

**The Springboard Model. Presidential authority,
democracy, development and economic freedom**

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Sources of state capacity, wealth and economic freedom

The media and academic research abound with references to how the process of globalization changes the role of the state and how global market forces undermine the ability of states to interfere in social and political development. The neo-liberal conclusion is that the state should refrain from interfering in market processes and retrench in social and political affairs.¹ However, having witnessed the transition to democracy and the market in the former communist command economies, which initially followed a neo-liberal course of market reliance and withdrawal of the state, it is now recognized that also market economies need a state that possesses the capacity to make and implement policies (Suliman, 1999), here referred to as state capacity (Kjær, Thomsen and Hansen, 2001).² This recognition differs from an earlier observation on the role of the state and its bureaucracy in political transitions as a problem of some countries suffering under either too much or too little state inference (Peters, 1995). While this observation may be valid, the newer recognition raises the additional questions of how the state interferes, when it does so, and whether the state has the capability to implement political decisions? It is further argued that state capacity is an asset which, when possessed, confers a relative advantage in international competition by allowing domestic adjustment to pursue development (Weiss, 1998: 5). However, the argument that state capacity is an asset ultimately hinges on demonstrating a relation between the sources of state capacity and a desired policy outcome.

While Weiss (1998) applies government-industry linkages and uses bureaucratic attributes as operational aspects of state capacity, her model and comments (p. 44 and 54-55) remain open to the idea that the political environment, state structure and regime orientation, is a source of state capacity. In a similar fashion Kuznets (1973: 254) has argued from an economic point of view that economic growth is conditioned by the existence of a stable and flexible political and social framework. However, earlier studies have shown that the debate over the effect of political institutions upon desirable outcomes is inconclusive, forcing us to rethink institutional theory and in particular the relation between institutions and other variables (Power and Gasiorowski, 1997). This paper contributes to this debate as we set out to explore the relationship between economic freedom, wealth and two generalized sources of state capacity, understood as regime and system characteristics; that is, the level of democracy and the form of government.

Assembling the pieces

The pursuit of this agenda requires that several pieces of thought be brought together to form a puzzle where structural changes in development resulting from growth and democracy are assembled in a model of political conflict in which economic freedom is a policy that various interests seek to influence through the structure of the state. Furthermore, and to be elaborated below, we need to test whether these findings are applicable in view of the fact that the second and third world displayed distinct patterns of development.

Economic freedom and growth

Economic freedom has long been central to discussions about economic growth. In a regime characterized by little interference and protection of freedoms, the question becomes if the freedom of individuals and firms to choose where to invest and with whom to trade is beneficial to economic growth. Farr, Lord and Wolfenbarger (1998) find that economic freedom causes economic growth, but also that the level of economic development enhances economic freedoms. This finding may explain the cross-sectional results of Islam (1996) who by disaggregating the data found that economic freedom is positively related to economic development in lower-level income countries, but not in higher-level income countries. Also Johnson and Lenartowicz (1998) find that the association between economic freedom and growth is greater in countries with a lower level of initial GDP per capita than in higher-level income countries. Furthermore, these findings may contribute to explain why Lane and Ersson (2000: 267-268) find little association between economic freedom and growth once they disaggregate their data to comprise only OECD countries.³ In addition, Johnson and Lenartowicz's (1998) second finding, that there is a link between national culture and economic freedom, may better explain why Lane and Ersson (2000) conclude that while the overall relationship is positive it is not very robust once the South-East Asian countries are removed from the sample. These findings suggest that while economic freedom spurs economic development, already developed economies will further develop these freedoms.

Economic development and democracy

Economic development is central in theories of political development, as expressed by Lipset (1981: 31)⁴ in his famous statement 'The more well-to-do a nation, the greater the chances that it will sustain democracy', preparing the ground for the school of thought that we have come to know as modernization theory. Economic development is also central in a range of studies exploring the relationship (Dahl, 1971; Diamond, 1992; Hadenius, 1992, Lipset, Seong and

