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Democracy, History, and Economic Performance: A Case-Study Approach

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Summary. — Crossnational statistical studies show a positive relationship between the length of time a country has been democratic and its economic performance. Old democracies grow faster, *ceteris paribus*, and also demonstrate advantages in some economic policies thought to be conducive to growth. However, the causal connections between regime history and economic policy and performance remain opaque. Arguments are highly speculative, for the causal pathways are usually difficult to measure and are not readily testable in a large-N cross-country format. In order to illuminate possible interconnections between regime history and economic performance we identify three countries in the developing world whose recent history may be regarded as illustrative: Brazil, India, and Mauritius. Our analysis of these cases focuses on the achievement of policy *consensus* and policy *reform*, both of which are commonly regarded as critical to economic performance. Intensive study of our chosen cases suggests multiple mechanisms by which democratic experience might translate into greater success on these policy dimensions.
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Key words — democracy, economic policy, growth, development, case study, Brazil, India, Mauritius

1. INTRODUCTION

For some time, scholars have debated whether regime-type has any impact on economic performance. A growing consensus appeared to suggest that there is no relationship to growth or to most other economic outcomes. Democracies and autocracies perform equally well, on average, though democracies are less volatile (Doucouliago & Ulubasoglu, 2006; Mulligan, Gil, & Sala-i-Martin, 2004). In addition, democracies may find it more difficult to initiate painful economic reforms (Chan, 2002; Dornbusch & Edwards, 1991; Kohli, 2004; Leftwich, 2005).

In recent years, a new body of work has challenged this consensus. It has been discovered that when countries' regime history is taken into account cross-country analyses show a positive and robust relationship between democratic stock and economic growth (Gerring, Bond, Barndt, & Moreno, 2005; Persson & Tabellini, 2006) as well as to various economic policies deemed essential to growth (Thacker, 2011). However, the possible causal connections between regime history and economic policy and performance remain opaque. Arguments are highly speculative, for the causal pathways are usually difficult to measure and are not readily testable in a large-N cross-country format (e.g., Bohara, Mitchell, & Mittendorff, 2004; Kapstein & Converse, 2008; Keefer, 2003; Lederman, Loayza, & Soares, 2005; Montinola & Jackman, 2002).

In this paper we take a case study approach to the question of regime-type and economic performance with the expectation that a more focused examination will bring insights into the black box of causal explanation. Why do polities with longer democratic histories show improved economic performance (judged by a variety of indicators)?

In order to illuminate possible interconnections between regime history and economic performance we identify three countries in the developing world whose recent history may be regarded, in one way or another, as illustrative: Brazil, India, and Mauritius. Our analysis of these cases focuses on the achievement of policy *consensus* and policy *reform*, both of which are commonly regarded as critical to economic performance. [1] Intensive study of our chosen cases suggests multiple mechanisms by which democratic experience might translate into greater success on these policy dimensions.

We begin by outlining the methodology of our approach. Subsequent sections explore the contemporary history of our

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chosen cases. A final section outlines several conclusions suggested by the case studies.

2. A CASE-STUDY APPROACH

Countries chosen for exploration in this study are regarded as *pathway* cases (Gerring, 2007b), embodying both the treatment and the outcome of theoretical interest while isolating possible confounders that might inhibit causal assessment. In the present context, an ideal pathway case is a country that: (a) transitions from a lengthy period of authoritarian rule to democracy, (b) retains a democratic framework for at least two decades, (c) experiences a fairly strong record of growth in the post-transition (consolidation) phase, and (d) is not associated with a host of other factors (unrelated to regime-change) that might account for its development success. While no country perfectly fulfills all criteria, some come closer than others and are on these accounts more suitable for a case-study format. [2]

In order to diversify the sample, we also attempt to identify countries from disparate regions of the developing world (Asia, Africa, and Latin America), different historical eras (corresponding roughly to the different democratization waves) and diverse socioeconomic and cultural backgrounds. Note that the benefit of a diverse sample is that it is more likely to represent the theoretically relevant features of a larger population (Gerring, 2007a, chap. 5).

This complex set of criteria yields three countries whose histories seem propitious for intensive study: Brazil, India, and Mauritius. However, before proceeding it is important that we allay possible objections to this method of case-selection.

Some might object that we are choosing cases on the dependent variable—successes only, no failures—and thus biasing the results of this study. However, it must be kept in mind that the purpose of these case study investigations is not to demonstrate a covariational relationship between *X* (democratic stock) and *Y* (growth), a matter for which large-N cross-case analysis is better suited (Gerring *et al.*, 2005; Persson & Tabellini, 2006). Rather, the purpose is to shed light on causal mechanisms that may be at work in this persistent, and presumably causal relationship. We wish to ask *how*, not *whether*, democratic stock affects economic policy. Note that the utility of the pathway-case depends upon prior work of a "covariational" nature; only in the context of these findings would it make sense to choose cases that bear out the predictions of a general model.

At the same time, we must acknowledge that our careful selection of cases is by no means equivalent to a truly experimental research design, with a randomized treatment. Perhaps the most recalcitrant methodological difficulty is that democratization never occurs by itself. There are accompanying institutional changes that affect not only the subsequent workings of democratic institutions but also, more directly, the developmental trajectory of that country—thus serving as potential confounders in our analysis. Among these, perhaps the most important is the process of gaining independence. Many long-term democracies, including India and Mauritius, became democratic at the point of gaining independence or shortly thereafter. This means that the process of democratization is difficult to differentiate from the process of becoming a sovereign state. Complicating matters further, these states experienced a degree of democracy *prior* to independence, as discussed below. This means that the treatment of theoretical interest was initiated gradually, rather than all at once. And this, in turn, means that it is more difficult to reach causal inferences about the effects of democratization, for there are no clearly differentiated "pre" and "post" periods to compare.

Notwithstanding these important caveats, the case study method has much to recommend it if employed in a coordinated fashion with cross-case analyses of the same theory. Note that our approach to the case study falls somewhere in between "exploratory" and "confirmatory" models of research. Exogenous and endogenous variables are stipulated a priori. However, the central point of current interest—the pathways between these factors—is approached in an inductive fashion.

For each chosen case, we inquire into the nature and sources of economic policy and economic outcomes during three periods: (1) prior to democratization (the period of autocracy), (2) during and immediately following the installation of multiparty democracy and full sovereignty, and (3) after the (presumed) consolidation of democracy. While these periods are not neatly defined, they are essential heuristic devices. Our question of interest focuses on the contrast between authoritarian and democratizing countries, on the one hand, and consolidated democracies, on the other. The theoretical expectation is that economic policies and economic outcomes will be superior in (3) relative to (1) and (2), all other things being equal.

Each case study begins with a brief review of the country's regime history and its economic policy performance across the period of observation. This narrative is assisted by a statistical profile encapsulating that country's performance across three dimensions—*growth*, *inflation*, and *debt*—each of which is observed over as many years as the available data will allow (see Figures. 1–3). Economic growth is the annual percentage change in *per capita* GDP (World Bank, 2005, supplemented by Maddison, 1995b for historical cases and by International Monetary Fund, 2010 for recent years and projections to 2012). (Note that annual variation in growth rates, a common indicator of economic volatility, can also be visualized from this time-series.) Inflation is measured as the annual percentage change in the consumer price index (International Monetary Fund, 2007, supplemented by Baer, 1995). Debt refers to public and publicly guaranteed (PPG) debt as a share of GDP (World Bank, 2005).

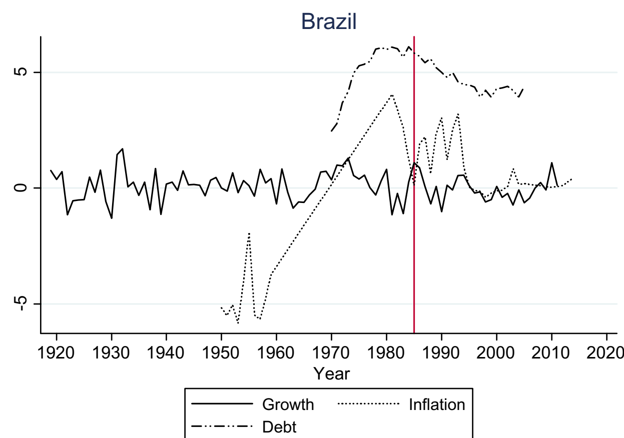

Figure 1. *Key Economic Indicators for Brazil. Growth, Inflation, and Debt for Brazil represented as standardized ("Z") scores relative to other developing countries in a particular year. Some time-series incomplete due to missing data. Sources described in text. Vertical line indicates the initiation of the most recent period of democratization.*

