How to explain variations in economic success?
- Ability to pursue ELG or ISI depends on domestic institutions
  - State must be able to resist political pressure from business & labor
    - Authoritarianism alone is not sufficient
    - State can be “captured by” or must co-opt business groups
    - Mexico & Brazil saw limited growth in 1970s with reform blocked by state-owned or state-linked industries

Comparing Latin America w/ East Asia
- Legacies of Spanish v. Japanese colonization
  - independence in 1820s v. post-1945
- war led by elites v. war disrupting elite power
- limited US aid v. extensive US aid

“Emerging Market” Countries
- developing states with expanding market institutions
- Latin America: Brazil, Argentina, Peru, Chile
- Asia: India, China, Vietnam
- Europe: Russia, Poland, Hungary (“dual transitions”)
- FDI and portfolio investment strong
Democracy and Economic Growth

Does democracy hinder or harm economic growth?
- mixed evidence

Pro-Democracy View
- liberal representative democracy limits ability of state to expropriate wealth
- property rights are guaranteed
- investment will proceed
- markets will prosper

Pro-Authoritarianism View
- democratic publics will demand greater social spending and tax the wealthy to redistribute income
- politicians will be unable to implement reforms
  - need more time in office to implement them

Mixed Evidence
- Barro found curvilinear relationship
- Prezeworski, et. al found no relationship
- Type of data, countries, and variable measures matter
Post-Communist States
- dual transitions
  o command economy $\rightarrow$ market capitalism
  o communist authoritarianism $\rightarrow$ liberal democracy
- doubts over ability to achieve economic transition while democratizing
  o J-curve dilemma
- Responses
  o Need for “liberal autocrat”
    ▪ Executive must be committed to reform
    ▪ Labor, pensioners, state employees will fight reform
    ▪ IOs must support them
    ▪ “Shock therapy” will create reform faster (Sachs, Åslund)
  o “Partial reform” risk (Hellman, 1998)
    ▪ Early reform will create benefits for few but costs for many
    ▪ Oligarchy of elites
    ▪ Need for diverse and strong competition
  o Polarized v. Non-polarized polities (Frye, 2002)
    ▪ Governments switching between ex-communists and anti-communists will be unstable
    ▪ Investment will be limited, and growth slow
- Empirical Record
  o Mixed results
  o Polarization produced lower growth (but mild effect)
  o Poland and Hungary: ex-communists have adopted reform policies
  o Poland & Estonia achieved successful “shock therapy”
  o Did Russia fully undergo “shock therapy”?
    ▪ After Aug. 1998 default, Russian reforms increased
    ▪ 38% growth in 5 years after 1998 (7.6% annual avg.)