Torres, 1993) and causality (Burkhart and Lewis-Beck, 1994; Farr, Lord and Wolfenbarger, 1998) between economic development and democracy. While many of these studies based on cross-sectional data confirm the relationship and the Granger tests indicate causation from economic development to democratization, the central argument rests on demonstrating that accumulated economic growth gradually changes the values and the composition, that is, pushes the development of pluralism in the society under scrutiny. Furthermore, while there is good reason to expect economic development to change both the values and composition of society (Johannsen, 2002b), insights from transition theories and civil society approaches not only stress that democracy can be established at any level of economic development (Przeworski and Limongi; 1997), but also that modernization theory fails to take into account that rather than economic development per se, it is the form of economic development through the associated classes (Barrington Moore Jr., 1966; Ruechemeyer, Stephens and Stephens, 1992; Huber, Ruechemeyer and Stephens, 1993), or the state-society relationship (Skocpol, 1982) that has a bearing on political development. In his analysis of democratic development from 1850 to 1993 comprising no less than 172 countries, Vanhanen (1997) thus finds that deconcentration of power resources, i.e. development of pluralism, rather than modernization correlates positively with democracy. However, since modernization is associated with the deconcentration of power resources, Lipset's original statement can be rephrased as 'the more well-to-do a nation, the greater the chances of a pluralist society and hence the greater the likelihood that it will sustain democracy', using indicators of modernization as an approximation of pluralism.

Economic freedom and political conflict

The point departure for our third piece in the puzzle is thus Kuznets' (1973, pp. 251-252) argument of the inherent structural changes engendered by economic growth, that is, economic growth brings about a change in the relative position of groups within society. Furthermore, such relative changes are 'pregnant with conflict' (p. 252) and the sovereign state whose authority is based on loyalty and community feeling plays a crucial role in resolving such conflicts without excessive costs. While this in itself is an argument for state capacity as an asset, it is also an argument stressing that not all societal groups are necessarily interested in economic growth or economic freedom. Economic freedoms, or in particular the lack thereof, may in themselves generate rents that major societal groups want to defend – the classic example being protective barriers and tariffs – but participants in other sectors may also have an interest in foiling economic development in one particular sector, the classic example being

large landowners who feel threatened by the rise of an urban industrial working class. In a similar vein economic freedom may result in increasing income inequality (Johnson and Lenartowicz, 1998), and in more general terms we only have to think of the ongoing privatization process taking place at all points of the compass to realize that in this process some will win and others lose. In short, economic policy is highly contested and an area of potential political conflict, and different actors will therefore seek to protect and promote their own interest through the state. If Kuznets's (1973) argument is linked to the rephrased Lipset claim, it becomes more evident why advanced economies will further develop economic freedoms. Since power is already deconcentrated, no single group determines economic policies and this hence corresponds to the observation (Havrylyshyn and Odling-Smee, 2000) that in more advanced economies, economic freedoms will be further developed as the winners realize that property and profit are better protected in a free economy. However, we should not expect that the gradual increases in economic freedoms will be similar at all levels of income, partly because the higher-level income countries already have granted freedoms and partly because the measurement to be applied later is structurally bound to an upper limit. Kuznets's (1973) observation places economic growth and economic freedom within a concept of political conflict, yet we still need to establish a relationship between the generalized sources of state capacity, that is, regime characteristics and state structure, with economic freedom.

Democracy, state structure, growth and economic freedom

While there seems to be agreement in the literature (Przeworski et al. 1996; Przeworski and Limongi, 1997; Gasiorowski and Power, 1998; Bunce, 2000; Handelman, 2000) about the association between growth, economic development and sustaining democracy, the debate over whether democracy promotes growth among developing countries is more vigorous. Farr, Lord and Wolfenbarger (1998) do not find evidence of Granger causation between political freedom and economic development, and Przeworski and Limongi (1993: 64) admit in their survey of the debate that only educated guesses can be offered. The argument against democracy as a promotor of growth can be summarized as seeing democracy as an unaffordable luxury, because a dictatorship is better equipped to effectively cut wage demands and increase savings, not having to be concerned about popular demands (Nelson and Singh, 1998). Part of this argument concerns the repressive nature of authoritarian systems as being able to direct resources towards development and a related part concerning the capacity of authoritarian systems to take action, implying that democracies are beset by inaction as democratic leaders first have to build support for their policies (Wintrobe, 1998: 338). While some early

contributors thought that military governments in developing countries might be better able implement policies, that is, the military as a modernizing agent, military governments do not have a better track record in coping with economic crises, nor does cross sectional evidence lend credit to the argument (Brooker, 2000, p. 175). Moreover, the first part of the argument overlooks not only that authoritarian leaders do not necessarily possess better insights into which sectors to promote through investments, but also that the costs of the repressive system for internal and external security must be subtracted from the available resources. Soviet spending on security testifies that such costs can be prohibitive. While there is obviously something to the claim that 'all good things go together' it does not sufficiently describe expectations about the relation between economic freedom and democracy. Nevertheless, we do know that democracy is a regime characteristic associated with economic development, and policy making in a more pluralized open society hence makes it more difficult for a particular interest to restrict economic freedom. Thus our model needs to take into account not only modernization but also the level of democracy.

