

## 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, forthcoming)

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- leaders new to office

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- 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 elites to replace leader increase regime instability



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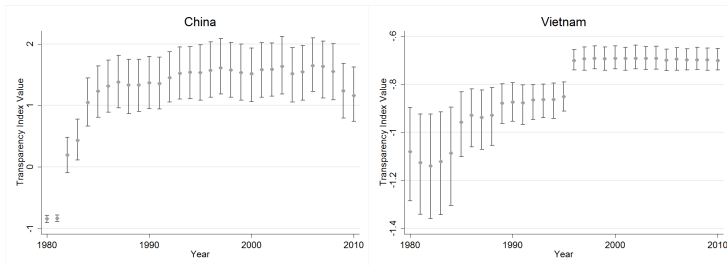
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- 1 ease mobilization by members of the public
- 2 encourage investment (particularly FDI)
  - ▶ foreign investors likely more reliant on publicly available info than domestic
  - ▶ FDI dominated by private actors unconnected with state
  - ▶ readily steered toward benefiting members of winning coalition

# One Tool to Pacify Regime: Economic Development

Transparency as part of broader attempts to increase size of pool for rents funneled to regime members



## Additional Tool to Pacify Elite: Mobilize Populace

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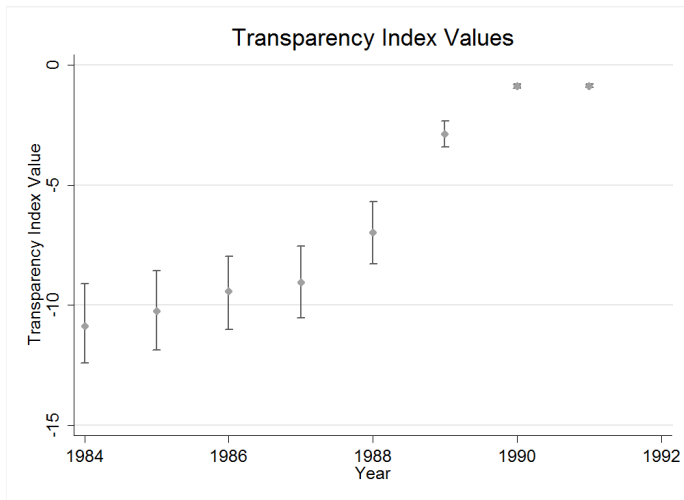
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- tolerates/encourages liberal 'extremists' (Yeltsin, Democratic Russia) as threat to recalcitrant Communists
- and Soviet collapse following August 1991 *putsch* that is met by counter-coup led by Yeltsin featuring street protests

# Glasnost in the Data



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▶ Skip to Comparative Statics

# Model Primitives

- Actors:** an autocratic leader  $L$   
Regime Elites  $R$  and an Opposition  $O$
- Actions:**  $L$  chooses  $d \in \{0, 1\}$   
and a policy variable  $e_t \in \{0, 1\}$   
 $R$  chooses  $v \in \{0, 1\}$
- 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  $O$ '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:

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

Members of the populace:

$$u_{O,t}(d) = (1 - \lambda)y(d).$$

where  $\lambda \in (\frac{1}{2}, 1)$

# Utilities of Leaders

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

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  $R$  observes the choice of  $d$  and the realization of the policy outcome. It chooses  $v_{i,A} \in \{0, 1\}$ .
- ④ A contest for power between  $R$  and  $O$  takes place.  $O$  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  $O$  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  $\pi$ .
  - b If  $R$  prevails after ousting the leader, a new leader is chosen by *Nature*. This leader is of type  $\theta = 1$  with probability  $\pi$ .
  - 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.

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- which satisfies the intuitive criterion (Cho and Kreps, 1987)
- and in which  $R$  anticipates convergent types act on their primitive interests over disclosure

## Stability Thresholds

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

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

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

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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 disclosure, 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  $r_1 \geq \Delta + (1 - p_0)\mu + (2 - p_0)\lambda y_0$

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# Investment and Disclosure

## Proposition

*Equilibrium disclosure is rising in the economic returns to transparency  $\psi$ .*

- 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 (it is assumed that  $\psi > 0$ )
  - ▶ and an endogenous equilibrium effect ( $\uparrow$  of  $\psi$  yield  $\uparrow$  disclosure)



# Institutions and Disclosure

## Proposition

*Leaders disclose for a wider range of values when the consequences of leader removal for stability are low ( $\omega \leq \bar{\omega}$ ) than when these consequences are high ( $\omega > \bar{\omega}$ ).*

- greater disclosure in institutionalized than personalistic regimes
- greater disclosure under new leaders than under entrenched leaders

▶ Skip to Conclusion

▶ Skip to Results

# Data Definitions

Test these predictions using:

- HRV Transparency Index (HRV, 2014) 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

