. During the last fifteen years, countries undertaking liberalizing political reforms have generally seen increased economic growth”
(Lewis 2008:99)

But is there one?

Existing democracy-growth studies: theory and evidence

Two main opposite views:

A) *development needs authoritarianism*

- authoritarian *developmental states* vs. “premature”/“dysfunctional” democracy:
 - a) *redistribution / welfare demands* undermine the accumulation of capital (e.g. no protection of property rights, resources from investments to consumption, etc.)
 - b) *social order* is essential for investments and industrialization



trade-off between political liberty and economic growth

B) *democracy promotes economic growth*

- late 1980s-1990s, World Bank and ‘good governance’ agenda: from political competition and accountability to government efficiency, from government efficiency to economic development



No *trade-off*: democracy *does not need socio-economic preconditions*, rather, it *favours development*

(Some) global **empirical evidence**

- ✚ **there is no *trade-off***: democracies do not grow less than non-democratic regimes
... **but neither do democracies grow more**: the type of political regime has no systematic impact on economic performance (Przeworski et al. 2000)
- ✚ **a meta-analysis** of 84 democracy-growth studies: “as more evidence has accumulated, the average effect has diminished to a small positive **effect that is effectively zero**” (Doucouliagos - Ulubaşoğlu 2008:69)

So why should Africa be different ?!?

Democracy might affect economic growth differently in different world regions (Kriekhaus 2006):

Negative effects on growth in countries characterized by

- *high socio-economic inequalities* (such as **Latin America**): where social groups/voters clamour for redistribution, democracy leads to populism and poor economic performances
- *strong elite commitment to economic development* (as in parts of **Asia**): popular demands and democratic pressures make economic policy less effective

Positive effects on growth in countries characterized by

- *neo-patrimonial/predatory practices* (notably in sub-Saharan **Africa**): democratic institutions and competition provide a helpful mechanism that makes it easier to oust and replace inefficient/grossly corrupt politicians and thus facilitate economic growth

But Kriekhaus only looked at 1960-2000, thus missing out on “emerging Africa”

Are lions democrats?

(Carbone – Memoli – Quartapelle)

Our hypotheses and operationalization

We expect a positive impact of democracy (Polity2):

- level of democracy (cf. Krieckhaus 2006)
- duration of democracy (cf. Gerring et al. 2005)

Base model also includes other standard growth factors:

- level of development (1979), life expectancy, gross capital formation, government consumption, growth rate at time T-1

Control variables:

- real exchange overvaluation, oil production, aid per capita, ethnic fractionalization, population growth, British colony dummy

Coverage:

- 1980-2010
- 43 sub-Saharan countries
- dependent variable: GDP growth *and* GDP per capita growth

43 sub-Saharan economies

	MODEL 1 (DV: GDP growth)		MODEL 2 (DV: GDP <i>per capita</i> growth)	
	Coef.	Robust Std. Err.	Coef.	Robust Std. Err.
degree of democracy	0.060 *	0,031	0.054 *	0.029
duration of democracy	0.058 *	0.032	0.060 *	0.031
level of development (1979)	-1.481 ***	0.440	-1.494 ****	0.408
life expectancy	0.078 *	0.042	0.078 *	0.041
government consumption	-0.162 ***	0.048	-0.158 ***	0.047
GDP growth (lag)	0.129 **	0.057		
GDP per capita growth (lag)			0.128 **	0.057
real exchange overvaluation	-0.351 ****	0.071	-0.342 ****	0.069
oil production	0.097 **	0.046	0.096 **	0.044
population growth	0.494 *	0.253	-0.417	0.273
aid	0.033	0.022	0.032	0.021
ethnic fractionalization	-3.927 **	1.963	-3.810 **	1.895
British colony	0.900 *	0.466	0.846 *	0.451
gross capital formation	0.876	0.799	0.854	0.775
constant	8.167 **	3.895	8.261 **	3.708
R-sq		0.170		0.170
wald chi2 (sig.)		0.000		0.000
sigma_u		0.000		0.000
sigma_e		5.535		5.401
rho		0.000		0.000
number of countries		43		43
number of observations		1021		1021

