Democracy, Dictatorship and Protection of Property Rights

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ABSTRACT

This paper investigates whether political regime type influences the protection of property rights. The paper discusses two different theoretical arguments on whether democracy in general tends to strengthen or weaken the protection of such rights. The first argument indicates that by giving a relatively poor majority political power, democracy will weaken property rights protection, because of the majority’s incentive to engage in progressive redistribution from wealthy elites. The second argument indicates that democracy, by providing constraints on political elites that might otherwise use their powers to grab property, strengthens property rights protection. The paper conducts an empirical analysis on a global panel data sample. The main methodological problem is that democracy is likely endogenous to the protection of property rights. This problem is solved by applying instrumental variable analysis, using an instrument based on Huntington’s (1991) observation that democracy has thrived in temporal waves. Different panel data-2SLS methods indicate a positive, significant and robust effect from democracy on property rights protection. Additional empirical analyses indicate that non-democratic monarchies and (right wing) dominant party regimes protect property better than other dictatorships, as expected from theoretical considerations, but not better than democracy.

1 The paper draws on material from Knutsen (2007)
1. Introduction
Political institutions matter for the economy. This belief is widely held among both political scientists and economists. Political institutions not only influence government economic decisions and policies, but they also influence “the rules of the game” in the marketplace and thereby affect the incentives for market based production. However, establishing general empirical evidence for such effects is difficult. One important reason is that economic processes are also likely to influence the shape of political institutions. One crucial task, when trying to establish rigorous empirical evidence for an effect from political institutions on economic factors, is thus to disentangle a likely two-way causal relationship.

The last decade has seen several successful attempts at establishing empirical evidence the economic effects of political institutions, even when taking into account the endogeneity-issue. For example: Acemoglu et al. (2001) find a strong and robust effect from the type of political institutions established by colonial powers in different colonies on present day development. Persson and Tabellini (2003) find effects from different constitutional structures in democracies on various economic outcomes. This paper investigates whether it is possible to establish an effect from different political regime types, mainly categorized along a democracy-dictatorship continuum, on the protection of private property rights, even when taking into account the endogeneity of political regime types. Property rights are argued by economists and others to be among the crucial determinants of economic development (North, 1990; Torstensson, 1994; Olson, 2003). This paper tries to establish the first of two links in Acemoglu and Robinson’s (2006b:677) proposed simple causal chain:
Political institutions affect economic institutions, like property rights structures, which again affect economic development outcomes.²

Section 2 presents the main theoretical arguments on why democracy and dictatorship might affect the protection of property rights. There are arguments pointing in different directions as to whether democracy increases or reduces the protection of property rights. Section 2 also presents some theoretical arguments that imply differences in property rights protection between different types of dictatorships, as well as an overview of earlier empirical studies on regime type and property rights. Section 3 briefly discusses the likely endogeneity of democracy to property rights protection, and introduces a solution to this “problem”. More specifically an instrument for democracy is presented, based on Huntington’s (1991) observation that democratization has proceeded in temporal clusters, or waves, globally. The instrument can be utilized in Two-Stage Least Squares (2SLS) analysis to provide consistent estimates of the effect from democracy on property rights. Section 4 presents the data and the empirical analysis. The estimated effect from democracy on protection of property rights is positive, significant and robust. Section 4 also provides suggestive empirical tests on whether some types of dictatorships provide better protection of property rights than others. Although the evidence is inconclusive, there are indications that monarchies and right-wing authoritarian regimes protect property better than military

² I will not go into a conceptual discussion of the concept of property rights in this paper. Leblang gives this simple definition: “To say that an individual has property rights over something simply means in a legal and practical sense – that an individual can say that a thing belongs to him and others will act accordingly” (1996:7). See Weimer (1997:3-4) for a good discussion on the definition of property rights. Weimer further discusses important economic characteristics of property rights, and he focuses on clarity of allocation, cost of alienation, security from trespass and credibility of persistence (1997:4-8).
regimes, Communist regimes and multi-party authoritarian regimes, but not better than democracy.

2. Theoretical arguments

I) Democracy and class politics: The threat to property rights from the poor
How does democracy affect protection of property rights? Historically, democratization in Western industrializing societies was predicted by several observers to be a threat to the existing private property rights structures in those capitalistic societies. Poor and uneducated voters were expected to use their electoral power under democracy to redistribute, or even collectivize, the private property of the more wealthy, be it industrialists or landlords. For example, David Ricardo, saw the threat to property rights from universal suffrage as the main argument against democratization. Ricardo found it necessary to “deprive those of the elective franchise against whom it could be justly alleged that they considered it in their interest to invade [property rights]” (cited in Bethell, 1998:336). Przeworski and Limongi (1993) revisits the debate on the economic consequences of democracy from the nineteenth century, and establishes that the right to vote as well as freedom of organization were commonly perceived to have adverse effects on private property rights. “Conservatives agreed with socialists that democracy, specifically

3 There are of course several distinct ways to redistribute property in an economy, and democracies might use different policies than dictatorships. Democracies might for example redistribute through taxation and social programs, whereas certain dictatorial regimes might distribute through outright theft or confiscation. Other modes of redistribution of property include partially compensated expropriation, debt cancellation, hyperinflation (redistribution from lenders to borrowers), formalization of property rights where there earlier existed only informal rights, land-reform, collectivization and nationalization. The list is probably not exhaustive. Importantly, the different modes of property redistribution are likely to have very different economic effects. Land reforms are argued to often have positive economic efficiency effects (Banerjee and Duflo, 2005), whereas theft and hyperinflation are likely to have very adverse economic efficiency effects. The operational definition of property rights in the empirical section focus on confiscation and expropriation of private property as well as threats to property stemming from theft and lack of law and order. 
universal suffrage and the freedom to form unions, must threaten property” (Przeworski and Limongi, 1993:52). The basic structure of the argument is that democracy implies political power to the majority of the population through voting, but also through improved political and civil rights. The majority of the population is assumed to be relatively poor, and those in majority are maximizing their income not only in the market but also through politically induced redistribution under democracy. Democracy will therefore lead to massive redistribution of property from landholders, capitalists and other rich elites to the poor majority.

