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.
The Larger (Book) Project

1. Intro
2. The HRV Index of Transparency
The Larger (Book) Project

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   ▶ apply an item response model to missing data from WDI, 125 countries, 1980-2010
   ▶ Hollyer, Rosendorff & Vreeland (2014). *Political Analysis.*
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   - increases in capital formation, fixed capital formation and FDI
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4. Democracies Disclose More
   - improves welfare, enables efficient economic decision-making
   - democracy induces leaders to care more about citizen welfare
   - Hollyer, Rosendorff & Vreeland (2011). JOP
The Larger (Book) Project, cnt’d

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The Larger (Book) Project, cnt’d

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7. **Why Do Autocrats Disclose?**
Findings

Stylized Facts:
- transparent autocratic regimes more prone to collapse via mass unrest or dem’ization

Argument:
Autocratic leaders disclose because it insulates them from threats that emerge from within their regimes. In part, this is because transparency facilitates mass mobilization and encourages FDI, increasing rents from elite membership. Leaders disclose when threats from within regime are high relative to those from populace.

Institutionalized regimes have competing power bases and designated succession mechanisms, which can protect new leaders from inside threats.
Findings

Stylized Facts:

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- but, are less prone to collapse due to coups
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- institutionalized regimes – competing power bases, designated succession mechanisms
- leaders new to office
Findings, cnt’d

Demonstrate that in autocracies:
Findings, cnt’d

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1. disclosure more frequent in institutionalized regimes and less frequent in personalistic ones
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2. leaders disclose more readily when new to office
Findings, cnt’d

Demonstrate that in autocracies:

1. disclosure more frequent in institutionalized regimes and less frequent in personalistic ones
2. leaders disclose more readily when new to office
3. transparency associated with increased net FDI inflows
Theoretical Priors

Autocratic leaders face two threats to rule:

1. displacement by regime members (e.g., coup)
2. displacement of regime – including the leader (e.g., by mass unrest)
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2. displacement of regime – including the leader (e.g., by mass unrest)

Steps by elites to replace leader increase regime instability
Pacifying the Regime

Leaders may have an incentive to insulate themselves from accountability to elite:
Pacifying the Regime

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Two Mechanisms:
Pacifying the Regime

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1. increase rents flowing to regime members
2. increase external threat
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Pacifying the Regime

Leaders may have an incentive to insulate themselves from accountability to elite:

**Two Mechanisms:**

1. increase rents flowing to regime members
2. increase external threat

Transparency achieves both ends

1. ease mobilization by members of the public
2. encourage investment (particularly FDI)
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 \n$

**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.
Effects of Disclosure

Primitive assumption that disclose increases O’s mobilizational capacity.

Denote pr. O displaces R absent leader removal as \( p(d) \)

\[
p(1) > p(0) \\
\rho \equiv p(1) - p(0)
\]
Effects of Disclosure

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Denote pr. $O$ displaces $R$ absent leader removal as $p(d)$

$$p(1) > p(0)$$

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$\omega \in (1, \frac{1}{p(1)})$ represents effect of regime discord on stability

- risk of regime collapse given by $\omega p(d)$ following removal of $L$
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- $\omega$ declines with institutionalization, rises with leader’s time in office
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Primitive assumption that disclosure increases investment:..
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- risk of regime collapse given by $\omega p(d)$ following removal of $L$
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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 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 \( \pi \).

   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.
Equilibrium Concept

We characterize a perfect Bayesian equilibrium to this game.
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We characterize a perfect Bayesian equilibrium to this game

- which satisfies the intuitive criterion (Cho and Kreps, 1987)
Equilibrium Concept

We characterize a perfect Bayesian equilibrium to this game

- 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

$R$ 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.:

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

$$\pi \Delta = \frac{p(1)y(1)(\omega - 1)(2\lambda - 1)}{1 - \omega p(1)}.$$
Stability Thresholds