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$

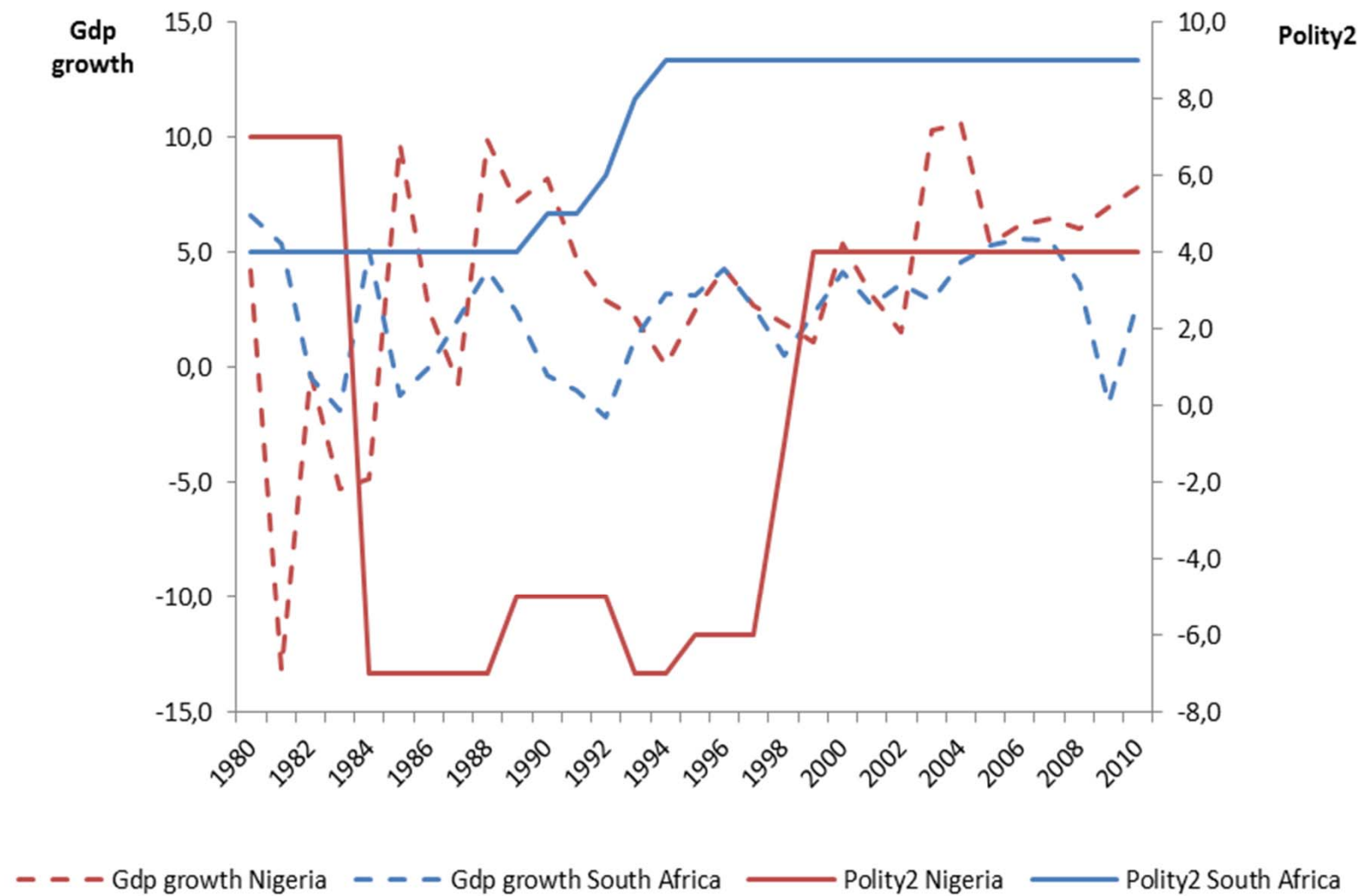
16 best-performing SSA economies *versus* 27 other SSA economies

