

Why do Autocrats Disclose?

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Question

When and why do autocratic governments disclose information (particularly economic information) to their publics?

Note: We will use the terms *disclosure* and *transparency* interchangeably

Findings

Stylized Facts: (from HRV 2014)

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- leaders new to office

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- 2 leaders disclose more readily when new to office
- 3 transparency associated with increased net FDI inflows

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Autocratic leaders face two threats to rule:

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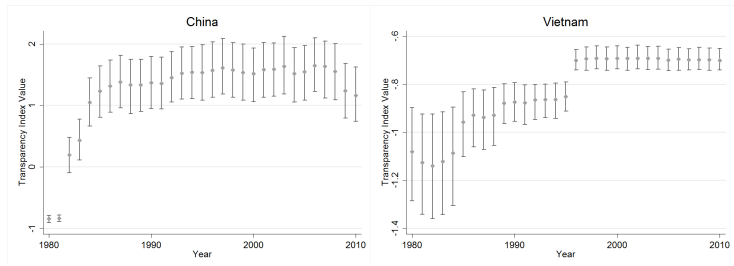
Steps by regime to replace leadership increase regime instability

One Tool to Pacify Regime: Economic Development

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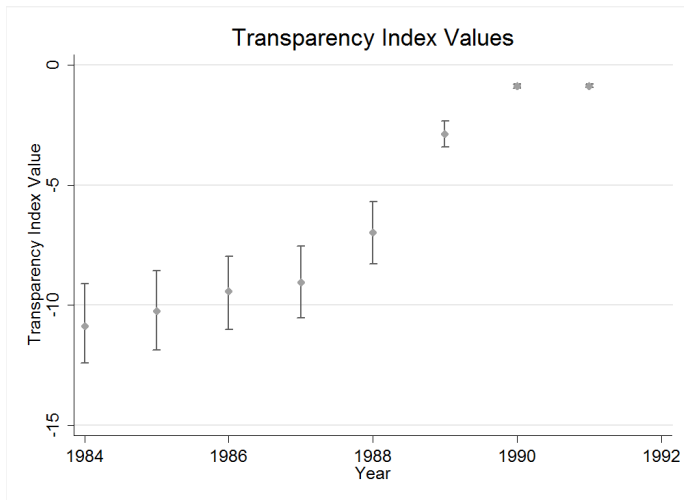
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Think *glasnost* and *perestroika*

- and Soviet collapse following August 1991 *putsch* that is met by counter-coup featuring street protests

Glasnost in the Data



Model Primitives

- Actors:** an autocratic leader L
 $N > 2$ citizens, $i \in \{1, 2, \dots, N\}$
 two groups $G \in \{A, B\}$
- Actions:** L chooses $d \in \{0, 1\}$
 and a policy variable $e_t \in \{0, 1\}$
 if i is in power ($G = A$)
 i chooses $v_{i,A} \in \{0, 1\}$
- Typespace:** L is of type $\theta \in \{0, 1\}$
 $\theta = 1$ denotes a 'convergent' type
 $\theta = 0$ denotes a 'divergent' type
 $Pr(\theta = 1) = \pi$
- State Space:** $s_t \in \{0, 1\}$, $Pr(s_t = 1) = \frac{1}{2}$
- Timing:** $t \in \{1, 2\}$

Effects of Disclosure

Primitive assumption that disclose increases B 's mobilizational capacity:

$$\begin{aligned}p(d) &= p_0 + d\rho \\ \rho &\in (0, 1 - p_0)\end{aligned}$$

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Primitive assumption that disclosure increases investment:

$$\begin{aligned}y(d) &= y_0 + d\psi \\ \psi &> 0\end{aligned}$$

Utilities of Citizens

Regime-members:

$$u_{i,G,t}(e_t, s_t, d) = \begin{cases} \Delta + \frac{\lambda}{N_G} y(d) & \text{if } e_t = s_t \\ \frac{\lambda}{N_G} y(d) & \text{otherwise} \end{cases}$$