The second part of the argument against democracy as a growth inducing factor ascribes the consensus building process of democracy not only to incapacity to make policy, but also claims that democratic government hinders growth by opening up avenues for rent seeking pressure groups to capture the policy process (Nelson and Singh, 1998). However, this argument overlooks pressure groups in authoritarian systems. Depending on the nature of the authoritarian system, different interests may seek influence. Thus the bureaucratic alliances and networks in the Soviet Union contributed much to the ossification of the system (Wintrobe, 1998) and, complimentary to Kuznets's argument, urban-bias theory claims that financial and human resources are extracted from rural areas in developing countries to appease a growing urban population caught in the modernization process (Wegren, 1998, p. 3). The key is thus not that pressure groups exist, but rather whether the structures of the state, independently from other regime characteristics such as democracy, allow these interests access.

There is a lively debate going on within institutional theory over the consequences of institutional configuration for political outcomes. Weaver and Rockman (1993) question whether institutions matter for government policies. Lijphart's (1999) lifelong project on consociational democracy centers on institutions facilitating consensus building, but it was Juan Linz's (1990a; 1990b) two articles on the supremacy of parliamentarism over presidentialism to secure the survival of democracy that spurred a decade of debate. Nørgaard (2000, p. 141) demonstrates that parliamentarism and democracy rather than a powerful executive and presidency are the cornerstones of successful economic reform, i.e. stabilization

and the development of economic freedom. The same processes that defined the economic policies brought about the institutions. Thus, it is questionable if whatever effect on political outcomes is found is due to the institutions or merely occurs because institutions are intermediate variables (Johannsen, 2002a). For instance, can the more frequent breakdowns of democracy in presidential systems be ascribed to the system as such or does the choice of a presidential system reflect initial conditions – a particular constellation of interests working against democracy in the first place? Johannsen (2000) finds that the choice of system in former communist countries reflects the structure of the emerging party system and the initial role played by the president, while Easter (1997) links the setup of the presidential institution in the former Soviet Union to the interests of unreformed elites in securing access to the state, its coffers and policymaking. State structures thus enter into the equation because pressure groups seek to influence economic policy, and conservative interests rely on the presidential institution to protect and promote their cause. In their study of the three Baltic states, Nørgaard and Johannsen (1999) replicate the observation made by Bartlett (1996) that a presidential system endows a conservative corporate with privileged access to decision making. Presidentialism should thus be negatively correlated with economic freedom because various interests more readily capture the institution.⁵ However, we know that the American society has a great level of economic freedom. Should we be content with ‘American exceptionalism’ not only with respect to this generalized rule on economic freedom but also with respect to Linz’s (1990a; 1990b) claims concerning the superiority of parliamentarism?

One reason why Nørgaard (2000) concludes that parliamentarism and democracy promote economic reform becomes evident when he in modernization terms compares the more developed and less developed so-called ‘over- and underachievers’, countries that have performed better and worse than expected. Among the less developed countries weak state capacity and strong political leadership, i.e. presidentialism, characterizes both over- and underachievers, whereas strong political leadership characterizes the underachievers among the more developed countries (p. 196). Importantly, his study suggests that state structures are not equally important for economic reform in developing and developed countries. A closer examination of his (p. 196-197) outliers reveals that only Belarus and Turkmenistan count among the developed and less developed underachievers and the hypothesis based on these outliers runs counter to the conclusion reached by Johannsen (2000), who seeks to demonstrate that state structures matter less for democratic development in more developed countries than in less developed countries. Curiously, Nørgaard’s (2000, 121; 141) data support this thesis when we consider that his concept of distortion, which comprises industrial monopolies

correlates with presidentialism, that is, the degree of presidential authority (Index of Presidential Authority (IPA), see below). Consequently, the more concentrated the economy and the stronger the president, the fewer economic reforms have been carried out.

