FULCRUM

No, autocracies don't make economies great

Tom G. Palmer

February 24, 2022

One argument frequently advanced for abandoning the messy business of democratic deliberation is that all those checks and balances, hearings and debates, judicial review and individual rights get in the way of development. What's needed is action, not more empty debate or selfish individualism!

In the words of European autocrat Viktor Orbán, "No policy-specific debates are needed now, the alternatives in front of us are obvious…[W]e need to understand that for rebuilding the economy it is not theories that are needed but rather thirty robust lads who start working to implement what we all know needs to be done." See! Just thirty robust lads and one far-sighted overseer and you're on the way to a great economy!

That's a folksy way of describing dictatorship. The more academic way is to call them "Developmental States" and to praise them for reducing "democratic transaction costs." As Stephen Haggard, in his Cambridge University Press monograph *Developmental States*puts it, "In contrast to the property rights and 'rule of law' approach, the developmental state literature emphasized strong—and even authoritarian—executives and coherent, meritocratic, or 'Weberian' bureaucracies." Dictatorships, according to this school of thought, "can overcome collective action problems inside and outside the government that hinder the formulation of coherent policy, override both rent-seeking and populist pressures, and thus push the economy onto a more efficient growth path."

Populist autocracies can do even better than elite-driven autocracies, the populists maintain, because they can channel all that populist anger and rage against minorities, holdouts, the rich one percent, foreigners, the lying press, and other enemies of the people into re-building the economy. After all, what are procedural rights and democratic processes if not obstacles to coherent policies that lead us boldly on to making an economy great again?

Advocates of autocratic development are eager to link populism, nativism, and other illiberal-isms to their plans to substitute state direction for markets and autocracy for democracy. Consider Senator Josh Hawley, who raised his fist in solidarity with the January 6th mob as if to say "Right On, Insurrectionists!": He wants to build "America's industrial commons" (note the disregard of private property rights, which are to be dissolved into a commons) and proposes a "plan" whereby "officials at the Department of Commerce and the Department of Defense will identify goods and inputs they determine to be critical for our national security and essential for the protection of our industrial base."

So Long, Liberal Democracy, Hello Thirty Robust Lads!

The advantages of the Thirty Robust Lads with One Leader and One Goal over messy democratic politics and messy economic processes—contracts and prices and markets, oh my!—is taken as self-evident. Almost definitionally so.

But it's neither self-evident nor supported by evidence. Such theories have been debunked before, but it seems that the debunker's job is never done.

In a forthcoming book with my co-author Matt Warner, *Development with Dignity: Self-determination, Localization, and the End to Poverty* (Routledge, 2022), we put the thesis to the test again. We updated and improved the database that Morton H. Halperin, Joseph T. Siegle, and Michael M. Weinstein had assembled for their 2010 book *The Democracy Advantage: How Democracies Promote Prosperity and Peace*(Routledge, 2010) and found—again—that there simply is no autocratic advantage. When you avoid cherry picking and examine the median GDP growth rates for *all* the countries for which data are available between 1960 and 2018, you find that democracies have the advantage over autocracies. Comparing median growth rates between democracies and autocracies (see the book for the detailed methods of comparison), we found that democracies tend to outperform autocracies overall.

For lower-income countries in particular, we found that growth in democratic polities was less volatile and steadier than autocracies. Sure, a few outliers such as Singapore and Rwanda exist. But outliers make a weak case for a general model. Autocrats always claim credit for the good things and blame their "enemies" for the bad, but the evidence is that strong "leadership" is not a significant factor in economic growth. The greater volatility of outcomes under autocracies suggests, instead, that there are distinct disadvantages to relying on the judgement of unaccountable rulers.

Take the case of China. Hasn't growth on the mainland been explosive and impressive? Yes, it has. And what caused it? Was it a Chinese version of the Thirty Robust Lads model, or something else? The mainland's rulers argue that it's the lack of democracy and the wisdom of the autocrats that accounts for mainland economic growth. They point proudly to China's many State Owned Enterprises directed by China's autocrats as the drivers of the Middle Kingdom's remarkable growth. But the evidence suggests otherwise.

Sheng Hong and Zhao Nong of the Unirule Institute of Economics in Beijing showed in their 2009 book *China's State Owned Enterprises: Nature, Performance and Reform*that once subsidies—preferential tax treatment, implicit rent-subsidies, subsidized credit from state banks, and other such props—are taken into account, nominally profitable state-owned enterprises are actually loss-making enterprises. After an extensive look into the accounting of state-owned enterprises, they concluded: "SOES play a negative role in income distribution." But such acts of speaking truth to power under autocracies generate not pro-growth reforms, but the suppression of those who dare to speak the truth; the Communist Chinese Party ordered Unirule shut.

What drives economic growth? Advocates of the Developmental State school of thought argue, in Stephen Haggard's summation, that the "core mechanisms of growth" are "on the one hand [capital] accumulation, on the other the capacity to steer investment into sectors that are dynamically efficient."But is economic development fundamentally about accumulating and allocating capital? Lenin thought so, and that turned out well. (Irony alert!)

However, William Easterly, an economist who has extensively studied the role that various factors, including capital, play in driving growth in poor countries, argues otherwise. In his book *The Elusive Quest for Growth*, he notes:

" If transitional capital accumulation were the main source of growth differences, then countries should have very high rates of return to capital at the beginning. They do not. If transitional capital accumulation were the main source of growth differences, we would expect the poor capital-scarce countries to grow faster than the rich as they respond to these high returns to capital. They do not. If transitional capital accumulation were the main source of growth differences, we would expect financial capital to flow from rich to poor countries in response to the high returns to capital. It does not. If transitional capital accumulation were the main source of growth differences, we would expect capital accumulation to explain a lot of the cross-country differences in growth. It does not."

Sustained growth depends on innovation but autocrats aren't very good at nurturing that. More horses may generate more horsepower, by definition, but that won't get you from horses to the internal combustion engine to Tesla. Free and open societies, with democratic political processes of collective choice and market processes governing private choice, are a lot better at "picking winners" than are autocrats. Even analysts who claim to have identified a few economically benevolent dictators" that r"ank long-term GDP growth of their countries more highly than growth in their own Swiss bank accounts," and thus "use the power of the state to pursue national economic transformations," admit that such "economic benevolence" is a matter of "sheer luck." That should cause one to hesitate before rolling a 120-sided die and betting everything on coming up with a prime number between 50 and 70.

An innovative economic system rests on the presumption of liberty, on the presumption that people can innovate without asking permission. It's the free and open societies that allow people to speak their minds and question conventional wisdom that excel in innovation, not autocracies. Yes, there are some exceptions, like radial keratotomy (now undertaken with lasers and known as LASIK), which was discovered in the highly autocratic USSR, but such examples offer weak support for the claims that autocratic systems are more favorable to development than democracies.

Autocrats are more likely to use their power to smother innovations that threaten existing capital configurations and the interests that benefit from them than to advance disruptive innovations whose usefulness they have no expertise to judge. The notion that the right dictator will resist the urge to use his or her uncontrolled power to meddle in the economy—*just a bit!*—and pick the right winners is a triumph of hope over reality.

It's the presumption of liberty, including the liberty to compete with the established players (whether firms or politicians) that makes an economic system innovative, not autocrats with thirty robust lads.

Tom G. Palmer has been involved in the advance of democratic free-market policies and reforms around the globe for more than three decades. He is executive vice president for international programs at Atlas Network and a senior fellow at the Cato Institute.