$R$ has a dominant strategy to set $\nu = 0$ if

$$\pi \Delta < \frac{p(d)y(d)(\omega - 1)(2\lambda - 1)}{1 - \omega p(d)}$$

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

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- if $\omega > \bar{\omega}$ no internal threat to leader
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- if $\omega < \omega$ always an internal threat to leader
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- if $\omega > \bar{\omega}$ no internal threat to leader
- if $\omega < \bar{\omega}$ always an internal threat to leader
- if $\omega \in [\omega, \bar{\omega}]$ 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 $\omega \in [\omega, \bar{\omega}]$ iff $r_1 > \Delta + \rho[\mu + \lambda y(0)] - [2 - p(1)]\lambda \psi$.
  - $d = 1$ for $\omega < \underline{\omega}$ iff $r_1 > \Delta - \lambda \psi + [1 - p(0)][\mu + \lambda y(0)]$.
Investment and Disclosure

Proposition

Equilibrium disclosure is rising in the economic returns to transparency $\psi$. 
Investment and Disclosure

**Proposition**

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

- straightforward intuition: higher economic benefits leads to higher disclosure
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)
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
Mass Revolts and Democratization vs. Coups

Cox Hazard Estimates

Mass Revolt or Democracy

Coup

Low Transparency

High Transparency
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)
- Svolik (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:

\[ transparency_{i,t} = \rho transparency_{i,t-1} + \alpha_i + X_{i,t-1} \beta + \epsilon_{i,t} \]
\[ \alpha_i \sim N(Z_i \gamma, \sigma_\alpha^2) \]

- \( Z_i \) denotes time invariant institutional characteristics
- \( X_{i,t-1} \) denotes economic 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:

\[
\begin{align*}
\Delta \text{transparency}_{i,t-1} &= \mu + \zeta \text{transparency}_{i,t-2} + \Delta X_{i,t-1} \psi + \nu_{i,t-1} \\
\Delta \text{transparency}_{i,t} &= \hat{\rho} \Delta \text{transparency}_{i,t-1} + \Delta X_{i,t-1} \hat{\beta} + \eta_{i,t} \\
\text{transparency}_{i,t} &= \alpha_i + \hat{\rho} \text{transparency}_{i,t-1} + X_{i,t-1} \hat{\beta} + \epsilon_{i,t} \\
\alpha_i &\sim N(Z_i \gamma, \sigma_\alpha)
\end{align*}
\]

Similar results, somewhat inflated standard errors
### Who Discloses?: Results w. GWF Data

<table>
<thead>
<tr>
<th></th>
<th>LDV Models</th>
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<tbody>
<tr>
<td></td>
<td>Model 1</td>
</tr>
<tr>
<td><strong>Party</strong></td>
<td>0.002</td>
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<tr>
<td></td>
<td>[-0.033, 0.038]</td>
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<tr>
<td><strong>Personal</strong></td>
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<td><strong>Fuel Exporter</strong></td>
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<td>[-0.082, 0.010]</td>
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<td><strong>Lag Transparency</strong></td>
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<td>[0.943, 0.978]</td>
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<td><strong>New Leader</strong></td>
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<td>[-4×10⁻⁴, 0.047]</td>
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<td><strong># Obs</strong></td>
<td>1530</td>
</tr>
<tr>
<td><strong># Regimes</strong></td>
<td>119</td>
</tr>
</tbody>
</table>

Ec. controls and cubic polynomial of time included in all specifications
New Leader Marginal Effect

Figure: Marginal Effect of a New Leader
Empirical Model

Varying Intercepts Hierarchical Model:

$$FDI_{i,t} = \alpha_i + \rho FDI_{i,t-1} + \gamma transparency_{i,t-1} + X_{i,t-1}^\beta + \epsilon_{i,t}$$

Estimated via MCMC
Empirical Model

Varying Intercepts Hierarchical Model:

\[ FDI_{i,t} = \alpha_i + \rho FDI_{i,t-1} + \gamma \text{transparency}_{i,t-1} + \mathbf{X}_{i,t-1} \beta + \epsilon_{i,t} \]

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 (slightly higher standard errors)
- same with fixed-effects LSDV models (slightly larger point estimates)
$198 million-1.2 billion long term ↑ in annual FDI flows (point est. $700 million.).
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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Construct a model of disclosure consistent with existing empirical findings

- transparency increases the risk of mass mobilization
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Novel argument that autocratic leaders may gain from deliberately destabilizing the regime
Conclusion

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 associated with increased net FDI inflows
Conclude by showing:

1. Newly installed leaders more likely to disclose.
2. Institutionalized autocracies (not personalistic, presence of elected legislatures) more likely to disclose.
3. Transparency associated with increased net FDI inflows.