Political economic models give predictions in line with this claim. For example the democratization models of Acemoglu and Robinson (2000 and 2006) and Boix (2003) link progressive distribution of economic resources to democracy as a political regime type. Consider a simple median voter model in a society with income inequality. Assume that the upper socioeconomic strata earlier had the opportunity to choose the country’s government, and that in a given year this is unexpectedly changed by democratization after which the whole adult populace is enfranchised. If voters maximize income, widespread redistribution to poorer population segments or heavy taxation would follow in order to satisfy the preferences of the median voter. Expressed differently: “if the median voter is decisive and if the market-generated distribution of income is skewed downward, as it always is, majority equilibrium (if one exists) will call for a greater equality of incomes” (Przeworski and Limongi, 1993:53). One could generalize the claim, and argue that any group that constitutes a majority in a democracy could enforce redistribution from minorities to themselves and thus alter the existing property rights structure.
The electoral channel is not the only channel under democracy that might affect distribution of property. Freedom of organization is one of the core civil liberties, and trade unions are often among the most heavily regulated forms of organizations in authoritarian societies (see for example Deyo, 1998). Many radical trade unions have historically had the aim of a comprehensive redistribution of capital. This argument points to a potential negative effect from a democratic civil right on property rights. According to Warren Gramm, radical unionism’s “larger objective – the extension of worker job control – is incompatible with the basic imperatives of private ownership of productive capital” (Gramm, 1981:367).

Historically, Acemoglu and Robinson (2000) argue that several Western European countries experienced a decline in inequality following the expansion of the franchise. Taxation rates increased in these countries after democratization, and tax-money was redistributed through social welfare programmes and free public education. Nevertheless, large-scale confiscation and expropriation of property seldom followed substantial democratization. The same can be said of developing country democracies like Botswana and Mauritius, where social programs and education expanded under democratic government, but where rich property holders largely kept their properties (Knutsen, 2006). One explanation for the seemingly lack of historical expropriation in democracies is that the majority imposed self-restraints because of the fear of a coup. Attempts at large-scale redistribution from the old political and economic elite will generate incentives for the latter to reinstitute dictatorship in order to preserve their wealth, which again induces the democratic majority to let the old elite keep their assets. Leftwich (2000:7) for example notes that land reforms have been
conspicuously absent in several democracies with inegalitarian distribution of agricultural property. Although Leftwich attributes this to lack of state autonomy in poor democracies, another reason might be self-imposed restraints by the poor, rural population. Such an explanation was highlighted by scholars such as for example O’Donnel, Schmitter and Karl, constituting the “Transition Approach” in democratization studies (Grugel, 2002). They noted that democratization would often follow from either an explicit or implicit “pact” between moderates in the old regime and moderate democratic reformers, where the former stepped down from political office against the promise from the latter to not expropriate the former’s economic assets. Southern Europe, Latin America and South Africa provide empirical examples. Summed up: “If the democratic government attempts to reform the distribution of property or even to raise taxes to satisfy popular demands, it risks a reactionary backlash” (Boix, 2003:220). Not only fear of a coup might drive the democratic majority’s self-restraint, but it might also refrain from excessive redistribution if it believes this will hurt future economic growth, which will lead to increased future welfare also for the democratic majority. Moreover, the power dispersing structure present in many “Consensus-democracies” (Lijphart, 1999) might also act as checks on electoral majorities when it comes to redistribution of property form minorities. These empirical and theoretical considerations indicate that the argument presented above is at best an imperfect description of the relation between democratic politics and protection of property rights.

**Nuancing a crucial assumption in I): Left wing versus right-wing dictatorships**

The basic assumption underlying the argument that democracy challenges private property rights when compared to dictatorship is often (implicitly or explicitly) that we have some kind of right-wing authoritarian regime in power, protecting the upper classes’ property. It is
assumed that “[C]onservative politicians and the military intervene to sustain the property rights of capitalists” (Boix, 2003:16). This description might fit Latin America in the 1960s and 70s, where several right wing military dictatorships came to power through coups, often with the explicit or tacit support from the upper classes (Smith, 2005:82-83). The threats to existing private property arrangements were considered to be the underprivileged landless poor or the workers in urban industries, often supportive of socialist political parties. A “strong man” or a group of “strong men” were seen as necessary to prevent the underprivileged groups from taking power and altering the existing socio-economic structures of society.

