Flash Economics

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Dictatorships, democracies, growth and inequalities

We use as our starting point the democracy index published by The Economist.

One can see:

- That growth is no longer linked to whether countries are democratic or not, nor to the level of corruption in the public sector;

- That the level of inequality is no longer linked to whether countries are democratic or not.

We recall the results of Daron Acemoglu and James A. Robinson: what matters is that institutions are inclusive: quality of education, respect for property rights, so that individuals have an incentive to innovate.

Inclusive economic institutions seem more important than inclusive political institutions.

We look at the example of China, which is a dictatorship and where the level of corruption is high but which has greatly reduced inequalities, which has a very high level of R&D and innovation, and where risky savings are high.

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Growth and democracy

We compare the democracy index published by the Economist with observed growth.

Full or imperfect democracies include the United States, Canada, the European Union, South Africa, South Korea, Australia, Japan, Israel, Brazil, Argentina, Indonesia, the Philippines, Thailand and Chile.

Hybrid or authoritarian regimes include: Mexico, Morocco, Tunisia, Angola, Côte d'Ivoire, Nigeria, Peru, Turkey, Zambia, Kenya, Ecuador, Venezuela, Algeria, Egypt, Sudan, Democratic Republic of Congo, Turkmenistan, Russia, China, Iran, Vietnam, Saudi Arabia, United Arab Emirates, Gabon, Kazakhstan.

The criteria for democracy used by The Economist are a transparent electoral process, civic freedom, freedom of expression, of religion and of association.

The **non-democratic countries include high-growth countries** such as Mexico, Morocco, Turkey, Egypt, China, Vietnam, Kenya, Turkmenistan, Kazakhstan, Saudi Arabia, the United Arab Emirates and Gabon (**Charts 1A/B/C/D**).

Chart 1A
Real GDP (Y/Y as %)

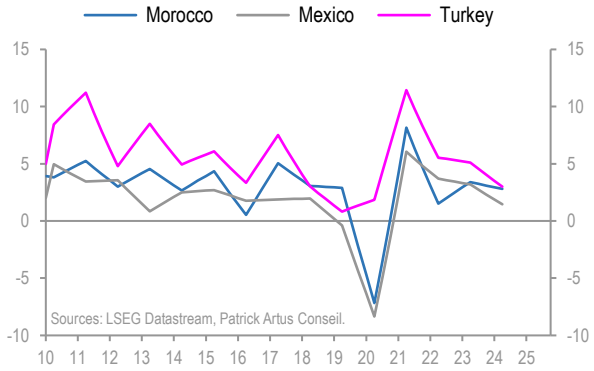


Chart 1B
Real GDP (Y/Y as %)

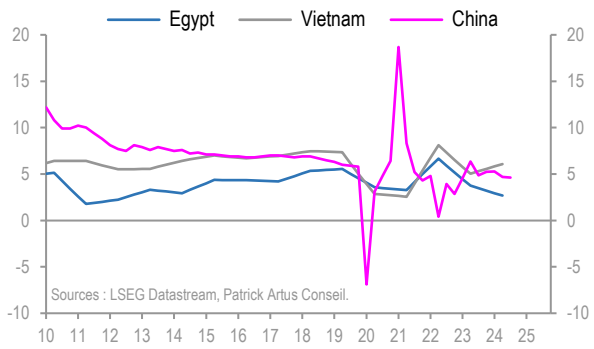


Chart 1C
Real GDP (Y/Y as %)