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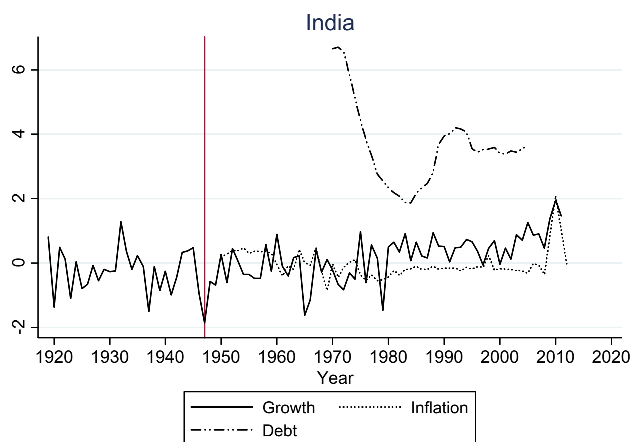

Figure 2. *Key Economic Indicators for India. Growth, Inflation, and Debt for India represented as standardized ("Z") scores relative to other developing countries in a particular year. Some time-series incomplete due to missing data. Sources described in text. Vertical line indicates the initiation of democracy (coincident with independence).*

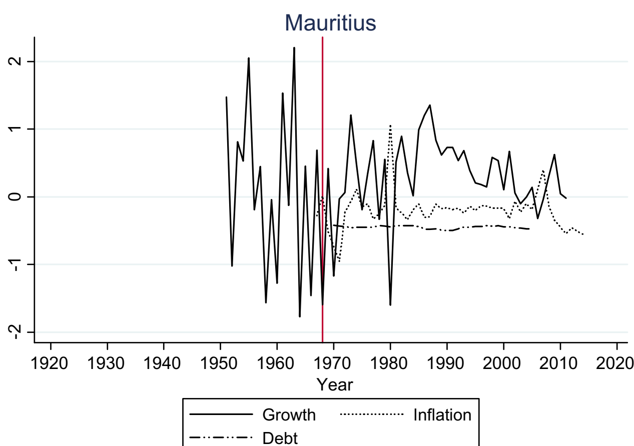

Figure 3. *Key Economic Indicators for Mauritius. Growth, Inflation, and Debt for Mauritius represented as standardized ("Z") scores relative to other developing countries in a particular year. Some time-series incomplete due to missing data. Sources described in text. Vertical line indicates the initiation of democratization (coincident with independence).*

In order to facilitate comparisons, each data point is represented as a standardized ("Z") score relative to all other developing (non-OECD) countries in the sample in that particular year. Any score above zero means that the country under study over-performed on that dimension relative to other developing countries in that year. A score of +1 (one standard deviation above the mean) means that it performed better than roughly 84% of the countries in the sample in that year. And so forth.

After reviewing each country's regime history and economic history, we proceed to examine the chief economic policy challenge faced by that country in the post-transition period. While all countries are compelled to address similar macroeconomic problems, solving these problems is not equally easy or difficult. Every country, in every period, encounters key policy challenges, challenges that must be solved if long-term growth is to be sustained. It is these country-specific hurdles that form the centerpiece of our case studies. In recent decades, these challenges may be summarized as follows: *inflation* in Brazil, *market liberalization* in India, and *structural adjustment* in Mauritius. Our story is about how and why these challenges were overcome, and, more specifically, about the role that an accumulation of democratic experience may have played in these successes.

3. BRAZIL

Brazil's experience with democracy is largely restricted to two episodes in the mid- and late-twentieth century. Although the country gained independence from Portugal relatively peacefully in 1822, it remained under the tutelage of members of the Portuguese royal family until 1889. The "liberal" revolt that sent the Braganza family back to Portugal established the first republic, but it was a republic in name more than in practice, as there were no independent political parties and a highly manipulated set of electoral procedures (Skidmore, 1999, chap. 7). The first experiment in democracy took place between 1946 and 1964 with the brief emergence of effective party competition. Unfortunately, the period was also characterized by increasing political polarization along class lines, accompanied by rising inflation. Convinced of its greater ability to manage the economy and promote economic development, the military overthrew the regime in 1964 (Skidmore, 1999, chap. 7). In the 1970s, the military initiated a program of gradual democratic opening ("*abertura*") that included a relaxation of restrictions on the media and quasi-competitive elections. In the early 1980s, amid poor economic tidings and collapsing civilian support, a demoralized military allowed for the restoration of full democracy.

In broad terms, Brazil's economic history looks fairly similar to the rest of Latin America. Like most countries in the region, Brazil began its history as a free trader, exporting a variety of commodities (among them sugar, coffee, rubber, wood, and minerals), maintaining full convertibility of the currency (the Mil Reis), and importing manufactured goods. The liberal period of economic policy lasted until the onset of the Great Depression, when a run on the currency and a collapse of commodity export prices undermined political backing for the free trade regime. Again, like much of Latin America, Brazil responded by implementing a set of reforms aimed at promoting industrialization and growth of the domestic market. This set of reforms, subsequently labeled import-substitution-industrialization (ISI), featured the nationalization of key parts of the economic infrastructure, subsidization of domestic industrial production for certain previously imported goods, and protection of domestic markets. In the late 1950s, the model was amended to foster greater foreign investment, primarily in capital goods and capital-intensive consumer goods such as automobiles.

The ISI model could plausibly claim to have promoted rapid development in the early postwar years. Yet, over time, enthusiasm waned. Beginning in the early 1980s, successive administrations attempted to implement market-oriented reforms (e.g., privatization, commercial liberalization, deregulation, and financial liberalization), moving incrementally and erratically in the face of substantial opposition. The lack of clear policy direction was reflected in relatively high growth volatility and inflation through the mid-1990s (see Figure 1). Matters stabilized, finally, in 1993–94, when Finance Minister (soon-to-be President) Fernando Henrique Cardoso, of the center-left PSDB, set forth a new economic direction, which might be dubbed pragmatic neoliberalism (i.e., strict macroeconomic

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orthodoxy, flexibility on other market-oriented policies, and a commitment to progressive social policies), a direction that has defined Brazilian economic policy through the present day. This newfound policy cohesiveness and stability has contributed to steady growth and significant declines in economic volatility and inflation. Ongoing structural problems persist, notably in the pension system, contributing to Brazil's high—though now declining—level of debt (see Figure 1).

(a) *Policy challenge: inflation*

In the latter twentieth century, one area of Brazil's economy has been more salient than all the rest. Inflation has been perceived as a threat almost continuously since World War Two. Although other developing countries (our reference group in Figure 1) also battled rising prices, in Brazil policy makers saw the problem as especially noxious and resistant to both "orthodox" IMF-sponsored solutions as well as more heterodox ("structuralist") solutions. Rising inflation fueled the intense political polarization of the 1960s, leading to the 1964 coup and the end of democratic rule (Sola, 1982). The military then tried to deal with inflation through draconian austerity measures, with predictable consequences for economic growth. Eventually, the country's military rulers adopted a set of coping mechanisms designed to maintain inflation at high but stable levels such that the uncertainties introduced into economic life by inflationary pressures could be reduced to manageable levels (Diniz & Boschi, 1978). This system of "indexation" or "monetary correction" came to govern all prices and contracts in the formal economy. With inflation controls in place, the military was able to achieve renewed growth. However, the 1979 OPEC oil shock and the debt crisis that followed on its heels triggered a severe fiscal crisis that overwhelmed the indexation system and inflation again spiraled out of control in the 1980s, reaching an apex of over 80% per month in 1989.

It seems clear that the military's failure to solve the inflation dilemma cannot be credited to a lack of institutional capacity or policymaking sophistication. Military rule in Brazil was a highly routinized and bureaucratized form of dictatorship that relied on close connections between the regime and the business/finance community and drew on a cadre of highly skilled technocrats. Rather, the military's difficulties stemmed from two different sources. First, orthodox economic policy, as advocated by the IMF, required imposing short-term losses through austerity measures that affected both business and non-elite actors in the middle and working classes. Yet, the legitimacy of military rule in Brazil was premised on the notion that the military was more capable of delivering prosperity than democratically elected governments. Military leaders were well aware that the imposition of economic hardship would thoroughly discredit their system of rule—which rested, after all, on a minimal level of tolerance among elites and the popular classes (Collier, 1979). In this context, it is not surprising that the military first tried to avoid stabilization and then sought to grow out of the problem. By 1981, conditions had deteriorated to the point that the Figuereido government felt compelled to adopt a rigorous stabilization program, despite its anticipated political ramifications. The disease had become worse than the cure.