	MODEL 5 (DV: GDP growth)			MODEL 6 (DV: GDP p.c. growth)			MODEL 7 (DV: GDP growth)			MODEL 8 (DV: GDP p.c. growth)		
	Coef.	Robust Std. Err.	Coef.	Robust Std. Err.	Coef.	Robust Std. Err.	Coef.	Robust Std. Err.	Coef.	Robust Std. Err.		
degree of democracy	0.116 **	0.056	0.113 **	0.054	0.049 *	0.027	0.044	0.028				
duration of democracy	0.040	0.065	0.039	0.064	0.055 **	0.025	0.058 **	0.025				
level of dev. (1979)	-4.158 ***	1.237	-4.051 ***	1.210	-0.375	0.354	-0.395	0.344				
life expectancy	0.141 ***	0.054	0.137 ***	0.052	0.090 **	0.045	0.088 **	0.044				
government consumption	-0.266 ****	0.072	-0.259 ****	0.071	-0.095 **	0.047	-0.092 **	0.046				
GDP growth (lag)	0.026	0.067			0.092	0.060						
GDP p.c. growth (lag)			0.022	0.064			0.089	0.059				
real exch. overvaluation	-0.474 ****	0.099	-0.461 ****	0.097	-0.777	5.790	-1.269	5.682				
oil production	0.183 ****	0.046	0.177 ****	0.045	-0.011	0.014	-0.010	0.014				
population growth	0.200	0.218	-0.811 ****	0.212	0.403	0.338	-0.505	0.328				
aid	0.067 *	0.038	0.066 *	0.037	-0.004	0.022	-0.005	0.021				
ethnic fractionalization	-7.531 ****	1.614	-7.348 ****	1.605	-1.111	1.173	-1.183	1.180				
British colony	0.943	0.698	0.915	0.681	0.596	0.466	0.579	0.460				
gross capital formation	0.139	0.989	0.143	0.964	2.356 ****	0.596	2.304 ****	0.580				
constant	27.540 ****	7.222	26.956 ****	7.129	-5.722 *	3.144	-5.358 *	3.075				
R-sq	0.219		0.218		0.153		0.152					
number of countries	16		16		27		27					
number of observations	345		345		676		676					

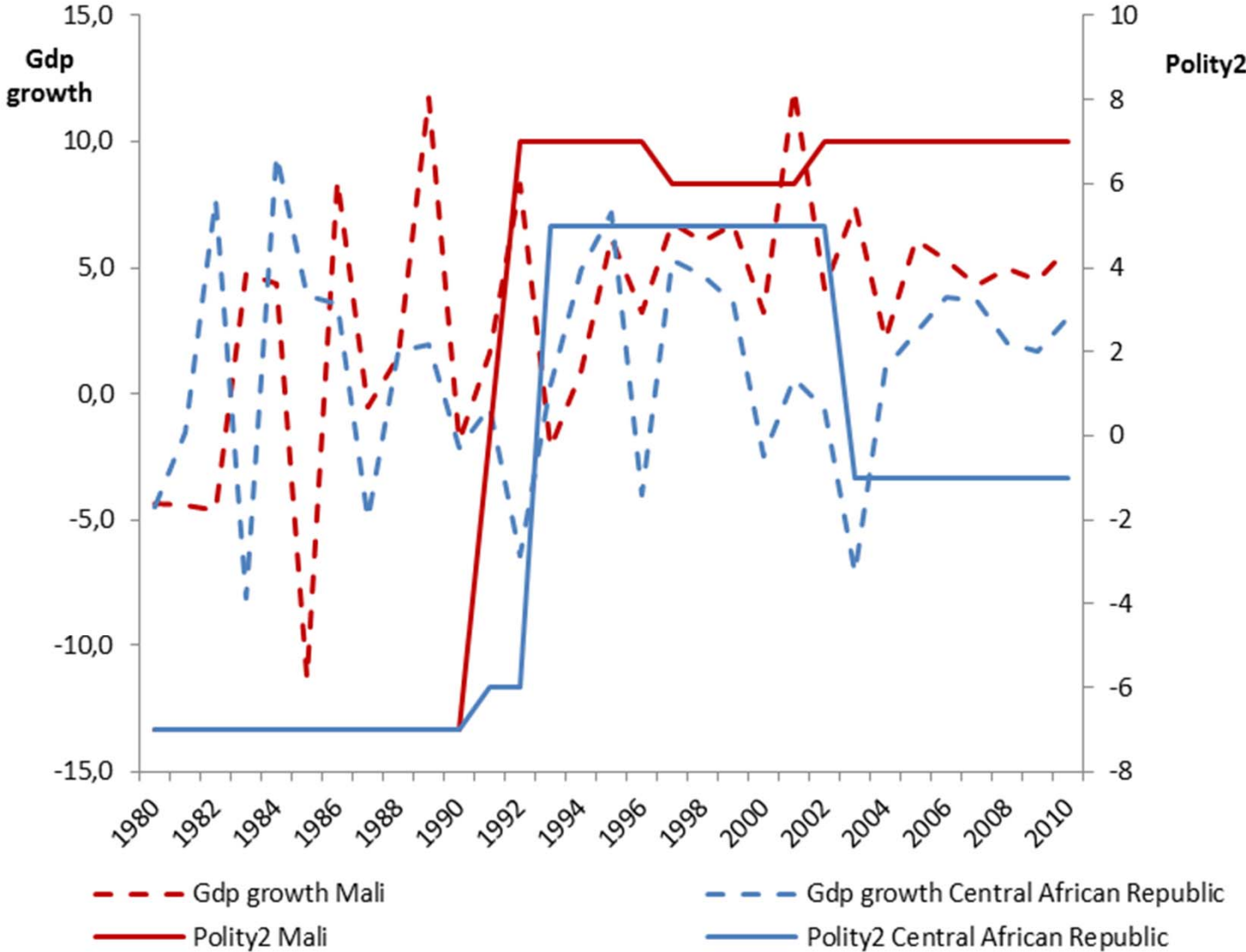
Democracy and Growth in contemporary Africa: (tentative) conclusions