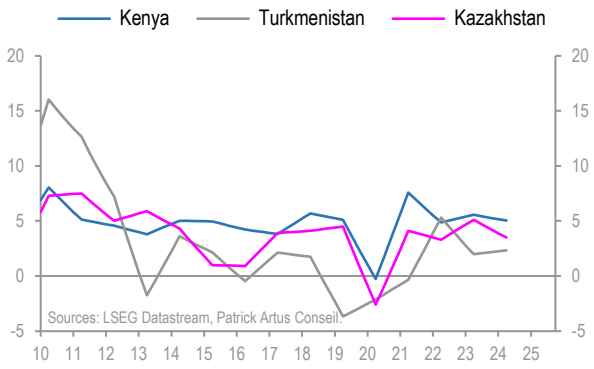
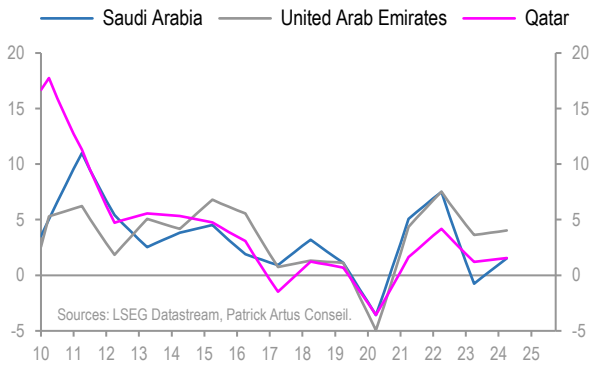
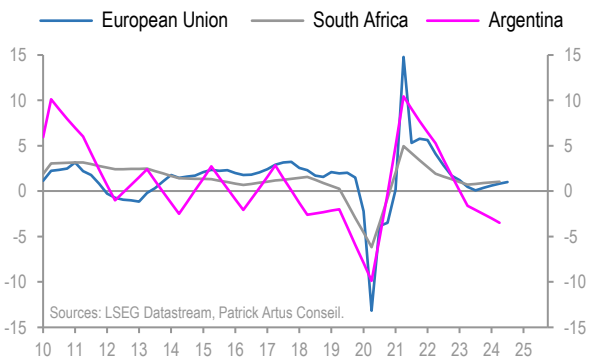


Chart 1D
Real GDP (Y/Y as %)



Among the democratic countries, we find countries with low growth: European Union, South Africa, Argentina (**Chart 2**).

Chart 2
Real GDP (Y/Y as %)



Democracy is apparently not enough to ensure strong growth.

Growth and public sector corruption

We are referring here to Transparency International's public sector corruption index.

Countries with a low level of corruption (corruption index below 100, where 100 corresponds to a corruption-free country and 0 to a highly corrupt country) include most OECD countries, the United Arab Emirates, Chile, Qatar and Saudi Arabia.

Most middle-income and poor countries have high levels of public sector corruption, as do Greece, Romania and Bulgaria.

One can see that high levels of corruption are not preventing China, Vietnam, Kazakhstan, Morocco, Egypt, Turkey, Kenya, Mexico and Turkmenistan from achieving strong growth.

Having raw materials is not enough to ensure strong growth

Take **the examples of Algeria, Nigeria, Gabon, Congo, Angola and Venezuela**. All these countries have abundant raw material resources, yet their growth is weak (**Charts 3A/B**).

Chart 3A
Real GDP (Y/Y as %)

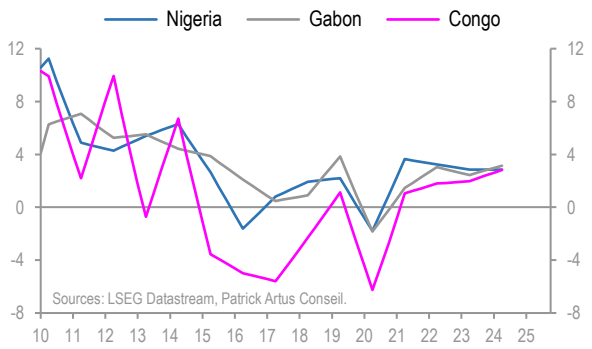
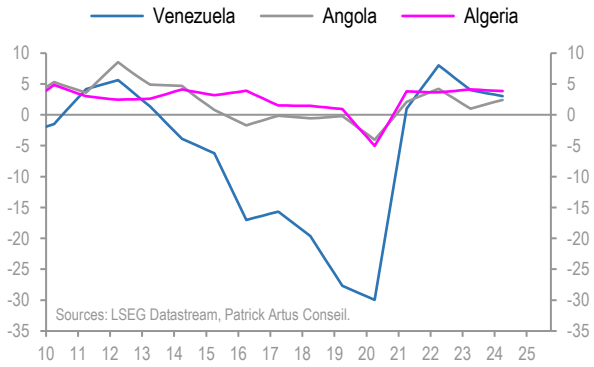


Chart 3B
Real GDP (Y/Y as %)



These countries have a high level of corruption, but we have seen examples of countries where corruption is high and where growth is also high. The problem in these countries is rather the monopolisation of income from natural resources by a minority.

Democracy and inequality

Here we compare **the democracy index published by the Economist and the Gini index of income inequality** (published by the World Bank).

