The Impact of Political Instability on Economic Growth: Evidence from Developing Countries

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THE IMPACT OF POLITICAL INSTABILITY ON ECONOMIC GROWTH: EVIDENCE FROM DEVELOPING COUNTRIES

by

Uisoon Kwon

A Thesis
Submitted to the Faculty of The Graduate College in partial fulfillment of the requirements for the Degree of Master of Arts Department of Political Science

Western Michigan University Kalamazoo, Michigan June 1997
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Uisoon Kwon
THE IMPACT OF POLITICAL INSTABILITY ON ECONOMIC GROWTH: EVIDENCE FROM DEVELOPING COUNTRIES

Uisoon Kwon, M.A.
Western Michigan University, 1997

This thesis examined the impact of political instability on economic growth. This thesis included fortythree developing countries and employed multiple regression analysis. Three hypotheses were tested. First, cross-nationally, political instability may serve to decrease the availability of factors of production. Second, cross-nationally, political instability will decrease the quantity of labor. Third, cross-nationally, political instability may negatively influence the timing and organization of the production process.

The statistical results of multiple regression were not significant at .05 level using t-test. Therefore the null hypotheses were not rejected. Based on statistical results, possible reasons for the statistical insignificance were considered in terms of both theoretically and methodologically.
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CHAPTER I

INTRODUCTION

Economic growth or development has been a major issue to the less developed countries. Nevertheless, economic development in those countries with a few exceptions has not been very successful. It has been widely accepted that there are links between political and economic development. Lasting economic development is unthinkable without a certain amount of political and legal order; conversely, economic development can contribute to the stabilization of a political system. However, economic success or development "cannot by itself safeguard the survival of a regime" (Berg-Schlosser & Siegler 1990, p.1). Economic development has been studied in various dimensions including its relationship with democracy and political instability.

The subject of economic development or growth has been examined by many political scientists in the context of compatibility with democracy. Weede's approach clearly represents the tendency of the study of economic growth and democracy. He says,

Since growth and democracy are two analytically distinguishable goals, the task of social science research is to find out whether and under which circumstances and to what degree these
goals are compatible or incompatible (1983, p.21).

These studies focus on how democracy or types of regimes influence economic growth. Those who have studied economic development in the context of its relationship with democracy have found that there is a negative relationship between democracy and economic development (Weede, 1983; Chan, 1994) or even no relationship between them. (Przeworski and Limongi, 1995; Roemer, 1995). In his article, The Impact of Democracy on Economic Growth, Weede (1983) finds that democracy has been a burden for economic growth especially in Less Developed Countries (LDCs). However, he argues that the negative impact of democracy on growth is too small to serve as an excuse for authoritarianism, neglect of human rights or repression in the name of economic progress.

Recently, Przeworski and Limongi (1995) examined the impact of type of regime on economic growth. They find no evidence that democracy or type of regime fosters or hinders economic growth. Instead, they find that regimes do not capture the relevant differences in economic growth while politics in general does matter. According to them, "it does not seem to be democracy or authoritarianism per se that makes the difference, but something else... What that something else might be is far from clear" (1995, p.16). This indicates that we need to em-
ploy other possible determinants of economic growth in politics as they suggest that politics do matter.

On the other hand, economic growth has been studied as a determining factor that possibly influences political instability in the form of political conflict and political violence. In this case, economic growth has been treated as a major determinant of political conflict or violence.

Contrary to the predictions of modernization theorists, economic development has not contributed to political stability in the Third World. Rather, it has led to political violence or conflict. Rapid economic growth caused a gap between the valued things and opportunities people feel entitled to and the things and opportunities they actually get. According to Gurr (1970), the gap creates relative deprivation through the people and the psychological status of relative deprivation is the major source of political violence. Other studies also show that there is a positive relationship between economic growth and political violence. Especially, as Olson (1963) indicates, when the rate of economic growth is rapid, the positive relationship between economic growth and political instability becomes strong.