- ❑ recent political and economic progress in Africa called for systematic investigation into D→G relationship
- ❑ new dataset covering 43 SSA countries, for 1980-2010 (i.e. including the 'emerging Africa' years): largest total N yet analyzed
- ❑ key findings:
 - in 1980-2010 Africa, democracy (level and duration) supported better economic performances
 - for the lion economies, the degree of democracy matters (not so democratic duration)
 - for economic laggards, democratic duration more valuable than sheer degree of democracy (yet the latter is also significant in one of two models)
- ❑ implications:
 - in Africa, democracy is not a luxury! It brings economic benefits rather than costs
 - possible D→G→D virtuous cycle

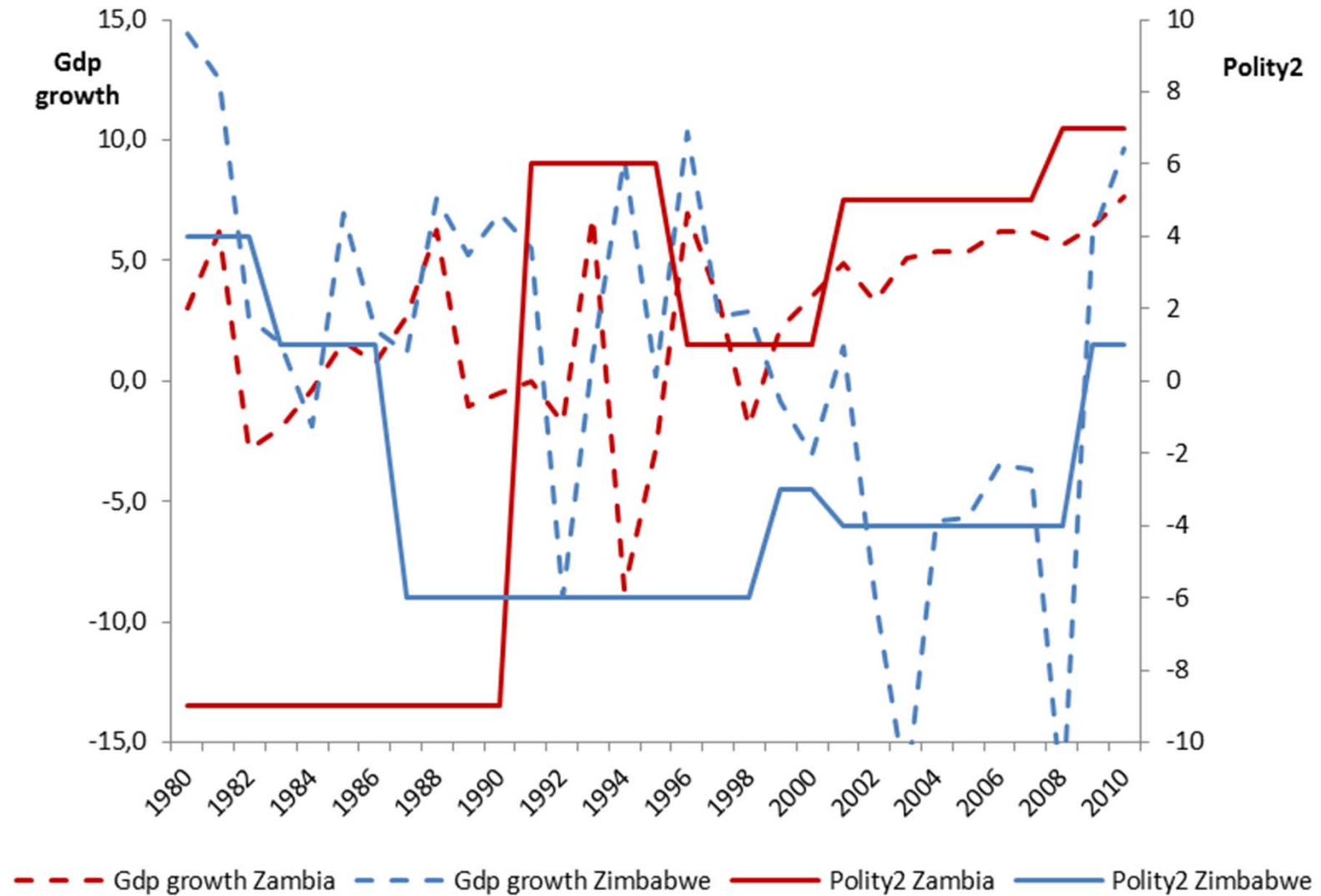
Cases: South Africa and Nigeria



Cases: Mali and Central African Republic



Cases: Zambia and Zimbabwe



Political regimes and **social policies**

Democratic reforms and expectations of welfare improvements

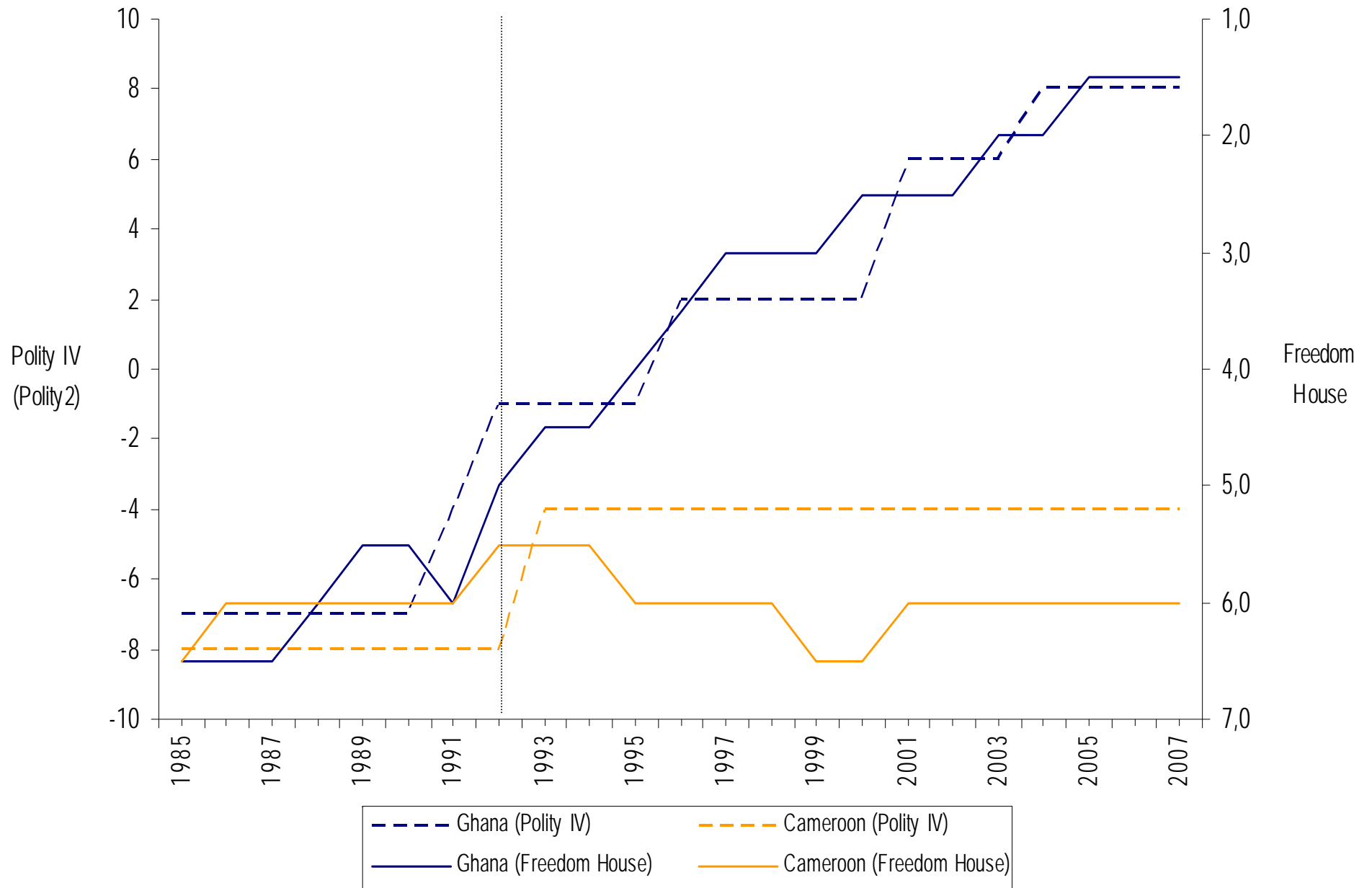