We are now in a position to back up the blunt claim that the effect of state structures is conditioned by modernization. Kuznets (1973) argues that the relative position of groups changes with economic growth. For the average country the power of conservative interests thus declines as the country modernizes – recall that modernization correlated with deconcentration of power – rendering the capture of economic policies more and more unlikely. This also answers the question of American exceptionalism. America is not an exception as among developed countries, such as the USA, state structures do not matter much because of the high level of development.

Different patterns of development

Bunce (1995a; 1995b) argued the dangers of viewing the post-communist transitions as but a variation on a larger theme because the differences from earlier transitions are more of a kind than a matter of degree. In their heated debate with Bunce, Schmitter and Karl (Schmitter with Karl, 1994; Karl and Schmitter, 1995) argued that the post-communist transitions would enrich comparative studies and that such comparative endeavors will make for a stronger test of the theoretical concepts. However, while this is a valid argument the claim that ‘state socialism was different along virtually every dimension that economists, sociologists and political scientists recognize as important’ (Bunce, 1995a, p. 119) is not without relevance for this study, as the communist countries not only followed a different pattern of development under the auspices of the communist parties, with command economies and emphasizing industrial development, but also because the majority of these countries since the late 1980s have engaged in a transition towards the market, freeing the economy and instituting market mechanisms while at the same time developing democracy and instituting new state structures. Whether the countries have succeeded in these endeavors is certainly a matter of degree and highly debatable, but it is more important for the present study whether this massive change disturbs the relations between economic freedom, democracy, modernization and state structures that we set out to examine. Quantitative studies comparing many countries are oriented toward a small number of variables (or just one) and construct a representation of the observed patterns (Ragin, 2000), allowing to control for sub-group differences, in this case between the second and the third world. Moreover, by doing so we are also able to settle the remaining issue with Nørgaard (2000) who, as argued above, in his examination of the outliers

finds the conditioning effect of modernization on state structures running counter to our hypothesis.

The Puzzle restated

The above discussion implies that our objective is threefold: to (1) provide empirical evidence to evaluate economic freedom – generalized sources of state capacity relationships under a varied set of conditioning factors; (2) through empirical model specifications contribute to the discussion of when the institutional structure of the state matters, and finally (3) by disaggregating the empirical model demonstrate the effect of the economic development model, all the while maintaining the relationship found in (1) and (2).

Model specification

The following sections provide a brief description of the specification and use of the different variables in the data-set, that is, issues of validity and the case selection (see appendix A), mainly restricted by the availability of data. While most of the specified variables applied in this study have become standard in comparative politics, I devote some efforts to the introduction and discussion of the Index of Presidential Authority (IPA), partly because one aim of the present study is to introduce the IPA, but also because the present study represents the first effort to present the index following the coding of now 98 developing countries.

Modernization, democracy (authoritarianism) and economic freedom

Despite the discussion raised by Diamond (1992) concerning measures of modernization we are compelled to use GDP per capita (ppp) as a proxy for socio-economic development because it has become a standard in the modernization literature, allowing for quicker cross-reference with previous studies of the findings in this study. A similar argument can be made concerning the indices of economic freedom and democracy.

To measure democracy, or rather the degree of authoritarianism, we will apply a combination of Freedom Houses rankings of Civil Liberties and Political Rights as a proxy (Gastil, 1991). While the Freedom House scale is certainly debatable (see Johannsen, 2000, pp. 32-34), Burkhart and Lewis-Beck (1994, pp. 906-907) do not find evidence of a conservative/liberal bias and the index itself correlates (0.94) with the polyarchy index developed by Coppedge and Reinicke (1991), implying that little would be gained from substituting the Freedom House indices with alternative measurements of democracy. The combined Freedom House Scales (Civil Liberties and Political Rights added) runs from 2 to

14, low scores indicating more democracy, hence in reality higher scores reflect that the society in question is being judged to be more authoritarian.

To measure our dependent variable – economic freedom – we apply the Index of Economic Freedom developed by the Fraser Institute (www.fraserinstitute.ca) under the direction of James D. Gwartney and Robert A. Lawson. Running from 0 to 10, higher numbers reflecting relatively more freedom, the index consists of 23 components reflecting institutional arrangements and policies with reference to 7 different areas of economic freedom.

The application of the three measures, and for that matter the Index of Presidential Authority (see below), does not imply that we are unaware of the problems associated with the use of indices. A telling story is provided by Dahl (1971), who tried to rank countries according to his concept of Polyarchy. France showed up in the same group as Bolivia. Aware that this should obviously not be the case he solved the matter by hand (pp. 243-245), transferring France to another group.