Unfortunately, by this time orthodox austerity policies were no longer sufficient to address one of the world's highest and most persistent inflation rates. The previous policy of indexation had worked for a period of time because it introduced a measure of predictability and stability into the economy, facilitating contracts and allowing for the adjustment of payments. But it also created what Brazilian economists came to call "inertial inflation" (Bresser-Pereira & Nakano, 1987). The indexation system institutionalized the memory of inflation in the minds of economic actors, shaping their expectations about future prices and thus directing behavior in ways that contributed to an inflationary spiral. At this point, speculative behavior based on expectations of future inflation undermined the military's orthodox anti-inflation policies. The problem for the military was that solving inertial inflation required an even greater degree of political legitimacy because it meant experimenting with unorthodox stabilization policies and learning how to address inflation in new ways. But the military's narrow base of support did not permit this sort of policy learning. Predictably, the orthodox stabilization plan adopted in the early 1980s led to an explosion of opposition activity stretching across virtually every segment of Brazilian society (including even the most privileged groups such as big business). By 1984, the military had all but acknowledged their inability to manage the problem and was looking to get out of politics.

After the transition, inflation was recognized as the most important policy challenge facing the new civilian regime. Between 1985 and 1990, successive Finance Ministers implemented four major plans: the *Cruzado Plan*, the little *Cruzado Plan*, the *Plan of Rice and Beans*, the *Summer Plan* and two smaller adjustments. The series of shock plans culminated in the most aggressive and invasive plans of all, the *Collor Plan*, which followed the announcement of a bank holiday and froze roughly 80% of the country's money supply. While popular initially, the plan's early success at bringing down the rate of inflation was brief, as inflation leveled off at 12% per month and then began its inexorable climb upward. Ultimately, the plan failed because Collor was unable to credibly solve the fiscal challenges of the state and because actors rapidly found private forms of evasion from the plan's strictures. Its failure effectively ended the possibility that any future shock plan would be tolerated in Brazil.

At this point, policy makers understood that inflation in Brazil had multiple underlying causes and that conventional theories, orthodox or otherwise, were inadequate; new solutions would be needed. The technical problem was compounded, however, by a series of political problems: expectations of newly empowered democratic citizens who demanded that the government simultaneously solve inflation while also promoting distribution and/or redistribution; democratic politicians who faced the temptation of manipulating stabilization plans for short-term political gain; and a highly fragmented and fractious political system that resisted efforts to correct the country's severe fiscal imbalances. Thus, the plans proposed during the first post-transition governments usually involved some element of populist manipulation.

This was most notable in the *Cruzado Plan* (Sola, 1988), whose goal was to whip inflation with one dramatic, highly intrusive shock, and was wedded to social expenditures intended to shield influential segments of voters (Bresser-Pereira, 1991). Yet, neither the *Cruzado Plan* nor others produced by the Sarney and Collor governments addressed underlying fiscal imbalances, which remained a significant source of inflation. Maílson da Nobrega, one of the last finance ministers in the 1980s, observed critically that Brazil needed surgery, but successive finance ministers kept giving the country anesthesia (cited in Gall, 1991, p. 42).

Although rash, the policy adventures of the post-dictatorship era played an instructive role for politicians and citizens. Policymakers came to understand that shocks of any kind were unlikely to work—both because they did not address

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the underlying roots of inflation and because they no longer carried any credibility in the public mind (Bresser-Pereira, 1991, 1993). More broadly, policymakers came to understand the central importance of government credibility in any effort to contain inflation. Without such credibility, private actors would adjust their behavior in ways that were sure to undermine the government's efforts to restrain further currency appreciation. Voters had learned to distrust the shock elements of anti-inflation plans as well as the populist trappings in which they were wrapped (Armijo, 2005; Armijo & Faucher, 2002).

In 1993–94, a new way forward was discovered. Fernando Henrique Cardoso, serving as Finance Minister in the Itamar Franco government, introduced the *Real Plan*. This plan differed in three crucial ways from traditional Brazilian anti-inflation potions. First, it addressed both heterodox and orthodox elements of inflation. On the orthodox side, the plan benefited in particular from a substantial fiscal adjustment prior to the introduction of the plan. As a result, concerns about government spending/deficits and their impact on inflation and government credibility were alleviated in advance. This stands in sharp contrast with earlier efforts. On the heterodox side, the plan used the exchange rate as an anchor by introducing a new indexation mechanism—the URV. In addition, the government openly committed itself to maintaining the exchange rate within a band that floated around a one-to-one rate with the dollar. This *quasi-dollarization* provided a much stronger and more credible anchor for the new currency and helped counter the inertial components of inflation present in other indexation mechanisms as well as the existing currency. Again, this stands in sharp contrast with previous heterodox efforts where a new currency was introduced without changing the existing indexation system and without providing a credible anchor for the new currency.

A second critical change was that instead of introducing it as an elite-initiated shock imposed from above, the *Real Plan* was debated openly in Congress and, as a result, was transparent to the general public. Passing it required significant patronage payments—an inherent feature of the Brazilian political system. But Cardoso successfully traded short-term payments for the long-term restoration of fiscal health (Weyland, 1997). Finally, the *Real Plan* was introduced gradually, allowing actors time to adjust expectations and formal contracts (Fishlow, 1997; Oliveira, 1995). The government began adjusting its contracts in accordance with the new indexation measure in February of 1994 and invited private actors to voluntarily adjust their contracts at their own pace. Thus, the plan addressed the heterodox, inertial component of inflation in an open, transparent, credible, and non-disruptive way. To be sure, there were initially only a few who fully understood the plan and popular support, as well as general expectations, were low. But support increased dramatically as the plan began to work. At the time the *Real Plan* was formally implemented, in July 1994, inflation stood at over 25% per month. Within three months the rate of inflation fell below 2% per month and continued to spiral downward. Riding on the tails of the Plan's success, Cardoso entered the 1994 presidential elections and swept to victory (Teixera, Manuel, & Venturi, 1995).

In subsequent years, non-inflationary macroeconomic policies have been institutionalized in Brazilian policy circles, a story that is directly relevant to our theory.[3] Cardoso's opponent in the 1994 elections was a perpetual opposition candidate, who had run for president in every election from 1989 until his eventual electoral victory in 2002. Luiz Inacio Lula da Silva came to São Paulo as a poor immigrant from Brazil's impoverished northeast. He rose to prominence as a labor leader and, later, the founder of the Workers' Party (PT) (Keck, 1989). In his early political career, Lula advocated orthodox quasi-socialist policies including substantial redistribution, nationalization of industry, and state-led economic development. The PT played a lead role in crafting the 1988 Constitution, incorporating numerous articles that detailed extensive social rights and investment restrictions. Critics, especially in the business community, were appalled, charging that the document hindered development and provided for rights that the country could not afford (Payne, 1994). Centrist and right wing forces were able to water down some elements of the initial draft of the constitution, but many leftist provisions remained, turning the constitution into a central focus of political struggle.

By 1994, Lula's positions had moderated somewhat. The desire to win the national presidential election, as well as the party's now-considerable experience in ruling state and municipal governments, led Lula to reach out to the country's powerful business community. In the process, he came to adopt an economic program that was less socialist and more nationalist—notably, in its hostility to neoliberal elements such as privatization, trade and financial liberalization, or orthodox macroeconomic orientations. Indeed, Lula campaigned actively in 1994 against Cardoso's *Real Plan*, targeting its most orthodox elements, particularly its macroeconomic policies. Propelled by this populist stance, Lula led consistently in the polls until August—just two months before the October 94 election. At this point, the Cardoso campaign took advantage of Brazil's free television programing to educate voters on his role in taming inflation, the importance of this achievement to all progressive social policies, and the potential threat of a recurrence of inflation posed by a Lula presidency (Kingstone, 1999). These appearances were credited with a rapid and dramatic shift in Cardoso's favor.[4]

By the presidential contest of 2002, Lula had learned the lesson. Once again, he began his campaign on a platform critical of the neoliberal elements of Cardoso's program. Yet, as the prospect of a PT victory began to unsettle the financial markets, Lula took an unusual step, issuing a "Letter to the Brazilian People" in which he explained the need to protect the capacity to service the country's domestic and foreign debts and the catastrophic consequences of failure to do so. Thus, in the five crucial months leading up to the election, Lula publicly committed himself to a set of policies designed to preserve macro-economic stability. As he later observed,

> Today I am a friend of Delfim Netto [*finance minister of the 1964–85 military regime*]. I spent twenty-odd years criticizing Delfim Netto, and now he is my friend, and I am his friend. Why am I saying this? Because I think this is the evolution of the human species. Those on the right are moving toward the center. Those on the left are becoming more social democratic, less leftist. These things blend together according to the amount of grey hair on your head, according to the responsibility that you have. There is no other way…If you meet an elderly person who is leftist, it's because he's got problems. If you happen to meet a very young person who is right-wing, he's got problems too. When we hit 60 years of age, that's the point of equilibrium. Because we are neither one nor the other. We transform ourselves by taking the middle road. That's the road that must be followed by society (quoted in Power, 2008, p. 82).