did democratization produce “social dividends” in Africa?

Analysis of:

- two countries: democratic regime *versus* nondemocratic regime
- one *policy area*: health policy

Figure 1. Democratic trends in Ghana and Cameroon (1985-2007)



Context in Ghana and Cameroon: economy, land and population

	Ghana	Cameroon
Surface area (sq. km)	238,540	475,440
Population, total (2011)	24,965,816	20,030,362
GDP (current US\$, bn, 2011)	39.2	25.2
GDP per capita (current US\$, 2011)	1,570	1,260
Poverty headcount ratio at national poverty line (% of pop., 2006-07)	28.5	39.9
Human Development Index (2012)	0.558	0.495
Agriculture, value added (% of GDP, 2009)	33.6	19.5
Industry, value added (% of GDP, 2009)	25.8	30.6
Services, etc., value added (% of GDP, 2009)	40.6	49.9
Exports of goods and services (% of GDP, 2013)	38.0	30.7
Roads, paved (% of total roads, 2008)	16.1	17
<i>Sources: World Development Indicators Online (2013) and UNDP/Human Development Index</i>		

Health policy financing in LDCs

Sources of health financing in LDCs:

- i. general taxation
- ii. cost recovery / user fees*
- iii. health insurance
- iv. foreign donors

Steps and principles in the international health agenda

1978 Alma Ata Declaration (WHO)	Health For All (HFA) and Primary Health Care (PHC)
1987 Harare Conference (WHO)	Decentralization
1987 Bamako Initiative (UNICEF/WHO)	Cost recovery / User fees
2005 WHO Resolution	Universal health insurance

Health reform in Ghana

1957-1981: officially or de facto free services

- general taxation
- *fees* reintroduced, but extremely low

1980s: military rule under J.J. Rawlings

- inherits collapsed health system
- **1985 *Hospital Fees Regulation*: the “cash & carry” system**
 - *user fees* for *cost recovery*
 - exemption policy, not implemented
 - prohibitive and exclusionary access

1990s/2000s: from elections to universal insurance

- **2003/2004 *National Health Insurance Act* → NHI Scheme (NHIS)**
 - objectives and financing
 - enrolment and exemptions