However, the argument that authoritarian forms of government will protect property rights from expropriation by the poor to a larger extent than democracy is not necessarily plausible if the authoritarian government has a left-wing basis. If we look at the historical experiences of countries that followed a Marxist path, they ended up as dictatorships. Collectivization of private property did therefore historically not go hand in hand with democracy, but rather with a specific form of dictatorship that at least claimed to follow Marxist principles. These regimes enforced collectivization of private property, thereby de facto leading to an association between authoritarian Marxist rule and alterations of initially existing private property arrangements. One likely empirical implication from this discussion is that left-wing dictatorships are worse at protecting property rights than right-wing dictatorships. The relevance of the argument presented above on the negative effect of democracy on preservation of existing private property structures therefore depend on the type of dictatorship we compare it to.
II) The unchecked dictators’ grabbing hand

Argument I) predicted that democracy would reduce protection of existing private property rights structures through empowering the relatively poorer members of a society politically. One assumption underlying I) was that distribution of property could only be progressive; that is, property could only transferred from the rich to the poor, but the privileged did not infringe upon the property rights of the general populace. If we take into account that political elites can redistribute property from all citizens to themselves and their political backers, it is plausible to argue that dictatorship in general, and not only Marxist dictatorships, hurt the protection of property rights. North (2000:51) gives two basic reasons for why a country might experience non-working, inefficient or steadily changing distribution of property rights. North’s first reason is that different socially non-optimal solutions in the design and alteration of property rights can actually be economically beneficial to the rulers. The second reason is that some of the main political actors and groupings backing the leaders will not gain from an efficient and well-functioning property rights structure, and that these groups might pressure the political leaders to obey their interests. There are very good theoretical arguments for why North’s two reasons will be more relevant in dictatorships than in democracies. If political elites are income maximizing or want to generate personal revenues to enhance their own political survival, for example by doling out resources to crucial political supporters, we can expect more violations of property rights in dictatorships because there are fewer checks on the elite’s potential actions under dictatorship than under democracy. Additionally, democratic leaders might find that their survival probability is larger if they deliver the “public good” of property rights protection than if they grab and redistribute. This is because their political backers are many and public goods provision to the political backers is relatively cheaper than grabbing and redistributing
property as a private good (Bueno de Mesquita et al., 2003). This is not the case in many dictatorships, where those making up the crucial political supporters, the “winning coalition”, are fewer. Leaders with a narrow winning coalition, as is often the case in dictatorships, rely on non-efficient distribution of private goods to their supporters to stay in power. Self-interested dictators motivated by consumption or continuing in office, and with few institutional checks on their power, are likely to violate the property rights of those not in their winning coalition.

According to James Madison, in countries “[W]here an excess of power prevails, property of no sort is duly respected” (James Madison quoted in Anderson and Huggins, 2003:47). In principle, any form of government implies concentration of coercive power and therefore leads to a potential for state-led confiscation of property. A position at the apex of the state “provides the opportunity for individuals with superior coercive power to enforce the rules to their advantage, regardless of their effects on efficiency. That is, rules will be devised and enforced on behalf of the interests of the politically advantaged” (North, 2000:50). However, as argued above, democracy will differ from dictatorship. Let me expand: First, as indicated above, the politically advantaged in a democracy will be a larger group, making it more likely that they will have interests that converge with “the welfare of the whole nation”, which probably includes restricting widespread property-grabbing by those in political positions. In Olson’s (2003) model, a larger group will to a larger degree internalize negative effects from property rights violation on the overall economy than a smaller group, even if the large group also gains in the short term from such redistributive activity: “[T]hough both the majority and the autocrat have an encompassing interest in the society because they control
tax collections, the majority in addition earns a significant share of the market income of the society, and this gives it a more encompassing interest in the productivity of the society. The majority’s interest in its market earnings induces it to redistribute less to itself than an autocrat redistributes to himself” (Olson, 2003:122). Second, power is often more dispersed in democracies, also horizontally between different institutions. This reduces the opportunity for single actors to enforce their will at the cost of others. Democratic systems often have institutionalized checks and balances, with for example independent judiciaries and separation of legislative and executive authority. According to Leblang “democratic institutions provide a check on the arbitrary power of the state. Democratic regimes will less likely confiscate possessions and are more likely to provide a stable environment governed by efficient property rights structures” (1996:18). Third, there is a correlation between degree of democracy and rule of law. This means that regime-led property-grabbing outside the scope of clearly determined rules is more difficult for self-interested politicians in democracies (Knutsen, 2007:17). Fourth, there is a higher degree of political accountability in democracies Democratic electorates can vote out of office those leaders they are dissatisfied with the performance of. Elections discipline incumbents because a “credible threat of losing their offices in the next period compels policy makers to deliver good services and refrain from extracting rents” (Boix, 2003:208). Other accountability generating mechanisms like freedom of speech and press complement elections because they provide reliable information on political activity for retrospective voters. Accountable leaders that conduct property rights violations will probably often be punished. All of these mechanisms predict that property grabbing by political elites is less prevalent in democracies than in
dictatorships. An underlying assumption is that property grabbing by elites is unwanted by the populace.

According to Olson, “[H]istory provides not even a single example of a long and uninterrupted sequence of absolute rulers who continuously respected the property and contract-enforcement rights of their subjects” (2003:127). History does however provide several examples of dictators grabbing property to their own economic or political benefit. Mobutu, the long-reigning Zairian dictator, was definitely a master. He was so successful in enriching himself that he became the world’s third richest man (Sørensen, 1998:80). In 1973, Mobutu decided that farms, plantations and commercial enterprises should be turned over from foreign owners to “sons of the country” (Wrong, 2000:92), followed by confiscation of manufacturing plants. True to Bueno de Mesquita et al.’s (2003) selectorate model, Mobutu did not enrich only himself on the expropriated property, but enriched also his winning coalition; people within his own tribe and leading figures from those major ethnic groups he needed support from (Wrong, 2000:93). In Uganda, Idi Amin expelled the country’s relatively wealthy Asian minority and the “shops, the businesses, the property that the Asians were forced to leave behind, even their personal possessions, were seized as spoils by Amin’s cronies” (Meredith, 2005:236). Another example “is that of the dictatorship of Rafael Trujilo in the Dominican Republic between 1930 and 1961. Wiarda (1968) observes that the Dominican government under Trujilo “could be summarized by the single word ‘grab’. During his time in power Trujilo expropriated much of the land and businesses of the country so that he eventually directly controlled about 85% of the economy ... and owned 60% of all land” (Robinson, 1998:23).
Nuancing a crucial assumption in II) Self-interested restraints on grabbing