In this fashion, a key element in Brazil's political and economic success fell into place through the instrument of electoral democracy. At the present time, left and right seem to have converged on a relatively similar set of policies with respect to key economic issues (Power, 2008). Brazilian politicians and policymakers agree that the country needs private and foreign investment (though perhaps not as completely a

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liberalized market as is found today in Chile). Similarly, a strong consensus has emerged on both the left and the right for the need to promote social policy reform to address Brazil's deep and persistent inequities. This remarkable consensus among a group of parties who diverged dramatically only two decades ago is testament to a perception of voters' common concerns about inflation, growth, employment, health, education, and poverty. Naturally, it does not signal a disappearance of political differences or of political conflict. Even so, a broad consensus exists today that reflects a rough agreement in Brazilian society about the most important issues facing the country and the basic parameters of acceptable, legitimate policy responses.

Critical to the development of growing political consensus around issues of economic policy has been the institutionalization of party conflict in Brazil. In the post-dictatorship years, policymaking was complicated by a highly fragmented party system. In recent years, however, the system has tended to solidify around two blocs, one on the center-right led by the PSDB (Cardoso's party) and one on the center-left, led by the PT. This consolidation has strengthened competition for the median vote and made the mechanisms of national accountability clearer. In turn, that has forced politicians to focus on policies with widespread benefits and to avoid policies that may help specific, narrow constituencies but with significant costs, such as renewed inflation. The changes in the party system and voting behavior have consolidated the centrist and pragmatic policy orientation of both major political blocs. It is difficult to imagine the same level of cross-party consensus arising in the polarized, but poorly organized political sphere of the 1980s and early 1990s.

The story we have told about the taming of inflation in Brazil is ultimately a story about democratic governance. To be sure, military governments can, and have, tamed inflation elsewhere (e.g., in Chile under Pinochet). Indeed, a common view has it that military governments are better at stopping inflation, at least in the short run, because they are capable of resisting populist tendencies that are common in new, fragile, and/or highly unequal democracies (Kaufman & Stallings, 1992, chap. 2). Sarney's rather cynical manipulation of stabilization plans for political purposes is a good illustration is this problem. Nevertheless, in the Brazilian case democracy was crucial in two important ways. First, inflation in Brazil had a complex mix of sources such that a degree of policy experimentation and learning-by-doing was necessary in order to figure out how to resolve the problem. The military did not have this room to maneuver, and it certainly did not attempt any radical innovations. It is also important to recognize that fighting inflation in a country with an inflationary history must be focused on managing actors' expectations about the future, and this depends crucially on government credibility. Every time a government—under military or democratic rule—tried and failed to solve inflation, it lost credibility on later initiatives. The military, however, had no mechanism to recover credibility, and, therefore, no political space to continue to experiment with stabilization policies. Democracy's advantage is that each new election brings forth a new government (presuming that the public is fed up with the incumbent), with a honeymoon period of credibility and a new opportunity to introduce fresh policies. Democratic systems are thus able to learn from previous governments' failures while shedding their illegitimacy. So it was that Sarney gave way to Collor who gave way to Franco and Cardoso.

Once inflation was tamed, a second causal mechanism—also attributable to democracy—kept this menace at bay. Brazilian politicians learned that voters prefer low inflation and that this preference is strong enough to swing national elections. Citizens' ability to hold presidents accountable meant that politicians whose electoral fortunes depend on appealing to the median voter now have to publicly commit to non-inflationary macroeconomic policies. It also means that Brazil has seen a remarkable convergence of opinion on basic economic policy matters across the political spectrum since the transition. And this, in turn, has made the country's commitment to anti-inflationary policies credible. This consensus manifested itself in the 2010 elections with both the losing PSDB candidate, José Serra, and the winner, Dilma Rousseff of the PT, campaigning on very similar programs premised on maintaining the successful paradigm laid down by Cardoso and sustained by Lula.

4. INDIA

Democracy gained a foothold in Indian politics well before the attainment of formal independence. In the early 20th century the British introduced a limited-franchise legislature, the principle of minority representation, and an impressive system of rule of law. Legal and political reforms introduced by the British—the Macaulay minute of English education, Ripon's reforms, various legal acts extending franchise (1909, 1919, and 1935) to propertied Indian men, and the operation of federalism—ushered in democratic practices across many Indian states. Mass mobilization by the Indian National Congress embedded democratic practices still further. Arguably, the challenges staked by diverse groups—Muslims, Low Castes, and the like—generated competition and contestation in the political space and institutionalized the notion of minority rights. Similarly, the organizational structure of Congress, which was divided into provincial committees, created multiple and overlapping linkage mechanisms within the nationalist movement. These linkage mechanisms necessitated some efforts at building consensus across different levels of party and governments. Thus, when India gained independence in 1947 it could draw upon several decades of experience with quasi-democratic institutions.

Even so, multi-party competition with universal suffrage and a sovereign legislature did not arrive until the British departed. India held its first nationwide elections in 1952, after which elections at the federal and regional level have been held regularly, with only one interruption (1975–77). Although Congress dominated politics at the national level and in most states throughout the 1950s and 1960s, in subsequent decades regular alternations of power have become the norm at both state and national levels. Overall, democracy has proven to be as vibrant and as durable in India as in any other country in the region and perhaps in the entire developing world.

Maddison (1995a) estimates that under British rule the continent-sized colony experienced little or no growth. To be sure, the colonial power introduced many structural changes in the economy, displaced a parasitic aristocracy, and installed modern infrastructure and a centralized civil service. Yet, these structural reforms were accompanied by a significant wealth drain, the deindustrialization of local artisans (an incipient manufacturing sector), and the creation of a new rentier class. After independence, India experienced a positive growth rate from 1947 to 1965. This was succeeded by a very low but fairly steady growth rate of 1–2% annually till the mid- to late-1980s. Only in the 1990–2000s did India's economic performance begun to exceed regional norms, an achievement that probably owes a great deal to improved macroeconomic policies (see Figure 2). Between 2006 and 2010 India grew at 7–9% per

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annum. India has bounced back after the global financial crisis quite well. Presuming a continuation of present trends, India is rightly classified as a late bloomer. The possible reasons for this delayed development will occupy our discussion.

(a) *Policy challenge: market liberalization*

For many commentators, the principal obstacle to growth in the post-independence period was India's failure to liberalize domestic markets—a failing that seemed especially negligent in light of East Asian successes (Basu *et al.*, 1992; Bhagwati, 1993). Influenced by Fabian socialism, and similar to most other developing countries, Nehru and other early Congress leaders adopted a state-led model of development along with elaborate protectionist trade policies. At that stage, the preeminent power of the Congress party, along with Nehru's towering stature, meant that India was a one-party democracy with no effective political opposition. Although there were conjunctures where reform could have been initiated (e.g., in 1966–67, when a leadership transition and corresponding economic crisis created some room for policy reform), and periodic attempts at reform, these proved politically unsustainable and were quickly scaled back (Harriss, 1987; Kohli, 1989; Manor, 1987; Varshney, 1999). One-party dominance generated political complacency and discouraged bold initiatives that might disrupt the political status quo. It was only in 1991 that a far-reaching and enduring set of market liberalization reforms helped to set India on a high-growth path. Thus, taken as a whole, India's postwar economic history is conventionally viewed as one of failure—specifically, slow growth and a greatly delayed liberalization project (Chibber, 2003; Herring, 1999; Sinha, 2005a).

In this story, which often features comparisons with China, the usual villain is democracy. That is, India's relatively open and participatory political institutions are regarded as a constraint on the successful consolidation of economic reform and the movement toward a higher growth trajectory (Varshney, 2007). Indeed, the eventual opening of domestic markets in the 1990s might be regarded as a residual outcome; having exhausted the alternatives, and faced by fiscal crisis, India's leaders finally turned to reform. Yet, it is also possible to view these reforms as the end product of a historical process in which democratic institutions play a leading role. Arguably, the failures sustained by early reform initiatives taught policy makers important lessons, lessons that were successfully applied in the 1990s. In this respect, they provide evidence of learning within the iterative process that defines a multi-party democracy. There is also strong evidence that a broad cross-party consensus has grown up around the critical issue of sustaining of economic reforms. In fact, we see the consolidation of the positive effects of reforms only when India moved past its one-party phase, embracing coalition governments, cross-party deliberation, and regular change in the composition of ruling elites. This too may be viewed as a product of democratic experience. Indian democracy thus exhibits three of the growth-inducing democratic attributes that we argue contribute to successful economic policies: broad inclusion in policy making, legitimacy, and learning—this, despite sustaining some "adversarial" features connected to the Westminster system.