Many studies have begun to examine the sources of economic development. It has been widely accepted that political stability has a link to economic development.
The conventional wisdom assumes that political stability is a prerequisite for economic development (Holt and Turner, 1966). According to Huntington (1968), domestic order is a necessary condition for economic growth. The importance of political stability in economic growth can also be found in recent studies. Political instability has been identified as one of the most important obstacles to economic and human development (Mbaku 1992; Fosu, 1992)).

However, the relationship between political instability and economic development has received little empirical attention, due in large part to the lack of data on political stability (Fosu, 1992). In the article published in 1987, Goldsmith asserts that political stability influences other important socioeconomic processes. Nevertheless, he argues, little empirical research has treated political stability as an independent variable (1987). As indicated above, some significant studies about the relationship between political stability and economic development specify political stability as a dependent variable. Goldsmith (1987) suggests two reasons for the lack of research on the independent effects of political stability. He says "... most scholars hold stability to be intrinsically valuable and thus are not drawn to study its effects as rigorously as its
causes" (1987, p.471). In offering another reason, Goldsmith (1987) argues,

> It is that most social scientists simply assume stability has instrumental economic value. They tend to believe it is a necessary condition for growth and prosperity, but rarely feel a need to test this proposition (p.471).

The impact of political stability on economic development has not been considered in the context of causality; instead, scholars have merely posited a simple relationship between them.

Currently, however, various studies on the independent effects of political instability have emerged in the study of economic growth in the African countries, especially, Sub-Saharan African countries. Those who study Sub-Saharan African countries have found that political instability hinders economic development (Mbaku 1992; Fosu 1992).

This thesis starts with the following question: If the relationship between political instability and economic development has been detected in the Sub-Saharan African countries in several recent studies, is it possible to detect the relationship in other developing countries? It is assumed here that political instability hinders economic development particularly in the developing countries including African, Latin and Central American, and Asian developing countries.
In order to test that hypothesis, this thesis first employs political instability as a major independent variable and examines its direct impact on economic growth. Second, we examine the indirect impact of political instability on economic growth by indicating the impact of political instability on several economic variables that might influence economic growth. The main purpose of this study, though, is testing whether the empirical findings in Sub-Saharan countries regarding the impact of political instability on economic growth can also be detected in other developing countries, including African, Central and Latin American, and Asian countries.

In order to examine the hypothesis, this thesis is based on the assumptions of the system approach. Isaak (1981) argues that "an approach, in political inquiry, is a general strategy for studying political phenomena" (p.191). Among the various approaches, many previous research studies that deal with economic performance in developing countries are based on system approach. Isaak (1981) summarizes the basic assumptions of the system approach: "the commitment is made to concentrate on the system and its behavior, including the interaction of its elements, but not the characteristics of the elements" (p.279). In terms of seeking useful explanation in political inquiry, another approach such as statist ap-
approach might be considered if the hypothesis can not be confirmed.

This thesis consists of five chapters including an introduction and conclusion. In Chapter II, relevant literature will be reviewed. This literature will include several types of research on the relationship between political instability and economic growth. Chapter III lays out the design of the thesis including hypotheses, research design, data collection procedures, and conceptual and operational definitions. Statistical results will be described in Chapter IV. Various results of regression analysis will be listed in several tables as well. If the results of regression analysis fails to reject null hypothesis, possible explanations will be described in Chapter IV. Finally, the significance of this thesis and conclusions will be discussed in the last chapter. Recommendation for further study will also be suggested in Chapter V.
Economic variables have been treated as a main predictor for political instability by many scholars. Usually, political instability has been studied in the terms of political conflict or violence. It has been widely accepted that modernized or developed countries tend to have less political violence than do underdeveloped countries.