Let us for a second assume that dictators and others with powers to extract resources from society want to maximize utility from consumption, and thus income. Let us further assume that they take into account the utility from future consumption as well as present. Olson claims that a stable dictator acts as an “owner” of his country, and thus will have an “incentive to make his property productive” (2003:115). Excessive property violation will negatively affect the subjects’ incentive to produce, and therefore reduce the future resource-base from which the dictator can extract: “The rational stationary bandit will take only a part of income in taxes, because he will be able to exact a larger total amount of income from his subject if he leaves them with an incentive to generate income that he can tax” (Olson, 2003:118). One of the main insights from Olson (2003) is the importance of the dictator’s time horizon when it comes to incentives for protecting property rights. Olson’s main conclusion is that dictators more likely will refrain from activities such as confiscation, repudiation of contracts and hyperinflation when they expect to stay in power for a long time. Long term investments are necessary for economic growth. Therefore “an autocrat who is taking a long view will try to convince his subjects that their assets will be permanently protected not only from theft by others but also from expropriation by the autocrat himself. If his subjects fear expropriation, they will invest less, and in the long run his tax collections will be reduced” (Olson, 2003:124).

Analogous reasoning applies to why dictators who are part of dynasties, expected to continue after the present ruler dies or abdicates, may abstain from these activities. If the monarch values the welfare of his son, daughter, or any other successor, he wants to give a well-functioning economy as a bequest. Organized succession in dictatorship is often
problematic because of the lack of institutionalized succession-mechanisms and the personalization of power in dictatorships. In democracy, elections provide a solution to the succession problem. However, the long dynastic reigns of Royal families in Europe shows it is possible to institutionalize succession under dictatorship. Therefore, “dynastic succession can be socially desirable, both because it may reduce the likelihood of succession crises and because it may give monarchs more concern for the long run and the productivity of their societies” (Olson, 2003:126).

One empirical implication from this argument is that dictators that expect to be in power for long protect property better than those that expect a short span in office. Military dictatorships generally tend to be short-lived (Geddes, 2003:47-86), and we should expect weak protection of property here. One counter-argument presented above is that many military regimes have tended to have a right-wing political basis and should be more eager to protect property rights. Therefore, the aggregate effect of military dictatorship is difficult to predict. In multi-party authoritarian regimes, there exist multiple contending power-centers, which should reduce the life-span of the incumbent regime. Poor property protection should follow. In monarchies the transfer of power is often institutionalized, and the son, daughter or another close family member is expected to take over the throne. If the king or queen cares about the utility of their close family, they will have relatively long time horizons. This might lead authoritarian monarchies to protect property better than other dictatorial regime forms.
Earlier empirical studies
Based on the above arguments, the overall effect from democracy on property rights when compared to dictatorship is theoretically ambiguous. Whereas some argue that “[T]he idea that democracy protects property rights is a recent invention, and we think a far-fetched one” (Przeworski and Limongi, 1993:52), others have argued that the regime best securing property rights “is a modern democratic society with universal suffrage” (North, 1990:109). The sign of the average effect from democracy on property rights therefore has to be determined empirically. Additionally, I argued above that there are theoretical reasons to expect differences in the protection of property rights between different types of dictatorships.

My study is not the first statistical study on the effect from political regime type on protection of property rights. According to Goldsmith (1995), Cheibub (1994) uses level and change in taxation as a proxy for property rights and finds no significant relationship with political regime. David Leblang (1996) uses two proxies “exchange rate controls” and “credit allocate to private enterprises as percentage of GDP” for measuring degree of property rights security. Based on pooled cross-section time-series data, Leblang finds “a far from perfect relationship” between democracy and property rights (1996:6), but still claims that “democratic nations tend to protect private property rights to a greater extent than non-democratic” (1996:6). Boix (2003), using a measure for risk of expropriation from the International Country Risk Guide (ICRG), finds that democracies, and especially those with high newspaper circulation (implying greater political accountability) have a much lower degree of expropriation risk than dictatorships. Adsera, Boix and Payne (2000) run OLS with panel corrected standard errors (PCSE), and this analysis also finds that democracy reduces
expropriation risk, even when controlling for other relevant variables. Clague et al. (2003) conducted thorough studies of the effects of regime type, and the stability and duration of different political regimes, on the protection of property and contract rights. They find that democracy in general protect such rights better. One important nuance is that strong protection is only likely to occur in relatively consolidated democracies. Moreover, they find that dictators with long time horizons tend to protect property and contracts better than unstable dictators. These authors use data from multiple sources, including the ICRG dataset, and a self-developed proxy they call “contract-intensive money”.

Many of the studies above find a positive, significant effect from democracy on property rights protection. However, these studies do not sufficiently take into account the endogeneity-problem generated by the possible effect from property rights protection on regime type. The empirical analysis below tries to solve this endogeneity-problem, and thus yields more credible estimates of the causal effect from democracy on protection of property rights.