Members of the populace:

$$u_{i,G,t}(d) = \frac{(1 - \lambda)}{N_G} y(d).$$

where $\lambda \in [\frac{N_A}{N}, 1]$

Utilities of Leaders

$$u_{L,t}(e_t, s_t, y; \theta) = \begin{cases} \Delta + \frac{\lambda}{N_G} y(d) & \text{if } e_t = s_t \text{ and in power} \\ \frac{\lambda}{N_G} y(d) & \text{if } e_t \neq s_t, \theta = 1 \text{ and in power} \\ r_t + \frac{\lambda}{N_G} y(d) & \text{if } e_t \neq s_t, \theta = 0 \text{ and in power} \\ 0 & \text{if out of power.} \end{cases}$$

Where r_t is drawn from cdf $G(\cdot)$, and $G(\Delta) = 0$. $E[r_t] = \mu$.

Game Form

- ① *Nature* draws the the leader's type $\theta \in \{0, 1\}$, the state variable s_1 and the value of rents r_1 , which are revealed to the leader but not to any citizen.
- ② The leader chooses $d \in \{0, 1\}$ and the value of e_1
- ③ Members of the regime observe the choice of d and the realization of the policy outcome. They choose $v_{i,A} \in \{0, 1\}$.
- ④ A contest for power between Group *A* and Group *B* takes place. *B* prevails with probability $p(d)$ if the leader was previously retained and with probability $\omega p(d)$ if the leader was previously removed.
- ⑤
 - a If group *B* prevails, it is in power in round 2 and a new leader is chosen by *Nature*. This leader is of type $\theta = 1$ with probability π .
 - b If group *A* prevails after ousting the leader, a new leader is chosen by *Nature*. This leader is of type $\theta = 1$ with probability π .
 - c Otherwise, *L* remains in office.
- ⑥ *Nature* chooses values of s_2 and r_2 .
- ⑦ The sitting leader chooses e_2 . All payoffs are realized and the game ends.

Equilibrium Concept

We characterize a perfect Bayesian equilibrium to this game

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- and additionally restrict players to adopt weakly undominated strategies

Stability Thresholds

No regime-member will set $v_{i,A} = 1$ if $\pi\Delta < \frac{\rho(d)y(d)(\omega-1)(2\lambda-1)}{(1-\omega p(d))N_A}$

Implicitly define $\bar{\omega}$ and $\underline{\omega}$ s.t.:

$$\pi\Delta = \frac{\rho_0 y_0 (\bar{\omega} - 1)(2\lambda - 1)}{(1 - \bar{\omega} \rho_0) N_A}$$

$$\pi\Delta = \frac{(\rho_0 + \rho)(y_0 + \psi)(\underline{\omega} - 1)(2\lambda - 1)}{[1 - \underline{\omega}(\rho_0 + \rho)] N_A}.$$

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- if $\omega > \bar{\omega}$ no internal threat to leader
- if $\omega < \underline{\omega}$ always an internal threat to leader
- if $\omega \in [\underline{\omega}, \bar{\omega}]$ a threat absent disclose, but no threat given disclosure

Equilibrium Disclosure

Proposition

The equilibrium strategy over disclosure can be characterized in the following manner:

- For $\psi > \bar{\psi}$, $d = 1$ for all $\theta \in \{0, 1\}$.
- For $\psi \in [\underline{\psi}, \bar{\psi}]$, $d = 0$ iff $\theta = 0$ and $\omega > \bar{\omega}$.
- For $\psi < \underline{\psi}$ $d = 0$ for all $\theta = 1$. For $\theta = 0$:
 - ▶ $d = 0$ for $\omega > \bar{\omega}$.
 - ▶ $d = 1$ for $\omega \in [\underline{\omega}, \bar{\omega}]$ iff $\psi > \tilde{\psi}$.
 - ▶ $d = 1$ for $\omega < \underline{\omega}$ iff $r_1 \geq \Delta + (1 - p_0)\mu + (2 - p_0)\frac{\lambda y_0}{N_A}$

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- straightforward intuition: higher economic benefits leads to higher disclosure
- important empirical implication: transparency should be associated with increased investment
 - ▶ both due to a causal effect $\psi > 0$
 - ▶ and an endogenous equilibrium effect

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Leaders disclose for a wider range of values when $\omega \leq \bar{\omega}$ than when $\omega > \bar{\omega}$.