	2006		2007	2008	2009
Total population	21,876,031		22,387,911	22,876,031	23,416,518
Total Registered	3,867,862 (17.7 %)		8,184,294 (36.6 %)	12,518,560 (54.7 %)	14,511,777 (61.9 %)
		2007 (June)			
	SSNIT contributors	948,342	11.6%		
	Informal adult members	1,976,297	24.1%		
	Subsidised members (total):	5,278,396	64.3%		
	<i>SSNIT pensioners</i>	<i>109,854</i>	<i>1.3%</i>		
	<i>Children under 18</i>	<i>4,257,500</i>	<i>51.9%</i>		
	<i>Adults above 70</i>	<i>722,614</i>	<i>8.8%</i>		
	<i>Indigents</i>	<i>188,428</i>	<i>2.3%</i>		
Total Card holders		6,511,515	79.4%	10,417,886	

Source: Ministry of Health 2009, and Mid-year operational status report 2007, NHIS 2007 (the latter in Asante & Aikins 2007:1). National Health Insurance Authority (NHIA), National Health Insurance Scheme Annual Report, Accra, 2010, p.3

Reforms and continuity in **Cameroon**

1960s: Zones DASP and the introduction of *de facto* free services

1980-82: the Primary Health Care (PHC) approach

- gap: theory vs. reality of the health system
- 1986-94 recession: further weakening of resources (*no drugs* at health points!)

1988 reform process begins for decentralization (districts) and *cost recovery* (*user fees*)

- 1989/1992: *Réorientation des Soins de Santé Primaires* (RSSP)
- 1998 *Plan National de Développement Sanitaire* (PNDS, 1999-2008)
- 2002 *Strategie Sectorielle de Santé* (SSS)

Domestic *versus* external dynamics

Ghana: democracy's causal dynamic, as domestic politics prevail

- 1992-2000: NDC fails to reform “cash & carry”
- 2000-2008: NPP capitalizes on popular opposition to “cash & carry” and reforms it
 - NPP 1996 Manifesto: C&C “notoriously callous and inhuman”, pledge to change it “with a view to evolving a more equitable system including health insurance and other repayment schemes”
- secondary role of *donors*

Cameroon: no domestic dynamic, donors' agenda prevails

- a façade multiparty transition produces no effect:
 - social issues entirely absent from the political scene
 - health reforms begin *prior to* and continue *after* the transition
- *donors* role and pressures prove decisive [+ economic crisis]
 - post-1988 reforms in line with Harare and Bamako 1987
 - replacement of Monekosso (1997-2000) with Awono (2000-2006) at MSP

A critique

(Oxfam, *Achieving a shared goal: free universal health care in Ghana*, 2011):

- “no doubt that the introduction of Ghana’s National Health Insurance Scheme (NHIS) in 2003 was a bold progressive step that recognised the detrimental impact of user fees ... and for members of the scheme **evidence suggests that access and quality of services have improved**” (Oxfam 2011:8)
- **however the scheme is costly and unfair:**
 - coverage of NHIS has been hugely exaggerated, and could be as low as 18%
 - all Ghanaians pay for the NHIS through VAT, but **as many as 82% remain excluded**
 - **twice as many rich people are signed up** to the NHIS as poor people: 64% of the rich are registered compared with just 29% of the poorest
 - those excluded from the NHIS still pay user fees in the cash and carry system
- **NHIS retains political centrality:** “in 2009 President Atta Mills and the National Democratic Congress came to power in Ghana on a promise to deliver a truly universal health insurance scheme that reflected the contribution of all the country’s residents. The promise included guaranteed access to free health care in all public institutions, and to cut down the health insurance bureaucracy in order to ‘plough’ back the savings into health care services. *Health was put at the heart of the government’s development agenda* to transform Ghana into a middle-income country by 2015” (Oxfam 2011:8)

Conclusions

- democratic mechanisms *can* make a difference in promoting welfare developments
 - additional factors: *policy feedback effect* and *policy diffusion*
- in line with anecdotal evidence from other African countries

Additional lessons:

- i. domestic policy-making in developing countries can be autonomous
- ii. no homogenization towards neo-liberal, “residual” social protection
- iii. redistributive policies, not just distributive/clientelist policies in Africa
- iv. welfare also from “liberal” parties, not just left-wing parties