HRV (Minnesota, NYU, Georgetown)  
Autocratic Transparency  
December 14, 2015
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One Tool to Pacify Regime: Increased FDI

Transparency as part of broader attempts to increase size of pool for rents funneled to regime members
Another Tool to Pacify the Regime: Facilitate Mass Mobilization

Transparency Index Values

Year


Transparency Index Value

0 -5 -10 -15
Transparency as Missing Data

World Development Indicators (Downloaded Dec. 2012)

**Items:** 240 variables from across WDI
recoded into indicator \( \{0, 1\} \) equal to 1 if non-missing

**Panels:** 125 countries

**Time:** Annual obs., 1980-2010

3875 observations
Measurement Model

Item Response Model

240 equations of the form:

\[ Pr(y_{j,c,t} = 1 | transparency_{c,t}) = \text{logit}(\delta_j + \beta_j transparency_{c,t}) \]

\[ j \in \{1, 2, \ldots, 240\} \]
\[ c \in \{1, 2, \ldots, 124\} \]
\[ t \in \{1, 2, \ldots, 31\} \]

Priors:

\[
\begin{pmatrix}
\delta_j \\
\beta_j
\end{pmatrix}
\sim N\left(\begin{pmatrix} 0 \\ 0 \end{pmatrix}, \begin{pmatrix} 100 & 0 \\ 0 & 100 \end{pmatrix}\right)
\]

\[ transparency_{c,1} \sim N(0, 100) \text{ recentered at each iteration of the MCMC algorithm} \]

\[ transparency_{c,t} \sim N(transparency_{c,t-1}, \frac{1}{\tau_c}) \forall t > 1 \]

Cuba constrained to be negative, Sweden positive
Transparency v. GDP in Democracies and Autocracies

HRV Scores v. Log GDP per Capita
In Democracies and Autocracies

- Fitted Democracies
- Fitted Autocracies
Transparency v. GDP in Democracies and Autocracies
Hazard of Regime Transitions

Democracies

Autocracies

Low Transparency  High Transparency

Low Transparency  High Transparency
Freedom House v. HRV

[Graph: Freedom House against Name Index]
Newspaper Circulation *per capita* v. HRV

![Chart showing the relationship between daily newspaper circulation and name transparency index.](chart.png)
Media v. HRV
FOIs v. HRV

FOIL Indicator against Name Index

Ave. FOIL Indicator Value

Name Transparency Index

HRV (Minnesota, NYU, Georgetown)
Other Country Time-Series: Declines

**Somalia**
- Transparency Index Values
- Transparency Index Changes

**Argentina**
- Transparency Index Values
- Transparency Index Changes

Autocratic Transparency

December 14, 2015
Other Country Time-Series: EU Accessors

EU Accession States

Transparency Index Values

- Hungary
- Poland
- Romania
- Bulgaria

Year

Transparency Index Value
Time-Series: One Regime Transition

Countries Experiencing One Regime Transition

HRV (Minnesota, NYU, Georgetown) Autocratic Transparency December 14, 2015
Time-Series: One Regime Transition

Countries Experiencing One Regime Transition

- Transparency Index Values: Malawi
- Transparency Index Values: Nicaragua
- Transparency Index Values: Panama
- Transparency Index Values: Philippines
- Transparency Index Values: Poland
- Transparency Index Values: Paraguay
- Transparency Index Values: Romania
- Transparency Index Values: Senegal
- Transparency Index Values: El Salvador
- Transparency Index Values: Turkey
- Transparency Index Values: Uruguay
Time-Series: Multiple Regime Transitions

Countries Experiencing Multiple Transitions