Although there was one brief attempt to reform India's antiquated "license raj" system in the 1960s (initiated by Indira Gandhi in 1966, and quickly abandoned), our story rightly begins in the 1980s, when the issue of market liberalization reaches the political agenda in a serious way. By this time, the failures of protectionism had become clear—at least to the business community and to some members of the political elite. In 1985, in the wake of a massive electoral victory by the Congress party, Rajiv Gandhi undertook the first far-reaching reform initiative in India's post-independence history. One month after the election, Gandhi announced the opening of India's market to the West, described as a "combination of de-regulation, import liberalization, and easier access to foreign technology" (cited in Varshney, 1999, p. 240). Within two months, these reforms are incorporated into the national budget. Meanwhile, Gandhi and his Finance Minister, V.P. Singh, take to the stump heralding radical changes to India's traditional economic policies. In a famous and hard-hitting speech at a party meeting the prime minister sought to challenge "vested interests in almost every field. . . including our own party, including industry, in business, in administration, the whole lot, the farmers" (quoted in Varshney, 1999, p. 244). In the event, within the space of only few years, Gandhi was forced to withdraw his entire reform agenda (Harriss, 1987).

For our purposes, what is notable about this spectacular failure are its political ingredients, which bear strong similarities to the early post-*abertura* reforms in Brazil. First, Gandhi's legislation was promulgated in an imperial manner—adopted with great fanfare by Congress party leaders but accompanied by little preparatory groundwork, little deliberation, and virtually no cross-party consultation. Second, despite Congress' recent electoral victory and dominant political position, the initiative elicited immediate and quite heated opposition at mass and elite levels. Once the hackles of the opposition were raised, the initiative was withdrawn in short order. By contrast, less than a decade later, when Congress was well short of a majority and faced strong competition from a potent opposition (led by the BJP), the Rao government manages not only to abolish many of India's longstanding protectionist barriers, but also to make these reforms stick.

One lesson to be drawn from these two episodes is that when policy initiatives impose losses on powerful sectors of society, political leaders must tread lightly. Indeed, the reform program of 1991 was an exercise in caution, continuity, and under-statement. The Prime Minister, Narasimha Rao, delegated responsibility for the reforms to the finance minister, Manmohan Singh, thus ensuring that his own reputation was not closely associated with the difficult process of economic reform. Singh, an economist, was viewed as a technocrat, a fact which may have helped depoliticize this vexed policy arena. Moreover, neither Narasimha Rao nor Manmohan Singh were dogmatic believers in a neoliberal version of economic reforms; their ideological flexibility allowed them the necessary room to modify their economic plans and seek consensus and collaboration when needed. Interestingly, this time, rather than seek wider political support for reforms as tried by Rajiv Gandhi, the key architects kept the reform initiatives limited to the domain of what Varshney calls, "elite politics" and took care so that they did not spill over into "mass politics" (Varshney, 1999). This was done through "stealth politics" (Jenkins, 1999), and by speaking with different voices to different arenas. Meanwhile, all leaders invoked the logic of "crisis" as a mode of legitimating dramatic policy change. At the same time, Manmohan Singh was careful to understate the role of the IMF in bringing pressure to bear on the Indian government; instead, he stressed (largely fictitious) continuities with India's historic dirigiste policies.[5] Crucially, the finance minister insisted that only conditionalities suited to India would be accepted. He also sought to emphasize the long-term gains that might be achieved by fundamental reforms, promising

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that in 3–5 years India could look forward to a vibrant economy "with a position in the world economy in keeping with its political stature" (Jenkins, 1999). In short, the sensitive business of properly framing economic reform before a mass public had been learned and the techniques of elite political engineering deployed effectively to garner support for economic reforms.

A second lesson to be drawn from earlier episodes of failed reform was the importance of building broad political support among political elites prior to introducing far-reaching policy changes. In this light, the weak position of Rao's tenuous minority government may have contributed to its ultimate success. Although the conventional wisdom predicts that bold policy initiatives will be associated with single-party majority governments on the Westminster model (Haggard & Kaufman, 1992), Rao succeeded where Gandhi—with a huge electoral mandate—did not. This is suggestive of the political dynamics that characterize mature democracies, where single party governments and unified control of all branches is rare. While majority governments can impose policies over the objections of opposition parties, minority and coalition governments cannot afford such adversarial maneuvers (Sinha, 2005a). In 1991, Manmohan Singh sought support not only from supporting parties—the CPI(M), the CPI, and the BJP—but also among parties outside the pro-government coalition, whose votes were not strictly necessary to pass the legislation (e.g., the Samajwadi Party and the Janata Dal). As a consensus-building tool, Singh employed the services of the Confederation of Indian Industry (CII), a business association whom he charged with gathering support for the reform program among the members of parliament and opposition parties.[6] Accordingly, the CII began "educating" MPs about the need for reforming the economy.

It is notable that subsequent governments in India have all been coalitions (1996, 1998, 1999, and 2004), and all have provided support for the continuance of economic reform initiatives begun in 1991. Arguably, enhanced party competition has facilitated economic reform. This, of course, is contingent on effective consensus-forming strategies, which may be achieved by policy deliberation and/or by material incentives. Generally, it is difficult to differentiate these two factors in the reform process. What is clear in the 1990s reform episode is the extent to which key actors were granted particularized benefits of importance to their respective constituencies. For example, the heads of the Railway, Commerce, and Industry ministries, each of whom provided crucial support for the initiative, all received goodies for their respective states.[7] Mamata Banerjee [the then Railway Minister and the head of a regional party in West Bengal] talked of the "Bengal Package" (*The Telegraph*, December–January, 1999). Karunanidhi, the then chief minister of Tamil Nadu, said after being convinced by the Prime Minister to give up claims to the Finance department's portfolio in the 1999 government, declared "We want finances for our state and not [the] finance [portfolio]" (*The Hindu*, February 23, 2000). M. Maran, the representative from a regional party in Tamil Nadu, was allotted the Commerce and Industry portfolio. It is clear that Mursoli Maran, the Industry Minister of the UF [United Front government] government in 1996 and the Commerce and Industry Minister and member of the DMK in 1998, played a crucial role in directing investment toward Tamil Nadu. Fax messages between the Tamil Nadu government and the Industry Minister kept their industry department informed of any new investment coming in, even before the central cabinet gained knowledge of it.[8] Andhra Pradesh's TDP party has utilized these choice points within the central state effectively. Andhra Pradesh was the first state to benefit from a new type of state-focused lending by the World Bank. A loan of US$543.2 million was approved in June 1998 for the multisectoral Andhra Pradesh Economic Restructuring Project. This was followed a few months later by a US$1 billion commitment for a series of loans for restructuring AP's power sector.[9] Thus, a democratic mechanism—consensus building and coalition formation, including side-payments to key actors—seems to have been instrumental in ensuring a broad and stable foundation for economic reforms. In these respects, India's mature democratic system, with its plethora of parties and tremendous competitive pressures, was more capable of instituting reform than the previous, Congress-dominated polity.

But paying off coalition partners could not win over the mass public, even in India's rather clientelistic polity. Note that the idea of market liberalization challenged a foundation of Indian politics since Nehru, who equated political independence with economic independence. And it paved the way for increasing inequality across India, a process that was bound to exacerbate social and political tensions and might well provide fodder for parties on the left. In this setting, coalition leaders perceived that in order to forestall the potential political backlash created by its neoliberal reforms it would be necessary to propose a broad-based package of redistributive policies. Apparent discontent with reform was expressed in the 2004 elections, when, despite high growth rates, the ruling party—the BJP—lost control of government to the opposition. A poll taken at the time of the election showed that unemployment was an overriding concern for many voters.[10] In response, national and state governments modified the design of economic programs to address the concerns of the rural sector, the informal sector, and the unemployed. In July 2004, after the election results were in, Manmohan Singh, the in-coming prime minister, declared: "You have, through your mandate, made it clear that economic growth has to be accompanied by equity and social justice. You have expressed concern for the poor and disadvantaged sections of our society and for minorities and backward regions to be at the heart of all policies of the government."[11] Simultaneously, the Singh government launched a number of new policies which, collectively, altered the spirit of the so-called Washington Consensus.[12] The National Common Minimum Program identified seven priority sectors for focused attention: Agriculture, water, education, health care, employment, urban renewal, and infrastructure. In agriculture, a "New Deal for Rural India" encompassed free electricity to farmers of Andhra Pradesh, a minimal employment guarantee scheme, emphasis on rural infrastructure, debt relief, increase in public investment in irrigation were important to address the issue of rural–urban inequalities. Although it is too soon to render a verdict on the effectiveness of these policies, it seems apparent that they have succeeded politically, providing crucial support among the mass electorate (an electorate that is still, by any standard, predominantly poor) for reforms whose most immediate beneficiaries are found among the educated elite.