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- for $\psi < \underline{\psi}$, only divergent ($\theta = 0$) types disclose
 - ▶ if these types disclose for a value of $\omega < \underline{\omega}$
 - ▶ they would also disclose for a value of $\omega \in [\underline{\omega}, \bar{\omega}]$

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Data Definitions

Test these predictions using:

- HRV Transparency Index (HRV, forthcoming) as a measure of disclosure of economic info
- Two datasets on autocratic institutions
 - ▶ GWF – partition regimes into party, personalistic, and military
 - ▶ DD dataset – singleparty, multiparty, elected legislatures
- PWT 7.1 economic data
- UNCTAD data on FDI inflows (current USD)
- Svoboda (2012) for definitions of regimes and leaders' time in office

Standardize all covariates that aren't either indicators or time counts

Empirical Model

Varying intercepts hierarchical model:

$$\begin{aligned} \text{transparency}_{i,t} &= \rho \text{transparency}_{i,t-1} + \alpha_i + \mathbf{X}_{i,t-1} \beta + \epsilon_{i,t} \\ \alpha_i &\sim N(\mathbf{Z}_i \gamma, \sigma_\alpha^2) \end{aligned}$$

- \mathbf{Z}_i denotes time invariant institutional characteristics
- $X_{i,t-1}$ denotes ec. data, leader time in office, cubic polynomial of time
- i is an autocratic regime (some of which are quite short-lived)

Estimate via MCMC

▶ Skip to Results

Nickell Bias (Solution?)

To deal with Nickell bias, we estimate the following system of equations:

$$\Delta transparency_{i,t-1} = \mu + \zeta transparency_{i,t-2} + \Delta \mathbf{X}_{i,t-1} \psi + \nu_{i,t-1}$$

$$\Delta transparency_{i,t} = \hat{\rho} \Delta transparency_{i,t-1} + \Delta \mathbf{X}_{i,t-1} \hat{\beta} + \eta_{i,t}$$

$$transparency_{i,t} = \alpha_i + \hat{\rho} transparency_{i,t-1} + \mathbf{X}_{i,t-1} \hat{\beta} + \epsilon_{i,t}$$

$$\alpha_i \sim N(\mathbf{Z} \gamma, \sigma_\alpha)$$

Again via MCMC

Who Discloses?: Results w. GWF Data

Party	LDV Models			Instrumented LDV Models	
	Model 1	Model 2	Model 3	Model 1	Model 2
	0.005	0.004	0.001	0.002	0.003
Personal	[-0.033, 0.042]	[-0.033, 0.039]	[-0.037, 0.036]	[-0.032, 0.032]	[-0.027, 0.034]
	-0.036	-0.039	-0.045	-0.035	-0.035
Fuel Exporter	[-0.080, 9×10^{-4}]	[-0.077, 0.005]	[-0.087, -0.008]	[-0.071, 4×10^{-4}]	[-0.067, 0.004]
	-0.036	-0.037	-0.033	-0.025	-0.025
	[-0.078, 0.010]	[-0.082, 0.004]	[-0.070, 0.008]	[-0.059, 0.013]	[-0.060, 0.010]
Lag Transparency	0.959	0.958	0.962	0.645	0.647
	[0.940, 0.975]	[0.941, 0.975]	[0.945, 0.979]	[0.635, 0.656]	[0.637, 0.657]
Leader Time	-0.003	-0.002	-0.002	-0.001	-0.001
	[-0.007, 8×10^{-5}]	[-0.003, -3×10^{-4}]	[-0.003, -3×10^{-4}]	[-0.002, -2×10^{-4}]	[-0.002, -2×10^{-4}]
Leader Time²	0.006			-0.005	
	[-0.004, 0.015]			[-0.004, 0.014]	
# Obs	1530	1530	1530	1411	1411
# Regimes	119	119	119	111	111