State structures: the Index of Presidential authority (IPA)

Initially the Index of Presidential Authority (IPA) was applied to the study of constitutional and economic transformation in the post-communist countries (Johannsen, 2000; Nørgaard, 2001) and developed because of dissatisfaction with the dichotomous classification into either presidential or parliamentary systems. The development of IPA also satisfies one of Bunce's (1995a, p. 122) criticisms against extending the study of parliamentary versus presidential systems to the post-communist world as many of these countries have adopted mixed forms of government. The argument for the IPA is relatively straightforward. If the presidents of Iceland and the USA are grouped together because both are elected directly, obvious differences in their authority are overlooked. For the purposes of this study, we are not concerned with the difference arising from comparing a superpower president with the president of a small island state. The focus here is to compare the structures of the political systems, and despite having the quality 'direct election' in common, the two presidents simply differ in the degree of authority vested in their presidencies. In developing the IPA we have therefore sought to follow Birch's (1993: 32) definition of political authority: 'A combination of political power and legitimacy, where power is the ability to get things done and legitimacy is the quality of ascribed entitlement to exercise that power'. The purpose of the IPA is thus to measure entitlements and restrictions encoded in constitutions, and the possession of a direct electoral mandate is seen as enhancing these powers. The IPA considers three sources of authority vested in the presidency. First, the IPA lists 7 different symbolic powers possessed by the

president. Second, whether the president is endowed with the opportunity to fill key post in the executive or control appointments to other institutions. The IPA considers 13 such entitlements. Finally, and perhaps most important, 17 different political powers assigned to president, be that veto rights, possibility to rule by decree, convene cabinet sessions or call referendums.⁶ Although some 98 2nd and 3rd world countries with populations of more than 1 million have presently been coded, it is important to note that the IPA for self-evident reasons cannot be applied to monarchies, and it is equally important to stress that the IPA is based on formal institutional arrangements.

The empirical evidence⁷

At first glance our sample of 66 2nd and 3rd world countries are slightly more authoritarian (7.12; N=192), have slightly less economic freedom (6.54; N=122); have slightly less powerful presidents (30.23; N=98), and are economically less well off (7,709 \$; N=172) compared to the average country in 1997. However, when OECD countries are excluded from this comparison our sample represents countries that are slightly more democratic, slightly more developed, have a little more economic freedom and presidents with fewer formal powers than the average 2nd and 3rd world country. This evidently forms a basis for our investigation, but in as far as the sample variation represents the expected directional change in our variables, it is not expected to produce further limitations on the generalization of our findings. However, the main differences are between the post-communist countries and the developing countries within the sample, as reported in Table 1.

Table 1 lists the averages, the median and the maximum and minimum values of our four variables, authoritarianism, economic freedom, presidential authority and GDP per capita. Thus the fact that the post-communist sub-sample stands out as being significantly less authoritarian and more developed, albeit less economically free and as having slightly more powerful presidents, altogether presents a fruitful case for including a dummy variable representing the former communist countries.

Table 2 reports on the stepwise construction of the research model, exploring the relationship between the variables. Even if the explained variance increases only incrementally, there is throughout an improvement of the model and it is important to note that our continuous variables carry the expected signs throughout. The initial expectations based on the literature surveyed are confirmed. Thus higher levels of income are positively associated with economic freedom. With respect to the two indicators of general sources of state capacity,

authoritarianism and authority vested in the presidency, both are negatively associated with economic freedom (model 3).

Table 1: Average degrees of authoritarianism, economic freedom, presidential authority and wealth. (N=66)

	Freedom House 1997-98	Index of economic freedom 1997	Index of Presidential Authority IPA	GDP Per Capita 1997 (PPP, Int\$)
Mean (all)	7.18	6.16	29.89	4,819
<i>Post com.</i>	<i>4.71</i>	<i>5.85</i>	<i>30.82</i>	<i>5,506</i>
<i>3rd world</i>	<i>7.85</i>	<i>6.24</i>	<i>29.63</i>	<i>3,400</i>
Median (all)	6.50	6.24	31.25	3,995
Minimum	3	3.10	4.02	410
Maximum	14	9.41	60.21	28,460

Source: See appendix A.