We define an unequal country as one where the Gini index of income inequality is greater than 35.

These include the United States, Israel, Angola, Argentina, China, Colombia, Ecuador, Indonesia, Kenya, Morocco, Mexico, Peru, the Philippines, Gabon, Brazil, Chile, Turkmenistan, Turkey, South Africa, Vietnam and the Democratic Republic of Congo.

However, the United States, Israel, China, Colombia, Indonesia, Kenya, Morocco, Mexico, the Philippines, Gabon, Turkmenistan, Turkey and Vietnam are all countries with strong growth (Charts 1A/B/C/D and Chart 4A/B).

Chart 4A
Real GDP (Y/Y as %)

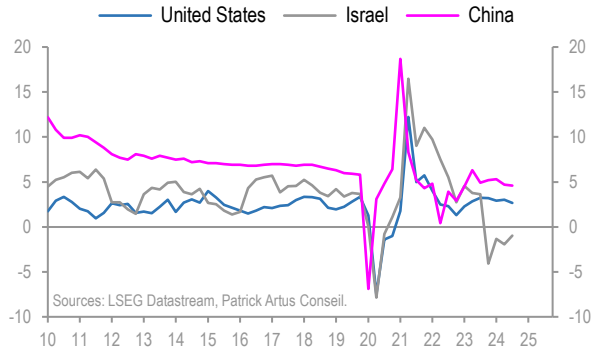
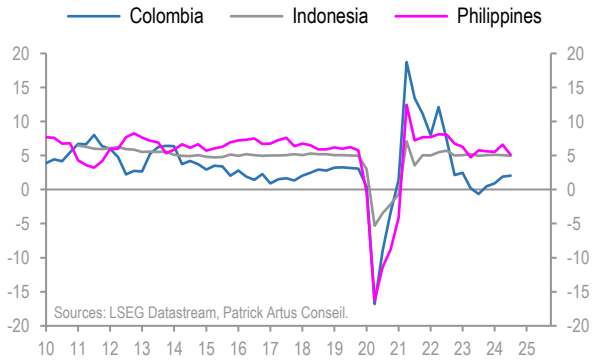


Chart 4B
Real GDP (Y/Y as %)



The thesis by Daron Acemoglu and James A. Robinson

In their famous book (Why Nations fail, Crown Business, New York, Vol 2), Daron Acemoglu and James A. Robinson defend the idea that there are **two kinds of institutions**:

- **Extractive institutions**, where a minority makes the majority work for its own benefit;
- **Inclusive institutions**, which involve the greatest number of people in the running of society and the economy.

Countries with inclusive institutions have political pluralism, an effective education system, centralised political power, fairly strict anti-trust legislation and respect for property rights. **As a result, they benefit from creative destruction, scientific progress and innovation.**

The case of China

China is clearly not a democratic country, and sometimes property rights are not respected (government interference in company decisions, etc.).

However, China has a dynamic economy, with:

- a strong corporate R&D effort (corporate R&D represents 1.9% of GDP, compared with 1.5% in Europe, and 24% of global corporate R&D);
- an innovation drive (1.7 million patents filed in 2023, compared with 1 million in the United States);
- risk-taking in the allocation of savings: venture capital fund-raising will reach $104 billion in 2022, compared with $30 billion in the European Union; 36% of R&D will be in information and communication technologies, compared with 15% in the European Union.

China has indeed enjoyed strong growth (Chart 4a) and **has benefited from a significant reduction in poverty** (if we take the poverty line at $6.85/day, in 2021, 17% of Chinese are poor, compared with 98.1% in 1993).

Income inequalities are not very high (the 1% of Chinese with the highest income receive 14% of the national income, compared with 10% in France and 20% in the United States); the Gini index of income inequalities is 35.7, compared with 33.7 in the United Kingdom, 34.3 in Australia and 41.3 in the United States (World Bank).

The example of China probably shows that having institutions that are inclusive from an economic point of view is more important than having institutions that are inclusive from a political point of view for innovation, growth and the reduction of inequalities.

Summary: results that can be disturbing

There are many countries that are not democratic regimes and yet have strong growth; there are also many countries that have high levels of corruption and yet have strong growth; and finally, many democratic countries have high income inequalities.

It seems that what is important is to have inclusive economic institutions: a quality education system, respect for property rights leading to incentives for innovation, no monopolisation of income from natural resources, and entrepreneurial freedom.

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