

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

Pacifying the Regime

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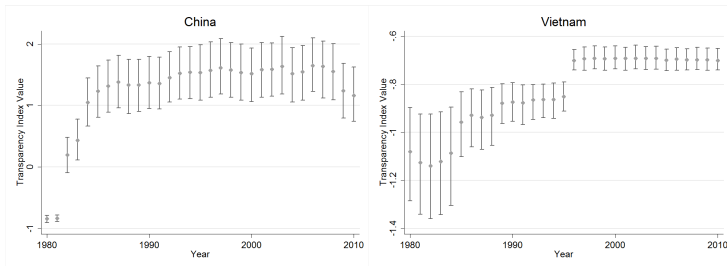
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- 1 ease mobilization by members of the public
- 2 encourage investment (particularly FDI)
 - ▶ foreign investors likely more reliant on publicly available info than domestic
 - ▶ FDI dominated by private actors unconnected with state
 - ▶ readily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

One Tool to Pacify Regime: Increased FDI

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



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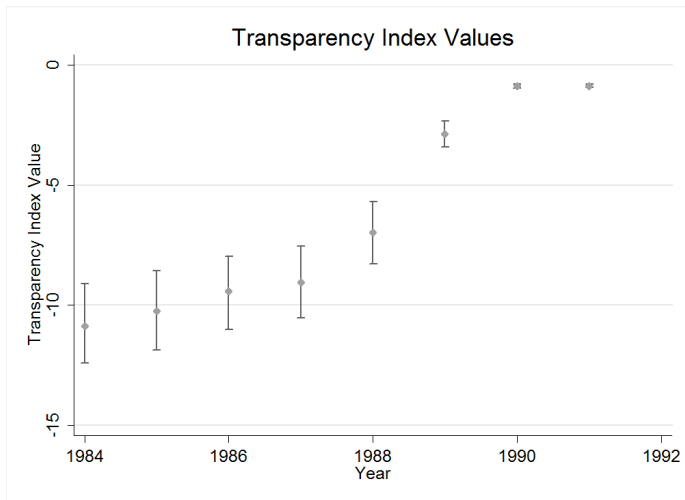
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- and Soviet collapse following August 1991 *putsch* that is met by counter-coup led by Yeltsin featuring street protests

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:** $t \in \{1, 2\}$

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Primitive assumption that disclosure increases investment:.

Denote potential pool of rents as $y(d)$:

$$y(1) > y(0)$$

$$\psi \equiv y(1) - y(0)$$

Utilities of Citizens

$$u_{R,t}(e_t, s_t, d) = \begin{cases} l_t[\Delta + \lambda y(d)] + (1 - l_t)(1 - \lambda)y(d) & \text{if } e_t = s_t \\ l_t\lambda y(d) + (1 - l_t)(1 - \lambda)y(d) & \text{otherwise} \end{cases}$$

$$u_{O,t}(e_t, s_t, d) = \begin{cases} l_t(1 - \lambda)y(d) + (1 - l_t)[\Delta + \lambda y(d)] & \text{if } e_t = s_t \\ l_t(1 - \lambda)y(d) + (1 - l_t)\lambda y(d) & \text{otherwise.} \end{cases}$$

where

$$l_t = \begin{cases} 1 & \text{if } R \text{ is in power} \\ 0 & \text{otherwise.} \end{cases}$$

and $\lambda \in (\frac{1}{2}, 1)$, $\Delta > 0$.

Utilities of Leaders

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

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 $v \in \{0, 1\}$.
- 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 π .
 - b If *R* 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.

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- and in which R anticipates convergent types act on their primitive interests over disclosure

Stability Thresholds

R has a dominant strategy to set $v = 0$ if $\pi\Delta < \frac{p(d)y(d)(\omega-1)(2\lambda-1)}{1-\omega p(d)}$

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

$$\pi\Delta = \frac{p(0)y(0)(\bar{\omega} - 1)(2\lambda - 1)}{1 - \bar{\omega}p(0)}$$

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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 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 $r_1 > \Delta + \rho[\mu + \lambda y(0)] - [2 - p(1)]\lambda\psi$.
 - ▶ $d = 1$ for $\omega < \underline{\omega}$ iff $r_1 > \Delta - \lambda\psi + [1 - p(0)][\mu + \lambda y(0)]$

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Equilibrium disclosure is rising in the economic returns to transparency ψ .

- 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 ψ 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 – party, personalistic, and military (and monarchies)
 - ▶ 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:

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

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

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

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

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
Party	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]
Personal	-0.039 [-0.083, -0.001]	-0.038 [-0.085, -0.007]	-0.044 [-0.087, -0.008]	-0.037 [-0.073, 4×10^{-4}]	-0.037 [-0.070, -0.001]
Fuel Exporter	-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]
Lag Transparency	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]
New Leader	0.023 [-4×10^{-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]
# 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
Legislature	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]
Military	-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]
Fuel Exporter	-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]
Lag Transparency	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]
New Leader	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]
# Obs.	1623	1623	1623	1486	1486
# Regimes	135	135	135	121	121

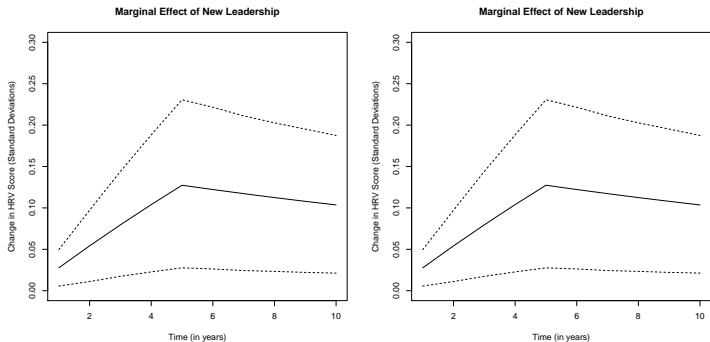
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New Leader Marginal Effect

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	
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

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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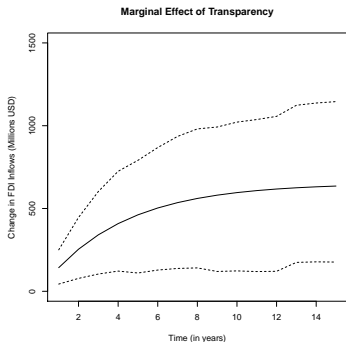
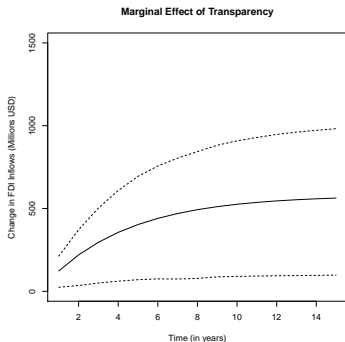
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- same with fixed-effects LSDV models (slightly larger point estimates)

Estimated Marginal Effects



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

\$198 million-1.2 billion long term \uparrow in annual FDI flows (point est. \$700 million.).

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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 more frequent in institutionalized regimes
- and when leaders are new to office
- disclosure associated with increased foreign investment

Conclusion

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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

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Demonstrate that:

- 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