Table 2: Multiple regressions on economic freedom, 1997.⁸

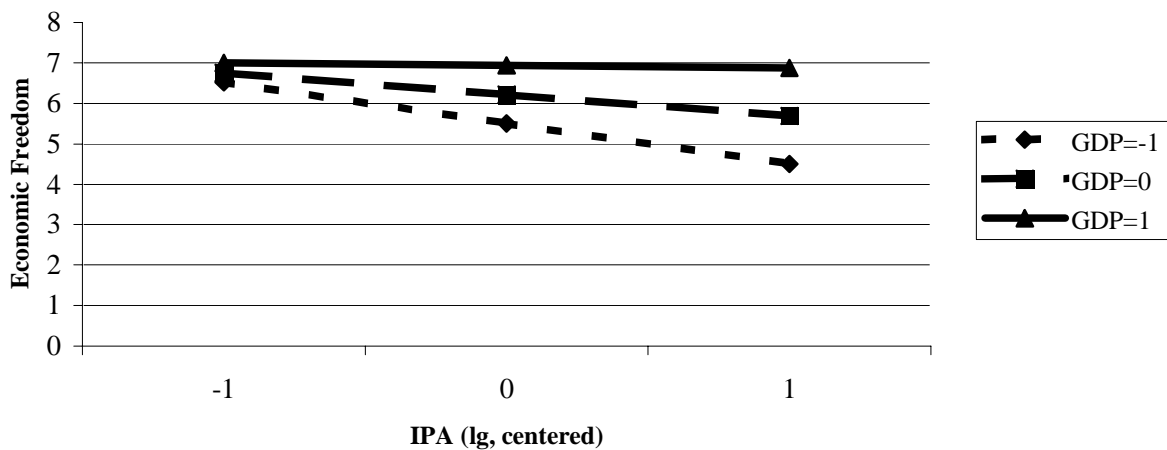
	Model 1		Model 2		Model 3		Model 4		Model 5	
	(B)	Sig.	(B)	Sig.	(B)	Sig.	(B)	Sig.	(B)	Sig.
Constant	6.161	***	6.161	***	6.161	***	6.219	***	6.503	***
GDP per capita (lg, centered)	0.940	***	0.764	***	0.709	***	0.713	***	0.788	***
Authoritarianism (centered)			-0.114	**	-0.106	**	-0.104	**	-0.163	***
IPA (lg; centered)					-0.406	*	-0.536	**	-0.438	**
Interaction (IPA*GDP)							0.475	*	0.520	**
Post Communist Dummy									-1.313	***
N	66		66		66		66		66	
Ad. R ²	34.2		39.7		41.8		43.5		56.5	

Notes: B denotes the unstandardized regression coefficient. The interaction variable is the product of IPA (lg, centered) and GDP per capita (lg, centered) variables. *Significance at the 0.1 level; **Significance at the 0.05 level; *** Significance at the 0.01 level or better.

In model 4 we have added the interaction between IPA and GDP following the hypothesis that modernization conditions the effect of state structures. Interaction variables can be difficult to interpret, which is why we in Figure 1 have illustrated the effect of IPA conditioned by modernization (under the assumption that authoritarianism is kept constant) in a procedure

where we have calculated economic freedom by varying the IPA for three values of GDP (below average, average and above average). The figure shows that the relationship is indeed as we expected. Higher levels of income reduce the effect of the IPA, as seen by the decreasing gradient of the three lines. Visually one could here refer to a springboard with the weight of the athlete, in this case lesser development, forcing down the jump-off end. The evidence presented so far lends credit to the old proverb that ‘all-good-things-go-together’, but more so in the sense that development and democracy contribute to economic freedom.

Figure 1: The Springboard. The effect of IPA conditioned by wealth



Note: The springboard model is depicted under the condition of a constant average level of authoritarianism. Calculations based on model 4 in table 2.