## Bias in LDV Varying Intercepts Models

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

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

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

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

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

Again via MCMC

# Who Discloses?: Results w. GWF Data

	LDV Models			Instrumented LDV Models	
	Model 1	Model 2	Model 3	Model 1	Model 2
<b>Party</b>	0.002 [-0.033, 0.038]	0.002 [-0.039, 0.031]	0.002 [-0.037, 0.036]	0.002 [-0.031, 0.032]	-0.002 [-0.037, 0.028]
<b>Personal</b>	-0.039 [-0.083, -0.001]	-0.038 [-0.085, -0.007]	-0.044 [-0.087, -0.008]	-0.037 [-0.073, $4 \times 10^{-4}$ ]	-0.037 [-0.070, -0.001]
<b>Fuel Exporter</b>	-0.037 [-0.082, 0.010]	-0.036 [-0.073, 0.006]	-0.033 [-0.070, 0.008]	-0.029 [-0.065, 0.008]	-0.027 [-0.061, 0.008]
<b>Lag Transparency</b>	0.960 [0.943, 0.978]	0.961 [0.943, 0.977]	0.964 [0.947, 0.980]	0.645 [0.634, 0.656]	0.647 [0.636, 0.657]
<b>New Leader</b>	0.023 [ $-4 \times 10^{-4}$ , 0.047]	0.024 [0.001, 0.048]	0.024 [0.002, 0.049]	0.007 [-0.011, 0.026]	0.007 [-0.010, 0.027]
<b># Obs</b>	1530	1530	1530	1411	1411
<b># Regimes</b>	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
<b>Legislature</b>	0.027 [-0.013, 0.070]	0.027 [-0.011, 0.063]	0.027 [-0.011, 0.069]	0.019 [-0.021, 0.057]	0.021 [-0.016, 0.054]
<b>Military</b>	-0.030 [-0.058, 0.003]	-0.034 [-0.061, -0.004]	-0.034 [-0.062, -0.007]	-0.026 [-0.053, 0.004]	-0.028 [-0.055, -0.003]
<b>Fuel Exporter</b>	-0.024 [-0.069, 0.020]	-0.031 [-0.076, 0.008]	-0.029 [-0.069, 0.008]	-0.019 [-0.064, 0.018]	-0.022 [-0.061, 0.012]
<b>Lag Transparency</b>	0.959 [0.941, 0.976]	0.962 [0.947, 0.979]	0.966 [0.948, 0.981]	0.644 [0.632, 0.655]	0.647 [0.637, 0.657]
<b>New Leader</b>	0.028 [0.006, 0.050]	0.030 [0.008, 0.052]	0.031 [0.007, 0.051]	0.002 [-0.015, 0.021]	0.013 [-0.003, 0.030]
<b># Obs.</b>	1623	1623	1623	1486	1486
<b># Regimes</b>	135	135	135	121	121

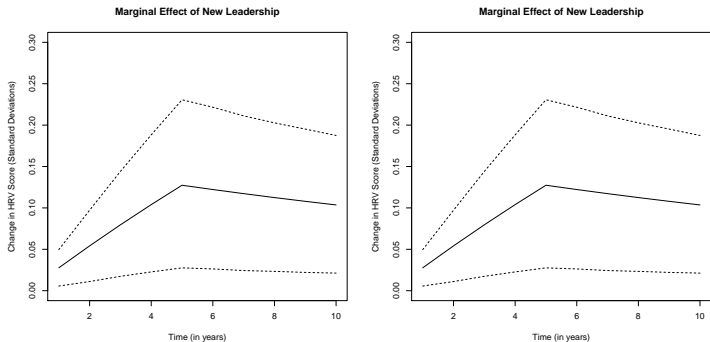
Ec. controls and cubic polynomial of time included in all specifications

▶ Skip to FDI

▶ Skip to Conclusion

# New Leader Marginal Effect

Figure: Marginal Effect of a New Leader



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

(Also includes economic and additional institutional controls)

▶ Skip to Conclusion



# Empirical Model

Varying Intercepts Hierarchical Model:

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

Estimated via MCMC

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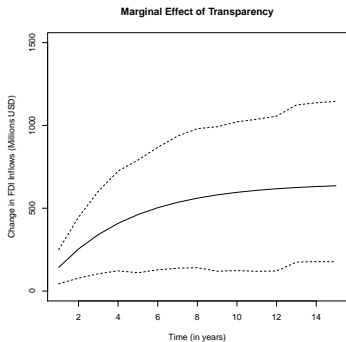
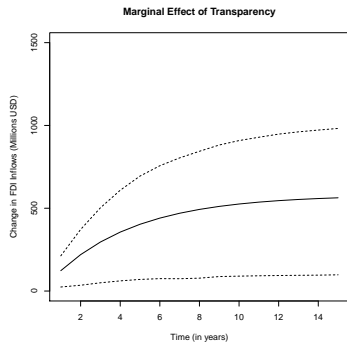
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Nickell bias less of an issue here:

- $i$  denotes a country, rather than a regime, so long panels
- GMM estimates from Stata return substantively similar results (slightly higher standard errors)
- same with fixed-effects LSDV models (slightly larger point estimates)

# Estimated Marginal Effects



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

# Conclusion

Construct a model of disclosure consistent with existing empirical findings

- transparency increases the risk of mass mobilization
- and reduces the risk of coup

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- disclosure associated with increased foreign investment

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- ① newly installed leaders more likely to disclose
- ② institutionalized autocracies (not personalistic, presence of elected legislatures) more likely to disclose
- ③ transparency robustly associated with increased net FDI inflows