Briefing Paper

10

March 2010

How economic growth and politics interact

Summary and policy-relevant findings

Researchers from Stanford University study the relationship between fast and continued economic growth and the role of institutions. Their research is part of the Improving Institutions for Pro-Poor Growth (iiG) research programme and uses thirteen, mainly Asian, case studies. They find that although there is no one path to growth, leaders play a key role in the growth and development of developing economies. The research suggests that leaders should:

- Base their economic policies on an open economy approach. This means reducing barriers to trade and encouraging exports.
- Make sure that political structures exist that will give the open economy approach time to succeed through creating a stable political environment. A stable political environment may require the creation of a one party system or a voting system that creates a dominant party.
- Sustain economic growth by adapting to changes and to new interest groups so that the open economy policy can continue to succeed. They can do this by making special political and economic allowances to specific groups, and including diverse interests in the political process.

Contact details: e: iig.enquiries@economics.ox.ac.uk t:+44-1865-271084

Overview and Context

The report studied thirteen, mainly Asian, economies that grew at a rate of 7% or more per year for a period of 25 years or more. Rather than proposing a general theory, the authors try to draw together lessons from the case studies that can provide examples for other leaders to follow. They find that the thirteen countries studied in the report all achieved growth in very different ways.

Report conclusions in more detail

Opening the economy to trade

The first step towards sustained and rapid growth is to open the economy to trade. To implement a change in economic policy, there needs to be a catalyst. This is often, though not always, a crisis. In times of crisis, leaders have fewer restrictions in changing economic policy and in implementing institutional reform.

Ensuring success of the open economy

The second step is to make an open economy policy successful. To achieve this, politicians need to create a stable political environment with a political consensus that supports this approach. The researchers find that one party or dominant party systems have been important in the success of the Asian countries studied (for example, China and Japan). Single or dominant party systems can direct incentives towards economic growth because their success is tied to growth. In multi-party systems, politicians' success is not necessarily linked to pursuing economic growth. By having single or dominant parties the thirteen countries avoided short term political movements that could have changed the open economy approach.

Leaders can encourage a dominant/one party system through combining political parties or by re-structuring the voting system so that it favours the dominant party. For example, if an economy is mostly agricultural when the open economy policy is first implemented, this can be done through creating unequal sized districts that favour rural interests.

Changing the strategy with increasing economic complexity

The third step is that leaders must change their strategy to accommodate the changes that are generated by the increasing complexity of a growing economy. Some basic institutional shifts that are required include:

1. Opening of the dominant party and of the political process to new interest groups;
2. A shift from a one party to a two party or multi-party system; and,
3. The creation of a bureaucracy that is competent in dealing with an increasingly complex economy.

For more detailed information

- David Brady and Michael Spence 'Leadership and politics: a perspective from the Growth Commission', Oxford Review of Economic Policy 2009 25: 205-218.
- The Growth Report. Available at http://Commission on Growth and Development - The Growth Report.

Information about the Researchers

David Brady is deputy director and Davies Family Senior Fellow at the Hoover Institution of Stanford University. His research interests include the US Congress, the history of political parties in the United States and public policy.

Michael Spence is a professor at the Stanford Business School. He is also a senior fellow at the Hoover Institution and is the Chairman of the Commission on Growth and Development. He was a Nobel Laureate in Economics in 2001. He studies economic growth and development, dynamic competition and the economics of information.

This document is an output from research funding by the UK Department for International Development (DFID) as part of the iiG, a research programme to study how to improve institutions for pro-poor growth in Africa and South-Asia. The views expressed are not necessarily those of DFID. Improving Institutions for Pro-Poor Growth (iiG) is an international network of applied research institutes across Africa, Asia, the USA and Europe to generate new insights about institutions' influence on pro-poor growth through an innovative programme of research, capacity building, and dissemination. The lead institution is the Centre for the Study of African Economies (CSAE), University of Oxford. Other partners are the Oxford Department for International Development at Queen Elizabeth House (QEH), University of Oxford; the Suntory-Toyota International Centre for Economics and Related Disciplines (STICERD), London School of Economics and Political Science; BRAC, (formerly known as Bangladesh Rural Advancement Committee), Bangladesh; Institute for Social and Economic Change (ISEC), Bangalore, India; Economic Policy Research Centre (EPRC), Kampala, Uganda; Department of Political Science, Ibadan University, Nigeria; and the African Centre for Economic and Historical Studies (ACEHS), Addis Ababa, Ethiopia. iiG research is funded by the Department for International Development (DFID), The William and Flora Hewlett Foundation and the Open Society Institute. Briefing Paper prepared by **Naureen Karachiwalla**. Series Editor: **Karin Loudon**.