The remaining issue concerns whether these findings are applicable when controlled for the different development paths and unique processes of marketization and developing democracy in the post-communist countries. Recall from Table 1 that the post-communist countries are significantly more democratic and developed but on average have less economic freedom than the 3rd world countries. The post-communist dummy was included in model 5 (Table 2), which not only improves the prediction value from 43.5 to 56.5 percent, but also reflects the power of including the different development paths. The unstandardized coefficient shows that the post-communism dummy reduces the expected level of economic freedom by 1.3 points on the scale. Whether this is an effect of a lagging reform process compared to the level of economic

development and democracy is too early to tell. However, more importantly model 5 confirms the overall relation between the variables. Thus development, authoritarianism and presidential authority contribute to the explanation in the expected direction. Furthermore, the springboard effect discussed above is also significant and runs in the expected direction. The springboard effect therefore seems to be universally applicable. If the dummy variable in reality points to a lagged effect, time-series analysis or further cross sectional studies at a later point in time should confirm these results. But a closer examination of the outliers⁹ Kenya and Singapore, both having more economic freedom than expected and Singapore being the country with the most in our sample, qualifies the discussion, especially the application of the traditional modernization imperative. Both countries are authoritarian, but the formal authority vested in Moe's presidency is above average and Nathan's formal powers below average. However, in terms of the model, the essential difference between the two countries is the level of modernization, and hence the effect of institutions should be levelled out in Singapore whereas modernization – through the springboard effect – contributes to lower the expected level of economic freedom in Kenya. Besides the obvious cultural explanation, the two cases can possibly be explained by two different sets of arguments. Singapore's economy is export lead, consisting of machinery, equipment (including electronics) and chemicals, and directed towards the developed world, whereas Kenya chiefly exports agricultural products. Integration in the world economy might explain the case of Singapore and part of the difference between the two countries. Other long term historical trajectories, for instance the colonial history and the structural reform programs negotiated with donor countries and institutions, might be invoked to explain the case of Kenya. These explanations point not only to the existence of external actors but also show that the modernization paradigm when measured by GDP per capita is inadequate to capture the nuances of an economy and the orientation of the associated classes. This explanation is the other alternative to the lagged effect in the post-communist countries which, in Nørgaard's (2000) terms, exhibit distorted economies.

With respect to the debate over institutionalism, the evidence suggests that the seemingly inconclusive debate is caused by the fact that institutions matter more under some conditions than under others, making the specifications of the research models in terms of variables and case selection of the utmost importance for empirical findings and conclusions. These findings are consistent with modernization theory in the sense that modernization reflects a pluralization of society, rendering authoritarian rule less likely, but also deconcentration of power resources with the rise of new interests whose economic concerns are not only to secure private property but also to advance economic freedom and the development of new markets. These concerns in

conjunction with the relative decline of 'old economic interests' decrease the effects of state structure.

Conclusion

Our argument that the general sources of state capacity, i.e. regime characteristics and state structures, influence economic policy has proven relevant for several pieces of the puzzle: first, the relation between economic freedom and growth, and second, the political development literature in which a relation between economic development and regime change is being claimed. Third, it is argued that economic freedom as a policy and the structural changes resulting from economic growth generate political conflicts and that concerned actors will seek to influence said policy in order to protect and promote their own interests through the institutions of the state. Building on previous research in institutional theory and studies of the economic reform process in the post-communist countries, we hypothesized a negative relation between economic freedoms and presidential form of government, because it more readily allows conservative interest to capture decision making. Furthermore, we hypothesized that the effect of the state structures is conditioned by modernization, and finally, we expect that this relation is general and independent of the development model.

The empirical evidence shows that whereas democracy and modernization are positively related, presidentialism, i.e. presidential authority, is negatively associated with economic freedom. Moreover, our data indicate that the effect of state structures conditioned by modernization is independent from the development path. These findings are consistent with the modernization literature and provide part of the answer to why the debate within new institutionalism has been inconclusive in demonstrating association between desirable political outcomes and institutional structure. However, our brief examination of the outliers in the model leads us to restate part of the criticism against the modernization theory, namely that it fails to incorporate different social and economic models and the allegiances of the associated classes. While it requires repeated studies to address the lagged effect in the post-communist countries, the findings and the critique of the modernization paradigm suggest that rather than continuing the study, it might be useful to begin looking for the effect of independent variables in terms of configuration of variables, and to welcome to the study a range of other techniques than mere statistical regression.