Ec. controls and cubic polynomial of time included in all specifications

▶ Skip to FDI

▶ Skip to Conclusion

Who Discloses?: Results with DD Data

	LDV Models			Instrumented LDV Models	
	Model 1	Model 2	Model 3	Model 1	Model 2
Single Party	-0.004 [-0.070, 0.061]			-0.003 [-0.062, 0.059]	
Multi-Party	0.026 [-0.027, 0.080]			0.019 [-0.036, 0.065]	
Legislature	0.030 [-0.010, 0.071]	0.028 [-0.012, 0.066]	0.028 [-0.011, 0.069]	0.023 [-0.014, 0.062]	0.022 [-0.013, 0.056]
Military	-0.032 [-0.065, -0.002]	-0.037 [-0.066, -0.009]	-0.038 [-0.067, -0.010]	-0.027 [-0.055, 0.002]	-0.031 [-0.059, -0.006]
Royal	0.003 [-0.057, 0.061]			0.010 [-0.042, 0.063]	
Communist	0.023 [-0.042, 0.077]	0.011 [-0.043, 0.060]	0.013 [-0.036, 0.063]	0.028 [-0.028, 0.078]	0.013 [-0.027, 0.059]
Fuel Exporter	-0.023 [-0.071, 0.020]	-0.029 [-0.074, 0.011]	-0.026 [-0.066, 0.011]	-0.014 [-0.053, 0.025]	-0.019 [-0.053, 0.017]
Lag Transparency	0.957 [0.940, 0.975]	0.961 [0.943, 0.978]	0.964 [0.946, 0.980]	0.645 [0.634, 0.657]	0.647 [0.636, 0.657]
Leader Time	-0.004 [-0.007, -7×10^{-4}]	-0.002 [-0.003, -8×10^{-4}]	-0.002 [-0.003, -7×10^{-4}]	-0.001 [-0.003, -4×10^{-4}]	-0.001 [-0.002, -3×10^{-4}]
Leader Time²	0.006 [-0.004, 0.015]			0.003 [-0.006, 0.013]	
# Obs.	1623	1623	1623	1486	1486
# Regimes	135	135	135	121	121

Ec. controls and cubic polynomial of time included in all specifications

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Collapsed Cross-Sectional Models

Preponderance of variance in transparency between, rather than within, autocratic regimes

- ave. standard deviation within regimes 0.28 standard deviations of full sample

So, just run linear model of ave. transparency against controls

	GWF Data	DD Data	
Party	-0.243 [-0.582, 0.113]		
Personal	-0.330 [-0.675, 0.119]		
Legislature		0.438 [0.054, 0.766]	0.492 [0.174, 0.870]
Fuel Exporter	-0.451 [-0.981, 0.027]	-0.466 [-0.960, -0.009]	-0.529 [-1.03, -0.064]
# Obs	119	135	135

(Also includes economic and additional institutional controls)

▶ Skip to Conclusion

Empirical Model

Fixed-effects linear model:

$$FDI_{i,t} = \alpha \mathbf{C}_i + \rho FDI_{i,t-1} + \gamma transparency_{i,t-1} + \mathbf{X}_{i,t-1} \beta + \epsilon_{i,t}$$

Estimated via MCMC

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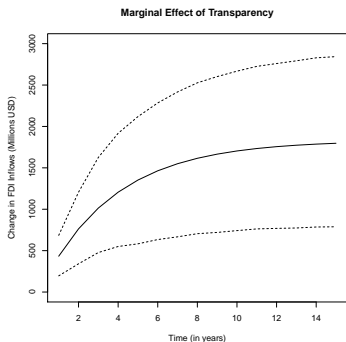
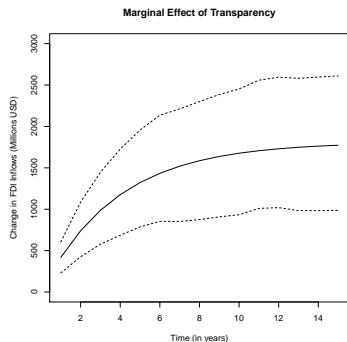
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Estimated via MCMC

Nickell bias less of an issue here:

- i denotes a country, rather than a regime, so long panels
- GMM estimates from Stata return substantively similar results

Estimated Marginal Effects



Controls for institutions defined by DD to the left, for institutions defined by GWF to the right.

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Novel argument that autocratic leaders may gain from deliberately destabilizing the regime

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- ① newly installed leaders more likely to disclose
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- ③ transparency robustly associated with increased net FDI inflows