3. The endogeneity of political regime type and a methodological solution to the endogeneity problem
Adding to the complexity of investigating the effect of democracy on property rights is the fact that democracy is likely endogenous to the protection of such rights. There exists a libertarian argument that property rights is a fundamental determinant of political and civil liberties, which argues that “property gives rise to freedom and ... its absence makes possible arbitrary authority” (Pipes, 1999:xiii). The main hypothesis is that “while property in some form is possible without liberty, the contrary is inconceivable” (Pipes, 1999:xiii). Friedman also suggests that capitalist institutions like those that guarantee private property
rights are necessary prerequisites for political freedom (Friedman, 2002:7-21). If this claim is true, statistical studies that investigate the effect from democracy on property rights will be plagued by endogeneity-bias. A positive relation between democracy and property rights protection could stem from property rights affecting regime type.

Weimer (1997:9-10) presents three mechanisms through which well-functioning property rights might enhance democracy. These mechanisms are however more complex than the direct link sketched out above, as they postulate increases in economic welfare and economic equality as intermediary variables. If we accept that protection of property rights increases economic prosperity, so-called modernization theory would indicate that property rights positively affect probability of having a democracy indirectly through generating economic development. There is a large literature on the effects of development on political regime type starting with Lipset (1959). Even though there is no consensus as to whether high income increases only the probability of democratic survival (Przeworski and Limongi, 1997) or both probability of democratic survival and probability of democratization (Boix and Stokes, 2003), there is a widespread agreement that a high level of economic development in a country increases the chances of having a democratic regime (see for example also Diamond, 1992 and Inglehart and Welzel, 2006).

Single-equation methods are not well-equipped to deal with endogenous independent variables. 2SLS however, if a valid instrument is utilized, will give consistent estimates of the effect from democracy on property rights, even if property rights affect democracy.\(^4\)

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\(^4\) See for example Kennedy (2003) and Greene (2003) for presentations of 2SLS.
However the most problematic aspect with 2SLS is often finding valid instruments; that is, instruments that are correlated with the endogenous independent variable but not directly linked to the dependent variable. Many of the variables utilized as instruments in the literature on the economic effects of institutions, such as settler mortality (Acemoglu et al., 2001) and fraction of English- and other European language speakers (Hall and Jones, 1999) are not valid as instruments for democracy when property rights protection is the dependent variable. The reason is that these variables are probably not only linked to political regime type, but also, as argued in the studies they are used in, to economic institutions that influence property rights protection. An instrument is only valid if it is correlated with the independent variable (here democracy), but not directly linked to the dependent variable (property rights protection). It is difficult to come up with decent instruments for democracy, especially in a setting where the dependent variable is itself related to particular institutions. More generally, the difficulty of finding instruments for political regime type is acknowledged in the literature on the effects of political regime type, and one of the few suggestions is given by Helliwel (1994), who uses historical values on the regime variable as instrument for present values when investigating the effect of regime type on economic growth.

**Figure 1: Causal structure underlying 2SLS analysis**

Instrument(-s) ➔ Political regime ⇔ Property rights
Here, I use an instrument for political regime based on Huntington’s (1991) observation that democratization globally has historically proceeded in three temporal waves. The first long wave lasted from 1828 to 1926, and the second from 1943 to 1962 (Huntington, 1991:16). According to Huntington the third wave of democratization began with the military takeover in Portugal in 1974 (Huntington, 1991:3). There are indications that the number of democracies stagnated globally in 1998 (Knutsen, 2007:55), and I therefore assign 1998 as the end-year of the third wave. Between these waves, there have been reverse waves, where the number of democracies globally either stagnated or regressed. The first reverse wave lasted from 1922 to 1942 and the second from 1958 to 1975, according to Huntington.

Important geo-political events have arguably been important for the temporal clustering of democratization worldwide. Huntington links the first wave to the American and French revolutions and the second wave to the allied victory in World War II. The third wave started in Southern Europe in the mid-70’s, and soon transplanted to Latin America (1991). However, many of the democratization processes in Eastern Europe, Central Asia and Africa more than a decade later can be connected to the fall of the Berlin Wall and Soviet Empire, large geo-political events. However, not only large geo-political events make democratization come in clusters. There are probably also “contagion effects” or “spill-over effects” between countries, for example neighbours (see for example Starr, 1991), and one country’s democratization process increase the probability of neighbouring (and other) countries democratizing. It is hard to determine the relative strength of major, underlying geo-political factors and contagion from neighbours, but this is irrelevant here, since the

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5 “A wave of democratization is a group of transitions from nondemocratic to democratic regimes that occur within a specified period of time and that significantly outnumber transitions in the opposite direction during that period of time. A wave also usually involves liberalization or partial democratization in political systems that do not become fully democratic.” (Huntington, 1991:15).
clustering of democratization experiences in any case can be attributed to factors that are exogenous to national politics. If these waves represent such exogenous factors that affect the probability of regime transition to democracy, and these waves are not directly related to property rights, a regime transition for a country within a wave or reverse wave can serve as a valid instrument for regime type. A dummy that records whether the last regime transition was within a wave or reverse wave is a valid instrument since it is correlated with the endogenous independent variable of political regime, and it is not directly related to the dependent variable, property rights. The instrument allows us to utilize exogenous variation in degree of democracy, thereby allowing us to filter out variation in degree of democracy that is caused by property rights structures.