Notes

1. For a summary of the argument and an overview of the debate, see Weiss (1998, pp. 1-11).
2. Pierre and Peters (2000) put forward a similar definition. They prefer, however, to speak of governance rather than state capacity.
3. In statistical terms there is simply very little variation in the level of economic freedom among the OECD countries. Hence little explanatory power can be expected.
4. The 1981 expanded edition of *Political Man: the Social Bases of Politics* originally published in 1959.
5. Part of this influence may be illicit as a correlation of the Transparency Index (1999) with our Index of Presidential Authority reveals a statistically significant negative correlation (-0.274; N=64), indicating that corruption increases with the formal authority of the president.
- 6 For a discussion on the construction and the robustness of the IPA, see Johannsen (2000) and Nørgaard (2001). In Johannsen and Nørgaard (forthcoming 2002) this discussion is reconsidered because 98 countries of the 2nd and 3rd world have now been coded.
7. We are acutely aware that studies based on time-series tracking the changes would be preferable. However, because of data availability we are restricted to the cross-sectional survey in the present study.
8. Subtracting the mean from each score centered all independent variables. This means that the constant expresses the average value of economic freedom for the average variables on all values. Interaction variables between GDP and Freedom House, and between Freedom House and IPA proved insignificant.
9. Defined as above or at 2 std. residuals.

Appendix A

Freedom House ranking, GDP per capita, Economic Freedom and the Index of Presidential Authority in the data set (1997 data).

	Authoritarianism	GDP per capita (PPP)	Economic Freedom	IPA		Authoritarianism	GDP per capita (PPP)	Economic Freedom	IPA
Albania	8	2120	4,26	15,85	Kenya	12	1190	6,81	39,29
Algeria	12	4460	4,05	50,45	Latvia	3	3940	6,74	11,46
Argentina	5	10300	8,41	25,00	Lithuania	3	4220	6,64	38,84
Bangladesh	6	1050	5,35	14,29	Malawi	5	710	4,58	27,68
Benin	4	1270	4,88	41,52	Mali	6	740	4,74	32,59
Bolivia	4	2880	8,05	20,54	Mauritius	3	9310	7,61	10,71
Brazil	7	6480	5,89	32,08	Namibia	5	5010	6,41	37,05
Bulgaria	5	4010	5,30	45,09	Nicaragua	6	1997	6,93	41,07
Chile	4	12730	8,17	43,93	Nigeria	13	920	4,68	30,00
China	14	3130	6,18	4,02	Pakistan	9	1560	5,56	34,38
Colombia	8	6810	5,62	30,42	Panama	5	7168	8,32	40,18
Congo, Dem. Rep. (Zaire)	13	880	3,10	43,75	Paraguay	7	3980	7,60	26,34
Congo, Rep.	12	1620	4,25	37,50	Peru	9	4680	7,86	39,73
Costa Rica	3	6650	8,10	20,83	Philippines	5	3520	7,87	20,95
Côte d'Ivoire	10	1840	5,68	37,95	Poland	3	6520	5,96	49,11
Croatia	8	4895	4,68	38,39	Romania	4	4310	4,64	42,50
Czech Rep.	3	10510	7,12	11,83	Russia	7	4370	5,40	57,50
Dominican Rep.	6	4820	7,00	29,17	Senegal	8	1730	4,67	42,50
Ecuador	6	4940	7,01	31,25	Sierra Leone	13	410	3,24	34,64
Egypt	12	3050	6,60	52,38	Singapore	10	28460	9,41	20,95
El Salvador	5	2880	8,26	20,98	Slovakia	6	7910	6,10	17,41
Estonia	3	5240	6,80	15,63	Slovenia	3	11800	6,32	19,20
Gabon	9	7550	5,10	43,01	South Africa	3	7380	7,34	18,97
Ghana	6	1640	6,39	31,25	Sri Lanka	7	2490	6,52	14,29
Guatemala	7	4100	7,43	10,00	Syria	14	3250	4,41	60,21
Guinea	11	861	3,98	38,84	Trinidad & Tobago	3	6840	7,49	10,04
Haiti	9	1270	6,21	23,66	Tunisia	11	5300	6,28	37,95
Honduras	5	2220	6,96	35,42	Turkey	9	6350	6,63	42,41
Hungary	3	7200	7,39	20,98	Uganda	8	1160	6,11	28,13
India	6	1670	5,81	9,82	Ukraine	7	2190	4,54	47,77
Indonesia	12	3490	7,22	6,92	Venezuela	5	8860	5,98	23,66
Iran	13	5817	5,02	15,83	Zambia	9	960	5,48	33,93
Israel	4	18150	6,50	4,46	Zimbabwe	10	2350	4,96	38,10

Sources: Economic Freedom at www.fraserinstitute.ca; Authoritarianism at www.freedomhouse.org; IPA from Demstar database (see Johannsen and Nørgaard, 2002 forthcoming); GDP per capita from World Bank (1999).

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