In summary, India's political leadership has proven adept in framing difficult economic policy reforms, in paying off elites, and in providing (or at least promising) public goods for the masses. This, along with the country's impressive growth rate, has served to ensconce reform initiatives undertaken in a manifestly uncertain political environment in 1991. Perhaps most important of all, these reforms seem to have acquired an aura of irreversibility. The fact that reform initiatives have continued with each change of government over the past decade and a half signals a high degree of policy consensus across parties. Arguably, the consensus that has been gained over

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matters of economic policy, rather than high-profile conflict over "communal" policy is the most critical feature of India's recent political history.

5. MAURITIUS

Through most of the colonial era, the government of Mauritius was dominated by colonial officials and plantation owners. It was only after World War II that British-initiated reforms began to broaden control over the island's political life. The 1947 constitution canceled income and property suffrage restrictions and increased the power of elected members to the Legislative Assembly. By 1959, a ministerial system based on universal suffrage had been established, followed shortly by the selection of the first Prime Minister. Thus, as in India, considerable democratic experience accrued prior to formal independence in 1968. All subsequent elections have been free and fair, and there have been several peaceful transfers of power. Indeed, Mauritius enjoys a vibrant democracy with few parallels in sub-Saharan Africa.

Economically, the life of the island traditionally revolved around sugar. The British promoted sugar production in large European-owned plantations, which were dependent on African slaves until emancipation (in 1835) and Indian laborers thereafter. Over time, plantation owners sold nearly half of their land to peasants, thereby creating a large class of small landowners. With the closing of the land frontier in the early 20th century, and with limited investment to build on, the Mauritian economy stagnated. Moreover, its monoculture economy fluctuated erratically with global commodity prices, as is visible in wildly fluctuating economic growth rates (see Figure 3). In an attempt to address these problems, the government began to promote economic diversification in the 1960s, focusing on tourism and manufacturing before expanding to banking and information technologies. The transition did not go smoothly, however, and the country experienced a stagnant economy characterized by volatility and growing inflation (see Figure 3). These problems had many sources, including poor sugar harvests, low sugar prices, population growth, a global recession, and the oil shock. In addition, the government was unable to control its spending. As a consequence of the latter public debt rose [13] while investment capital shrunk.

By the end of the 1970s, the economy was in such bad shape that the government was forced to turn to the IMF and World Bank for assistance. Three consecutive governments implemented five IMF standby arrangements and two World Bank-sponsored structural-adjustment programs. The reforms were fairly standard: the government devalued the currency, reduced the deficit, and implemented policy to increase foreign reserves. With the structural reforms, the country's macroeconomic indicators stabilized, and Mauritius became a much more attractive investment environment. Economic diversification advanced quickly in subsequent decades, and the country's *per capita* GDP tripled in real terms, stimulating the epithet "African tiger."

A number of recent analyses have identified effective democratic governance as a key to Mauritius's economic success in the late 20th century (Bräutigam, 1997; Carroll & Carroll, 1999; Dommen & Dommen, 1997; Lange, 2003, 2009; Mukonoweshuro, 1991; Sacerdoti, El-Masry, Khandelwal, & Yao 2005). Mauritius, along with Botswana, is one of only two countries in sub-Saharan Africa that have maintained multi-party elections throughout the post-independence period; both have done extraordinarily well by any economic measure, while the rest of the continent has stagnated. In this part of the world, the connection between democracy and development seems inescapable. This is the simple story—perhaps, too simple.

It is often forgotten that post-independence Mauritius was not an instantaneous success. The country's economic record, as outlined previously, shows minimal progress during the first two decades of democratic rule. It began looking like a tiger only over the past quarter century. Likewise, Mauritius faced several political crises during the first two decades of democratic rule, crises that appear to have hindered effective economic management. Thus, insofar as democracy had anything to do with the Mauritian miracle its effects were considerably delayed, and must, therefore, be analyzed historically.

(a) *Policy challenge: structural adjustment*

As highlighted above, one of the most important obstacles to Mauritius' economic expansion was the implementation of the structural adjustment programs (SAPs). While some suggest that democracies are less capable than autocracies of implementing difficult but needed economic reforms, this does not appear to be the case in Mauritius. Instead, a review of Mauritian history suggests that the iterated experience of democratic contestation made possible the political consensus and cooperation needed for the successful implementation of the SAPs.

During the final years of colonial rule and the first decade of independence, Mauritius' political system seemed hardly capable of implementing unpopular and complex SAPs. Initially, the process of democratization, combined with the prospect of independence, increased ethnic and class competition, thereby contributing to stark political divisions and frequent bouts of violence. This conflict pitted three main parties against one another: the conservative Mauritius Social Democratic Party (PMSD, formerly the Mauritius Party), which was supported primarily by the Franco-Mauritian elite and the Creoles, the Mauritian Labour Party, which was left-leaning but centrist and supported mainly by Indo-Mauritians, and the Mauritian Militant Movement (MMM), a Marxist party drawing from diverse ethnic communities.

When democratic reforms were first initiated in the late 1940s, members of the Franco-Mauritian community spread rumors of an impending "Indian menace" (aka "Hindu hegemony") in order to mobilize opposition to the reforms (Selvon, 2001, p. 363). They soon gained support from prominent Franco-Mauritian and Creole politicians, as ethnicity came to define the dominant political cleavage (Bunwaree, 1994, p. 19). Throughout the 1963 electoral campaign communal tensions ran especially high. At one point, a rally by the Mauritius Party (the precursor to the PMSD) seemed poised to become an anti-Hindu riot (Selvon, 2001, p. 383). During heated constitutional debates a year and a half later politically charged violence between Creoles and Hindus could no longer be contained. Militants from the Mauritius Party attacked Indo-Mauritian supporters of the Mauritius Labour Party at a political rally, leading to multiple injuries and several deaths and requiring the British to dispatch troops from Aden to reestablish order (Simmons, 1982, pp. 159–62). Then, in August 1967 and January 1968, on independence eve, deadly riots erupted between Creoles and Muslim Indo-Mauritians. Similar to the 1965 riots, the violence had political components. In this instance, a Muslim politician from Port Louis, the capital city, incited crowds on the eve of parliamentary elections in order to bolster his party's support among Muslim voters

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(Bunwaree, 1994, p. 22; Simmons, 1982, p. 188). Once again, the British sent troops, who were compelled to remain on duty after independence was declared in order to keep the peace.

After independence, political violence shifted from ethnic lines to class lines. In the early 1970s, the government lowered wages and reduced the power of labor unions with the aim of promoting export-oriented industrialization through export processing zones. In response, the Mauritian Militant Movement (MMM), a Marxist party, capitalized on growing labor discontent to mobilize workers against the governing coalition. It soon controlled several unions, organized illegal strikes among vital sectors (transport, sugar, docks, public service, and electricity), and called for the immediate nationalization of the country's sugar industry as well as far-reaching income redistribution. Violent conflicts subsequently erupted between members of the conservative Mauritius Social Democratic Party (formerly the Mauritius Party) and supporters of the MMM, including the attempted assassination of MMM leaders by PMSD militants. In 1971, in an atmosphere of increasing violence and instability, the government declared a state of emergency, arrested MMM leaders, and postponed elections.

Despite such ominous and acrimonious beginnings, political parties began to collaborate and, over time, came to adopt similar policy prescriptions. Indeed, over the first 15 years of independence, political consensus increased to the point that all major political parties arrived at broadly similar views on economic policy. This consensus promoted economic policy continuity over successive governments and facilitated the successful implementation of the SAPs in the 1980s (Bowman, 1991, p. 119; Gulhati & Nallari, 1990, pp. 58, 59; Sandbrook *et al.*, 2007, p. 197). We argue that this happy outcome was the product of electoral dynamics, coalition government, and consociational institutions—all of which may be viewed as by-products of democratic experience, for they developed over the course of Mauritius's post-independence history.

First, electoral dynamics in Mauritius seem to have contributed to cross-party consensus on matters of economic policy as well as to greater moderation, as the initial influence of militant party activists was restrained by the need to expand each party's base of support. At mass levels, one can observe a centripetal dynamic, with all major parties competing for votes in the center of the political spectrum. This dynamic can be seen in the histories of each major party.

Originally, the PMSD was an ethnic party catering to both Creoles and Franco-Mauritians. Both the richest and the poorest Mauritians were included in this support base, though the party pursued the economic interests of the rich. With the rise of the leftist MMM, many lower class Creoles chose to vote along class lines instead of ethnicity. After its devastating electoral defeat in 1976, PMSD leadership dropped the party's conservative economic policy prescriptions in an attempt to regain the support of lower class Creoles, thereby pushing the party's economic policy prescriptions toward the center.