The instrument-dummy used here, REVWAVE, is scored 1 if the last regime change, according to Polity-data, was not in one of Huntington’s reverse waves and a 0 if the last regime change of a country was in a reverse wave. Huntington’s categorizations are somewhat ambiguous, with waves and reverse waves overlapping. However, an instrument based on whether the last regime change was in a wave or not is weaker correlated with the polity variable than the instrument based on Huntington’s reverse wave categorization (Knutsen, 2007). According to econometric theory, instruments that have stronger correlation with the endogenous independent variable are preferable, since this generates lower 2SLS standard errors, and thus a more efficient estimator. Therefore, country-years where the current regime originated in \((\text{()},1827], [1922,1942], [1958,1975] \text{ and } [1998,2004] \) are scored a 1 on the instrument dummy.\(^6\)

\(^6\) The US regime, categorized to have started before 1827 by Polity, is not scored a 1, given its explicit categorization in the first wave by Huntington (1991:16).
The idea of using the year of institutional change as an instrument for institutional structure was also used by Persson and Tabellini (2003). These authors used a similar approach to the one followed here when analyzing the economic effects of different constitutional rules. The authors use time point of adoption of constitution (dummies) as an instrument for type of institutional arrangement. Their analysis is however limited to democracies only. By using Huntington’s observation related to democratization-waves and Persson and Tabellini’s methodological trick, I am able to apply 2SLS and achieve consistent estimates of the effect of democracy on property rights, even if democracy should be endogenous to the protection of property rights.

4. Empirical analysis

Data
The democracy-measure used in this study is the Polity-index from Polity IV, which goes from -10 (most dictatorial) to 10 (most democratic). The index is additive, and the components are competitiveness of executive recruitment, openness of executive recruitment, constraints on the chief executive, competitiveness of political participation and regulation of political participation. I exclude interregnum-periods (Marshall and Jaggers, 2005:17), which are mainly periods of internal anarchy or civil war and periods of “foreign interruption”, which basically means foreign occupation. I have earlier argued that the Freedom House Index (FHI) is a better measure of democracy defined broadly than the Polity-index (Knutsen, 2006). Since the freedom house index also includes civil liberties such as freedom of association, which might affect property protection negatively because of

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strong labor unions according to argument I), and freedom of media and speech, which might reduce the scope for elite-led grabbing according to argument II), there are reasons for using the FHI instead of Polity in the empirical analysis. However, the FHI includes check-questions on crime, also against property, and protection of property rights in its scoring. This generates an a priori relation between the FHI and protection of property rights, and would induce a bias in the results in favour of democracy. I therefore choose the narrower Polity-index, which in any case captures the two most interesting aspects of democracy when it comes to its theorized effects on property rights from the arguments above. The first is political participation in elections (negative effect according to argument I)) and checks on the executive (positive effects according to argument II)). However, I run regressions with the FHI as a robustness check.

The data used to indicate property rights protection are taken from the ICRG dataset. More specifically, I constructed an index based on two of the components in this dataset. The first component is the so-called Investment Profile index (IP). This index goes from 0 to 12 and consists of three sub-components, which all range from 0 to 4: Contract Viability/Expropriation Risk, Profits Repatriation and Payment Delays. The second index is the Law and Order index (LO). This index consists of a Law-component, which assesses the strength and impartiality of the legal system and an Order-component which is an assessment of the popular observance of the law. LO varies from a low of 0 to a high of 6, with the two sub-components both ranging from 0 to 3. In order to capture different aspects of protection or violation of property rights, I construct the index ICRGPROP = IP + 2*LO, which goes from 0 to 24. The lowest country-year score on this index belongs to Somalia in

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8 See [https://www.prsgroup.com/ICRG_Methodology.aspx](https://www.prsgroup.com/ICRG_Methodology.aspx) for a short description of the methodology underlying the ICRG’s different indexes.
1993 (1), and the highest score of 24 is given to Austria, Canada, Finland, Ireland, Luxembourg, Netherlands, Singapore, Sweden and the United Kingdom in one or more years. The mean score in the sample of 3166 observations is 14.3 and the standard deviation is 4.8.

A high income level influences the probability of having a democratic regime positively (see for example Przeworski and Limongi, 1993; Boix and Stokes, 2003), and a high income level is also conducive to strong property rights protection (see for example Clague et al., 2003: 152-3). One should therefore control for GDP per capita when estimating the effect of democracy on property rights protection. Democracy might also be easier to establish in countries with small populations, and population level might also affect protection of property rights, and is therefore a plausible control variable. In addition, political stability influences both the nature of the political regime and the protection of property rights (Clague et al., 2003), and we should therefore control for political stability. Moreover, cultural factors correlated with for example the dominant religion in a country or the geographical region in which a country is situated might affect both the probability of being democratic and the protection of property rights. Other historical variables could also be of importance La porta et al. (1999) find that legal origin is important for quality of government. Legal origin is correlated with colonial history and colonial history might also affect the probability of having democracy. In all the models below, I therefore control for log of GDP per capita, log of population, logarithm of regime duration as a proxy for political stability,
plurality religion, geographic region and the nationality of the historical colonizing country where relevant.\footnote{The data on GDP and population are taken from the World Development Indicators, and the data on regime duration is taken from Polity. The region dummies are: Western Europe plus (North America, Australia and New Zealand), Eastern Europe plus the Soviet Union (and resulting states), Asia and the rest of Oceania, Middle East and North Africa, Africa South of the Sahara, Latin America. The religion dummies are: Catholicism, Protestantism with Anglicanism and Baptism, Orthodox Christianity, Shia Islam, Sunni Islam, Buddhism together with Shintoism, Taoism and Confucianism, as well as a dummy for “traditional” religions. The colonial dummies are: British and American, French, Spanish, Portuguese, Belgian, Dutch and Italian. See Knutsen (2007:67-69) for a discussion of the operationalization of these three sets of dummies.}

