

● The Role of the Government

The government has played a greater or lesser role in the development of all developing economies. Both the political environment and the economic policies pursued by government can be important in determining the growth potential of an economy.

There is little evidence to suggest that economic growth will be promoted more by a democratic government than by an authoritarian regime.³⁹ As with the determinants of economic growth in general, little empirical evidence exists which explains any correlation between the rates of economic growth and the type of regime in power. A number of empirical studies have been conducted, but none are conclusive as to the type of regime most conducive to economic growth.⁴⁰ For example, some of the economies of Asia grew at high rates in the post-war economy and had authoritarian governments.

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³⁹While there is little evidence to suggest that the form of government is beneficial toward economic growth, there is evidence that suggests that economic growth is good for democracy. As the size of the economic pie increases, there is a greater probability of a compromise between different groups in society, since the opportunity cost of increasing the absolute share of one group does not prohibit other groups from also increasing their absolute share, although relative shares may change. By contrast, when growth is stagnant, increasing the absolute share of one group means decreasing that of other groups. For a more in depth discussion of this issue, see Evelyne Huber, et al., "The Impact of Economic Development on Democracy," *Journal of Economic Perspectives*, Vol. 7, No. 3 (Summer 1993), 71-85. These authors, using the standard definition found in the literature, define democracy as having three features: free and fair elections of representatives on the basis of universal suffrage; control of the state apparatus by elected officials; and guarantees of freedom of expression and association (p. 73). This standard definition of democracy might not be fully relevant when analyzing societies where community consensus may be developed through more direct participatory processes (e.g., town hall meetings; tribal or clan communal meetings). These same authors also argue that the end of the Cold War removes many of the obstacles to the formation of democratic societies. In particular, American tolerance of authoritarian regimes can no longer be justified on U.S. national security grounds. Also, the Soviet model has all but been discredited as a viable economic and political system in most of the developing world.

⁴⁰For a summary of these studies, see Adam Przeworski and Fernanco Limongi. "Political Regimes and Economic Growth," *Journal of Economic Perspectives*, Vol. 7, No. 3 (Summer 1993), 51-69.