On the left, MMM leaders came to the conclusion that radical policy prescriptions did not attract enough votes to allow the party to participate in the government, as they could not win an outright majority of seats and no other major party was willing to form a coalition with a party viewed as out of the mainstream. Knowing that it could not mobilize support based on ethnicity even if it wanted (the leader of the party was from the tiny and conservative Franco-Mauritian community while the party's supporters were from all ethnic communities), the MMM's sole non-revolutionary option was to limit its radicalism in order to attract support from the large class of small landholders. The latter group was comprised primarily of Hindus, who historically had voted for the Mauritian Labour Party, supported the MMM's social welfarism and pro-labor stance, but—as property owners who sold their crops overseas—were fearful of the party's Marxist economic policy prescriptions. Paul Bérenger and other MMM leaders recognized this constraint, moderating the party's economic platform and refraining from militant labor disturbances and calls for the overthrow of capitalism (Bowman, 1991, p. 74; Gulhati & Nallari, 1990, p. 34). These moves proved successful, and the MMM helped form a coalition government in 1982. Once in office, the coalition government extended the previous government's structural-adjustment and economic-stabilization measures (Bowman, 1991, p. 83; Meisenhelder, 1997, p. 282; Mukonoweshuro, 1991, p. 215).

Since independence, Mauritian governments have been cross-party coalitions so it is worth reflecting upon how this form of governance affects the formation of consensus on economic policy. Note that during the decade leading up to independence political parties had very little to do with one another other than trading insults and organizing protests against one another. With time, however, parties became accustomed to collaborating with one another through coalition governments. Since independence, single-party majorities have been rare, and even when present are usually relinquished in favor of super-majority coalitions. Thus, every government from the late 1960s to the present has been formed through a coalition of two or more parties. Coalitions, in turn, have encouraged cross-party interaction and have helped to establish a style of policymaking that has become markedly more consensual through time (Bräutigam, 1997, p. 53; Gulhati & Nallari, 1990, p. 34). Here, issues fed by ethnic and class resentments are moved from the streets into the halls of government, where agreements are hashed out.

The PMSD provides an insightful example of this movement from the streets to the corridors. Originally, the party was led by Gaëtan Duval, a forceful Creole speaker who encouraged ethnic mobilization and confrontation during the late colonial period. With the PMSD's entry into a Hindu/labor-dominated political alliance in 1967, however, the PMSD and the Mauritius Labour Party set aside past differences and violent confrontations and worked together within the government. Although differences emerged and the PMSD eventually dropped out of the coalition (in 1976), relations between members of the two parties remained peaceful, and disagreements were worked out through formal channels.

A final mechanism by which democratic stock contributed to policy consensus was the use of consociational institutions that allowed diverse societal groups to participate indirectly (through formal and informal channels) in policy formation. This facilitated the implementation of the SAPs by allowing all sides to voice their views and giving the government the ability to publically assess and integrate the views of each side, while explaining their own perspective. The roots of consociationalism in Mauritius hark back to the colonial era, when the government included labor and business organizations in policymaking (Lange, 2003). After independence, this corporatist structure expanded to include communal organizations and other NGOs (Bräutigam, 1997; Carroll & Carroll, 1999). One example of Mauritian consociationalism in action is the government's yearly consultation over the budget, a complex process that involves diverse groups and is closely watched by the public. As described by Bräutigam (2004, p. 662),

> The Minister of Finance makes the rounds of the country's major stakeholders, listening to their views, exchanging comments, accepting their written analyses. Each evening, these consultations are reported on the state-run television news: union members meet the minister one day; business associations another; the major social welfare NGOs

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and other groups have their days. When the budget is finally presented to Parliament, all local newspapers highlight its details.

Observers of Mauritian politics generally agree that consociational arrangements have helped successive governments reach agreement on difficult policy issues while maintaining relatively high levels of legitimacy. The implementation of the SAPs is the most notable example (Bräutigam, 1997, pp. 54, 55, 2004, p. 662). Although severe economic problems in the first decade after independence forced the government to face painful macroeconomic adjustments, market-opening reforms and accompanying cuts on social welfare services were strongly opposed by labor groups and vocal segments of the agrarian sector. In response, government leaders initiated high level meetings with representatives from ethnic, economic, and community organizations. Through these meetings, the government was able to emphasize the dire economic situation and the need for more conservative fiscal measures, while opposition forces articulated their desire to maintain social welfare services. In the end, a workable compromise was reached. Government spending would be trimmed without reducing social welfare outlays; at the same time, the future growth of social welfare spending would be restricted (Bräutigam, 1997, pp. 54–56; Carroll & Carroll, 1999, pp. 12–4). Consequently, and in marked contrast to many other countries in the region, the implementation of fiscally conservative reform packages did not prove politically suicidal in Mauritius. Indeed, these reforms have been embraced by all parties, from left to right, and now constitute a key pillar of the Mauritius political economy.

6. DISCUSSION

We have now looked closely at three cases—Brazil, India, and Mauritius—where democratic consolidation appears to have facilitated stronger economic performance. Differences noted across our case studies suggest that the causal mechanisms connecting democratic experience and economic success are by no means uniform. For example, consociational patterns of consultation that are prominent in Mauritius are less evident in Brazil and India (perhaps because of their sheer size). Another difference relates to timing, with India's policy reforms arriving much later in its democratic history than in Brazil and Mauritius. One should also emphasize that the policy legacies of authoritarian rule (not to mention colonial rule) were different across the cases, as were their physical and human capital endowments. This meant that the challenges faced by elites during the democratic period were also quite different. Despite these differences, several common features are apparent. These concern the search for policy consensus and for policy reform.

(a) *Consensus*

In order for economic policies to be successful over the long-term they must be maintained in reasonably consistent form. Moreover, economic actors must have faith that such policies will be maintained into the future. This puts a special burden on democratic polities, where policies adopted by one government may be ignored or overturned by the next government.

In post-transition Brazil, India, and Mauritius we observe the gradual development of cross-party consensus around a core set of economic policies. This consensus encompassed neoliberal and social-democratic features. But the more important point is perhaps that a consensus was reached, and adhered to. The reasons for this convergence are complex, but clearly owe much to the democratic dynamic as it occurs over time.

First, in the early period after a democratic opening parties often appeal to their base, that is, their core activists, who often have strong ideological agendas and/or represent a small social base with distinct economic interests. Over time (and sometimes in the wake of an electoral defeat), parties tend to downplay or abandon their most radical views in order to seek votes in the center. Second, parties in the post-transition era often serve as the vehicle for a charismatic leader. Over time, successful parties generally develop an independent identity—that is, an ideological agenda, an organization, and a base of support separate from the founder. Third, parties learn over time that if they wish to govern effectively after an election they will have to work with other parties—perhaps in a formal coalition. It, therefore, behooves them to avoid antagonizing potential allies during electoral contests. Finally, as rival economic policies are put into place, and experience accumulates about their effects, a consensus grows about which ones are successful and which are not. Once a policy proves its merit—as, for example, the Real Plan in Brazil, market liberalization in India, and the stabilization agreement in Mauritius — there is a tendency for other parties with ministerial ambition (i.e., all but the most extreme parties) to proclaim their allegiance to that policy, even if this endorsement constitutes a reversal of long-held policies.

Thus, four interacting mechanisms seem to conspire to moderate party demands and to motivate compromise-oriented policies in the economic realm: (a) the move from activist-based to mass politics, (b) the move from leader-centered parties to institutionalized parties, (c) the experience of governing in cooperation with other parties, and (d) experience garnered from policy experiments. These centripetal dynamics are present (in greater or lesser degrees) in all cases under study. Accordingly, consolidated democratic polities are better able to establish credible commitment to policy initiatives than newly democratized polities; elections are threatening to economic actors only if the behavior of political actors is unpredictable. To the extent that cross-party consensus exists on the foundations of economic policy, the uncertainties of democratic rule are vitiated. By the same logic, authoritarian rulers can rarely establish credible commitment beyond the executive's current tenure of office, for there is no way to ensure that policies established by the current leader will be maintained by the next. (Exception may be made for a few highly institutionalized systems of authoritarian rule such as the current Chinese polity.)

(b) *Reform*

In considering the fit between democracy and development a central and recurring issue concerns the capacity of democratic governments to institute painful economic reforms. Some writers point to this area of policymaking as evidence of an authoritarian advantage (see citations above). Unelected leaders can impose policy solutions, while elected leaders must persuade, and persuasion is difficult wherever reforms force well-organized constituencies to suffer losses. Accordingly, it is plausible to suppose that authoritarian leaders are more capable of implementing tough economic reforms.

In contrast to this well-established view, we have argued that economic reform is more likely under democratic auspices than under authoritarian auspices—with the proviso that a democratic advantage appears only over time, as a regime matures. In each of the three cases under study, far-reaching economic reforms were adopted and maintained over time,

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restructuring the economies of Brazil, India, and Mauritius and paving the way (according to most analysts) for economic growth. The explanation for this capacity to reform seems to revolve around three features of longstanding democracies.