**Analysis**

First, I run an OLS with PCSE regression that takes into account panel-specific autocorrelation (AR1), heteroskedasticity between panels and contemporaneous correlation. In order to mitigate the possible influence of endogeneity of regime type, which will be even further mitigated in the 2SLS analysis, I lag all independent variables with two years. This is also done in all analyses below. The analysis draws on almost 2500 observations from 122 countries, and there is a positive and significant effect at the 1%-level from democracy (t=4.0), as measured by Polity on the protection of property rights, as measured by ICRGPROP. Even if we control for country-specific effects, by running robust Random Effects (RE) or robust Fixed Effects (FE) analysis, the positive effect from democracy on protection of property rights is still positive at least at the 1%-level. The t-values are even higher in the RE (t=14.3) and FE (t=7.1) analyses. According to the RE results, the estimated increase in ICRGPROP when going from most dictatorial (-10) to most democratic (10) on the Polity-index is 0.226*21=4.75, even when controlling for all the variables mentioned above. There is therefore an indication that democracy goes together with better protection of property rights. However, these results might be due to protection of property rights influencing regime type, and we therefore need to utilize 2SLS to investigate whether there is a likely causal effect from democracy on property rights protection.
In order to check the robustness of the results, I ran both random effects and fixed effects versions of 2SLS. In some of the regressions below, I also included dummies for year, to control for time-specific effects. Some of the results in Table 1 are therefore based on a relatively stringent procedure of inference, controlling both for country-specific factors and time-specific factors, as well as taking into account the endogeneity of political regime type to the protection of property rights. The REVWAVE instrument is a good predictor of political regime type, as the t-values range between 9.4 and 12.2 in the different models’ first-stage regressions. When it comes to the control variables, there is a significant (1%-level), positive effect from log GDP per capita, log population and log regime duration on protection of property rights in all models. The estimated effect from democracy on ICRGPROP is also positive and significant in all the 2SLS-models. The fact that all specifications are significant at least at the 1%-level, is very strong evidence for the hypothesis that there is a positive causal effect from democracy on the protection of property rights. The Polity-coefficients vary from 0.20 to 0.43, indicating that the estimated increase on the 24-point ICRGPROP from a 21-point increase on the Polity-scale varies from 4.2 to 9.0. To illustrate such a difference, the ICRGPROP score in 2007 of relatively democratic India was 8.5 points higher than that of relatively dictatorial Zimbabwe. The fact that the 2SLS coefficients are larger than the OLS with PCSE and FE estimates, indicate that the effect from property rights on regime type is not too large, and might be dominated by the attenuation bias generated by measurement error in the Polity-variable. The reason is that 2SLS mitigates such bias due to measurement error, and gives consistent estimates even in the case of independent variables with measurement error (Acemoglu et al., 2001; Greene, 2003).  

10 To check whether the results are driven by the concrete operationalization of democracy, I substitute the
TABLE 1: 2SLS regressions with ICRGPROP as dependent variable and REVWAVE as instrument

<table>
<thead>
<tr>
<th>Method</th>
<th>Time controls</th>
<th>Polity-Coefficient</th>
<th>T-value</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>G2SLS random-effects IV regression</td>
<td>No</td>
<td>0.43</td>
<td>6.68***</td>
<td>2481</td>
</tr>
<tr>
<td>G2SLS random-effects IV regression</td>
<td>Yes</td>
<td>0.21</td>
<td>2.72****</td>
<td>2481</td>
</tr>
<tr>
<td>Fixed-effects IV regression</td>
<td>No</td>
<td>0.28</td>
<td>3.87***</td>
<td>2481</td>
</tr>
<tr>
<td>Fixed-effects IV regression</td>
<td>Yes</td>
<td>0.20</td>
<td>2.62***</td>
<td>2481</td>
</tr>
</tbody>
</table>

Types of dictatorships and protection of property rights
I utilize Hadeniuss and Teorell’s (2006) classification to investigate whether different types of dictatorships protect property rights differently. These authors classify dictatorships accordingly: Traditional Multiparty, Partyless, Dominant Party, Military Multiparty, Military traditional, Rebel regimes, Military no-party, No-party traditional, One-party traditional, One-party monarchy, Traditional monarchy, No-party monarchy, Multiparty monarchy, Civil War, Occupation, Theocracy, Transition and Other. I collapse all the military regime categories into one, and all the monarchy categories into one in the analysis. I apply OLS with PCSE, FE and RE and enter the control variables from the model above, but leave out the Polity-index. Instead I enter the dummies based on the Hadniuss and Teorell classifications. Democracy as classified by these authors is the reference category, and all

Polity-index with respectively an average of Freedom House’s Political Rights and Civil Liberties indexes and the dichotomous, election-based ACLP-measure for democracy (see Przeworski et al., 2000 for a description for the operationalization procedure). In general, the results are qualitatively similar to those found when using Polity, especially in the models without time-controls, with significant effects from democracy at least at the 5%-level. However, the p-values were generally a bit higher for the models with time-dummies. Although all models generated a large, positive estimated effect from democracy, not all effects were statistically significant at conventional levels when using the Freedom House-measure and the ACLP-measure. Even though the results are not completely robust, there is still very good reason to believe there is an average positive effect from democracy on the protection of property rights.
estimated effects are therefore estimated change in ICRGPROP when going from democracy to the particular dictatorship indicated by the dummy, holding all other variables constant.