First, politicians learn that national elections are strongly influenced by a country's recent macroeconomic performance, as tracked by highly visible and individually perceptible statistics like inflation, unemployment, and growth. By contrast, electorates (in contrast to some well-organized interest groups) are less aware of, and generally less concerned by, the details of regulatory and monetary policy. This means that smart politicians can often engineer economic reforms by downplaying key elements and/or by compensating losers. And it means that they have a strong electoral incentive to do so if those reforms promise stronger macroeconomic performance prior to the next election (Stokes, 2001).

Each of our case studies sheds light on that complex learning process by which politicians are taught what voters want (and will not be denied), what they might accept (if properly framed), and what can be kept under the covers (through "insider" processes of policy deliberation and implementation). Negotiating the shoals of democratic procedure is never simple, and politicians need lots of training. Our conception of reform deviates from textbook assumptions of big bang structural adjustments and rapid economic transitions. Democracies initiate reform in an incremental, sometimes halting fashion, but are better at sustaining those reforms once initiated. This point was emphasized in the discussion of India's early economic reform proposals under Rajiv Gandhi, which proved unsustainable, and the later reforms undertaken by Narasimha Rao in the 1990s, which many commentators believe paved the way for India's current economic success. A similar learning process takes place among voters, who learn about the tenability of promises received during elections and, more generally, about the reliability of different parties and politicians. Empty promises are unlikely to be rewarded by a mature electorate.

Second, it is noteworthy that economic reforms in our chosen countries have usually occurred not at moments of single-party dominance but rather at moments of multi-party governance—usually consecrated by a formal coalition. At elite levels, mechanisms of inclusion—across parties, ethnic groups, and sectoral groupings—seem to provide incentives and opportunities for better economic management. In Mauritius, for example, consociational linkages across economic sectors helped ease the passage of stabilization policies in the 1970s and helped to maintain those policies to the present-day. In India, cross-partisan deliberation was essential to reaching agreement on liberalizing reforms, agreement which was to guarantee their long-term success. And in Brazil, a less formal set of consultative arrangements were critical to the success of the Real Plan, which depended upon the participation of employers and employees in each sector of the economy, behavior that could not be effectively monitored.

Of course, authoritarian rulers may also reach out across partisan, social, and sectoral divides; this sort of initiative is by no means exclusive to democracies. Indeed, all but the most reclusive leaders attempt to mobilize support from key constituencies, for such support is often essential to achieving policy objectives. The point is that authoritarian leaders are not well-positioned to enlist the voluntary cooperation of other actors because their modus operandi (and their *sine qua non*) is coercion. Consider the British and French colonial powers who occupied India and Mauritius prior to independence or the military leaders who ran Brazil from 1964 to 1985. Each lacked the institutional mechanisms, and the legitimacy, to convince key social actors to follow their preferred policies.

By contrast, policies emanating from democratically elected governments seem to carry greater legitimacy, a fact that becomes relevant whenever economic policies require voluntary cooperation, or at least passive acquiescence, from the citizenry. Anti-inflation policies, insofar as they depend upon changing patterns of behavior among a diverse business community and the mass public, fall into this category. This means that the toolbox of policy approaches available to authoritarian rulers is smaller than the toolbox of approaches that democratically elected officials can draw upon. Authoritarian rulers are limited to policies that can be enacted from above, without the cooperation of societal actors. This prompts us to conclude that authoritarian corporatism is not only less common but also less successful than democratic corporatism.

7. CONCLUSIONS

Before concluding, it is important to issue several caveats about the findings of this multi-case study. First, although we have highlighted the economic achievements of these three countries in the late-democratic period (relative to other countries in the developing world and relative to the pre-democratic and early-democratic periods), we do not wish to imply that these countries are entirely exemplary. Even the casual observer is aware that Brazil, India, and Mauritius have many market impediments, which is to say, many policy challenges lie ahead. In our judgment, they have done better than expected, given existing constraints; this "positive residual," we have argued, is explainable in part by their accumulation of democratic experience.

Second, it bears emphasis that this study is highly focused. We cannot say, on the basis of these three countries alone, whether these same mechanisms are operative in other long-lived democracies. The relationship between this small sample and the intended population (the developing world) must remain speculative. Even so, the fact that similarities were found across three disparate cases gives us reason to suppose that they might be in evidence across a broader range of countries. And our reading of the secondary literature, reflecting on the broader population of theoretical interest, supports that interpretation.

If this analysis is correct, it prompts further reflection on the policy of democracy promotion. Typically, efforts to promote democracy around the world focus on regime-change. This is true, a fortiori, of reportage in the popular press and in policy circles, where discussion usually focuses on how many countries lie in the "democracy" and "autocracy" columns and how many have switched columns in recent years, or might do so in the future. While this discussion is highly consequential, it misses a crucial element of the debate. Insofar as we are interested not simply in democracy (for its own sake) but also in positive developmental outcomes (e.g., economic growth) we need to be concerned with sustaining and enhancing democracy, not simply with regime transition. It might be added that—short of military intervention—the west is probably in a better position to promote democracy in places where a semblance of it already exists, as opposed to places where opposition is outlawed and only a pretense of multiparty competition is allowed.

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NOTES

1. Acknowledged, the precise role of economic reform in achieving growth is a knotty question. For our purposes, it is sufficient to note that sustained growth in a democracy requires occasional policy changes that impose short-term hardships on specific sectors or on society at-large. Since we are interested in shedding light on policymaking in the contemporary era we have focused on the most recent wave of policy reforms, that is, privatization, labor market deregulation, lowering tariffs and non-tariff barriers to foreign trade, and various austerity measures intended to balance budgets and control inflation. We do not presume that this set of policy initiatives is necessarily the best, or the only, way of achieving sustained growth. We do assume: that *some* species of economic reform(s) is necessary to assure economic growth in the competitive era of globalization, that initiating and sustaining such reforms is a difficult political task, and that achieving consensus on such reforms is essential to strong economic performance.

2. In previous work (Gerring, 2007b), the method suggested for identifying a pathway case relied on case-residuals from a large-N cross-case regression. In principle, the same technique might be applicable here. However, in this instance we are faced with a complex treatment, a stock variable whose causal effects are realized as a long-term product of democratization. Countries with "impure" treatments (e.g., multiple episodes of democratization or a long period of quasi-democratic rule) or unrepresentative characteristics (e.g., the dominance of a single party in Botswana) are less useful for tracing causal mechanisms. Because a residual-based approach to case-selection does not allow one to differentiate cases according to the nature of their respective treatments and many confounders are not operational across the universe of cases, we employ a different method of case-selection here.

3. A run on the Real in 1999 led to the end of the *Real Plan* as the exchange rate anchor was abandoned. However, policy makers turned to inflation targeting as the new mechanism of securing macro-economic stability. As of 2011, that remains the main anti-inflation tool and low inflation remains the central goal of successive governments.

4. Armijo (2005) offers an interesting alternative argument about the taming of inflation in Brazil. In brief, she argues that mass democracy was the key to solving inflation. Indexation made inflation tolerable for everyone in the formal sector of the economy, and, therefore, authoritarian and not fully democratic governments (such as the indirectly elected Sarney) felt less pressure to bring inflation down. The advent of mass democracy, however, meant that elected officials needed to compete for the median voter in Brazil, including the large mass of informal sector poor who were never protected by the indexation system and who lack any means of sheltering themselves from high inflation. This is an intriguing argument that is consistent with our understanding of the reasons for the convergence around a preference for low inflation after 1994. We differ, however, in our understanding of the military's behavior after 1979 and of the Sarney government, as well as on the central causes of inflation and obstacles to resolving it.

5. Quotations from Manmohan Singh's speech in July 24, 1991. Lok Sabha Debates, Series 10, 24 July 1991.

6. Confidential interview, CII officials, cited in Sinha (2005b).

7. These three posts were held by members of regional parties in the national government of 1999.

8. Interview, Chennai, Tamil Nadu government official, August 1997.

9. An AP government official admitted that intervention at the "highest level" was made to ensure the loan. This intervention was through the central government but also directly through the World Bank. Interview, 30 July 2001. Also see http://www.worldbank.org.in for details on the structural adjustment loan to AP.

10. CDSD post poll survey of 2004 elections as reported in Yadav (2004).

11. Speech by Manmohan Singh, July 24, 2004, New Delhi. See: http://pmindia.nic.in/speeches.htm.

12. Some commentators might view these as a retreat from the economic reform agenda (Mehta, 2005). In our view, however, policies that are intended to legitimate economic reform, and which appear to achieve this objective, must be viewed as an essential component of the reform process.

13. he government's budget deficit was 25% of total expenditures in the late-1970s, and the country's debt service surpassed 11% of GDP in the early 1980s. This does not register in Figure 3 precisely because other developing countries also experienced increasing government debt during this period and because the Mauritian government quickly rectified the problem, as described below.

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