Table 2: Estimated effects on ICRGPROP from dictatorship type (Democracy as reference category)

<table>
<thead>
<tr>
<th>Regime dummy</th>
<th>OLS with PCSE</th>
<th>Random Effects</th>
<th>Fixed Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>T-value</td>
<td>Coefficient</td>
</tr>
<tr>
<td>Military</td>
<td>-0.90</td>
<td>-2.99***</td>
<td>-2.87</td>
</tr>
<tr>
<td>Monarchy</td>
<td>-0.24</td>
<td>-0.36</td>
<td>-2.07</td>
</tr>
<tr>
<td>Dominant party</td>
<td>-0.31</td>
<td>-1.07</td>
<td>-0.85</td>
</tr>
<tr>
<td>One party</td>
<td>-0.72</td>
<td>-1.90*</td>
<td>-3.80</td>
</tr>
<tr>
<td>Auth. Multi-party</td>
<td>-0.55</td>
<td>-2.68**</td>
<td>-1.31</td>
</tr>
</tbody>
</table>

In Table 2, I have entered the coefficients and t-values for the most common authoritarian regime categories. I have left out the dummy-results for several categories, for example “theocracy”, with few observations. Many of the unreported dummies were also significant. The controls for colonizer, plurality religion and region might together with the few countries in each category create a high degree of multi-collinearity. I therefore also ran regressions that dropped these three sets of dummy-control variables to check for robustness of the results. However, this operation generated no large differences in the results.

All the reported regime dummies are negatively signed independent of estimation method. All dummies were significant at the 1%-level in the RE analysis. However, the monarchy and dominant party dummies were insignificant even at the 10%-level in both the OLS with PCSE analysis and in the FE analysis. The evidence for the hypothesis that these regimes are worse than democracy in protecting property rights is therefore not robust. However, the negative
effects from military rule, one party regimes and authoritarian multi-party regimes are robust. As we saw above, military regimes have often been supportive of the economically privileged classes, at least in Latin America. This was theoretically expected to generate strong protection of property rights under military regimes, but this effect seems to be trumped empirically by another effect: Military regimes are generally short-lived, and if the leading officers know their term in power is short-lived, they will have incentives to grab as much as they can before they return to the barracks, according to the Olsonian logic. There is reasonable evidence for the claim that military regimes generate worse property rights protection than democracy. One-party regimes have tended to be persistent (Geddes, 2003:82), and they often have institutionalized the process of power transfer, which means that the regime is predicted to outlast the current ruler. According to the Olsonian logic, this should generate protection of property rights. However, the One-party category is dominated by Communist regimes (Knutsen, 2007:51-52), which are expected to be hostile to protection of private property. Empirically, the latter mechanism seems to trump the time horizon effect, as can be seen from the results in Table 2, with significant negative coefficients at least at the 10%-level for the One-party dummy in all models. Authoritarian multi-party systems also significantly reduce property protection when compared to democracy. Multiple contestants for power might shorten the predicted life-span of such regimes and contribute to short time horizons. In addition, the relative lack of civil and political liberties and rights in such regimes when compared to democracies, indicate that the property of ordinary citizens is worse protected than in democracy, although there is a certain extent of political competition.
Even if there are indications to the contrary from the RE analysis, whether monarchy or dominant party regimes are worse than democracies at protecting property rights can be doubted on the basis of the OLS with PCSE and FE-results. This could have been predicted from the theoretical arguments above. Olson’s argument on the time horizon of dictators and property protection indicated the benefits of hereditary succession. This might be one reason why the monarchy dummy is insignificant. The dominant party dummy, the other non-robust regime category, includes many regimes that could be labeled “right-wing dictatorships”, like for example Singapore after independence, Taiwan under Kuomintang and South Africa under Apartheid (Knutsen, 2007:51-52). According to argument I), these regimes should be expected to generate strong protection of property rights. Wealthy elites are assumed to either control or back such regimes, among others to stop the redistribution of economic resources, and protection of the existing property regime is therefore assumed to be of priority. However, notice that the estimated effect when compared to democracy is negative. In the end, there is no regime type that appears to outperform democracy when it comes to protection of property rights, even when we disentangle the heterogeneous regime types that are often classified as dictatorial.

**Conclusion**

We have not disentangled the various ways in which property rights can be violated, but instead looked at an aggregate index that takes into account several possible ways of violation. It might still be true that democracies are more susceptible to alter property rights via specific channels, for example through taxation and redistribution. The results from Cheibub (1998) indicate that democracies do not tax at lower level than dictatorships. However, when looking at the aggregate picture, the worries of David Ricardo mentioned
above, that democracy will lead to excessive violations of property rights, find less support in
the empirical data than the worry that dictatorial powers will lead to infringement of such
rights. Even when we take into account that property rights protection might increase the
probability of having a democratic regime, there is a general, positive effect from democracy
on property rights protection. A strong man with excessive powers is therefore likely a worse
threat for owners of private property than an enfranchised population. If protection of
property rights is important for long term economic development, as institutional
economists and others have argued, there is also reason to believe that democracy is the
political system which generates the better development prospects, everything else being
equal. Moreover, historical anecdotal evidence from property redistribution in democracies
and dictatorships indicate that the manner in which property is redistributed in democracies,
through provision of public goods like free education, is different from the manner pursued
in many dictatorships with abrupt, non-institutionalized expropriation and redistribution to a
few political supporters. If there are general differences in the modes of property
redistribution between democracies and dictatorships along these suggested lines, this
should only increase the expected economic benefits from democracy.
Literature