Some empirical studies support that tendency by examining the relationship between economic change and political violence or conflict. In his article, published in 1972, *Patterns of domestic conflict: 1919-39 and 1946-66*, Banks finds that "nonrevolutionary" states are highly correlated with various indicators of economic development, while "revolutionary" states have a negative relationship with those variables. In his article, *Dimensions of Conflict Behavior within Nations, 1955-1960*, published in 1965, Tanter similarly finds moderate negative relationships between GNP per capita and various conflict variables through 70 countries. Tanter and Midlarsky (1967) find a negative relationship between eco-
nomical growth rate (GNP per capita) and "revolutions" in four Latin American countries from 1955 to 1960.

On the other hand, another study of political violence of Latin America, done by Bwy (1968), shows that there is a positive relationship between the rate of economic growth and organized violence and anomic violence. His empirical study on political instability in Latin America using cross-cultural analysis during 1950-1959 finds that economic change hinders political stability (1968). A positive relationship between economic change and political violence is also found in the study of Flanigan and Fogelman in 1970. In the article, Patterns of Political Violence in Comparative Historical Perspective, they find a positive relationship between rate of economic development, which is measured by rates of change in agricultural employment in the twentieth century, and political violence which is measured by deaths from domestic group violence (1970). They report that

Countries which began their development relatively early and have reached high levels of development by the mid-twentieth century are less likely to experience domestic violence than those which have been developing only in the current century; and both groups of countries experience less violence than countries which began to develop only recently (1970, p.14).
In his article, *Rapid Growth as a Destabilizing Force*, Olson suggests that economic growth especially rapid growth, leads to political instability (1963). According to him, economic growth involves vast changes in the production, demand of labor, and above all in the distribution of income (1963). He argues that

> When the focus in on the fact that rapid economic growth means rapid economic change, and that economic change entails social dislocation, it becomes clear that both the gainers and the losers from economic growth can be destabilizing forces (1963, p.533).

Some scholars find a curvilinear relationship between economic growth and political violence. Adams (1970) reports a curvilinear relationship between GNP per capita in the early 1960s and the extent of political violence during the period 1946-65, using a 130 country sample size. However, when more closely examining the 71 least developed countries, a negative linear relationship is found when the Asian and Arabian countries are analyzed together with the developed countries, and a positive relationship is generally found in African countries (Adams, 1970). However, according to Zimmermann (1983), there are several partly modernized countries characterized by widespread political violence, but generally the violence is less intense, which means "protest" rather the "rebellion" found in underdeveloped areas (p.94).
On the other hand, a number of the empirical results refute the idea that rapid socioeconomic change would directly lead to such violence (Zimmermann, 1983). According to him, in countries at a lower level of economic development, the relationship between economic growth and political violence is reversed (Zimmermann, 1983).

As a descriptive study of the political instability and its impact on the economy, Hewitt's research shows that there are costs of political instability (1993). They can be both immediate and long term or direct and indirect. Although his research does not employ statistical tools, such as regression analysis, his study shows that political instability, which has been denoted to political violence, hinders economic performance. However, as the author indicates, this research is limited to Western countries for methodological reasons. According to Hewitt (1993), "many of the questions that I wish to examine --concerning public opinion and the economy, for example --can only be answered if public opinion surveys and accurate statistics are available" (p.2). In light of these limitations in his study, Hewitt (1993) suggests that his findings cannot be applied to non-Western countries for two reasons. He says, "First, political violence varies between types of societies. Second, the impact of political violence is likely to be very different in different kinds of societies" (1993, p.2). Table 1
shows how various types of political violence influenced the economy of the countries.

Table 1
Total Cost by Country

<table>
<thead>
<tr>
<th></th>
<th>N. Ireland</th>
<th>Spain</th>
<th>Germany</th>
<th>Italy</th>
<th>Uruguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criminal Self-Financing</td>
<td>98.9</td>
<td>134.1</td>
<td>35.1</td>
<td>63.4</td>
<td>74.5</td>
</tr>
<tr>
<td>Property Damage</td>
<td>1,734.5</td>
<td>407.9</td>
<td>44.2</td>
<td>464.5</td>
<td>43.2</td>
</tr>
<tr>
<td>Deaths and Injuries</td>
<td>560.4</td>
<td>206.2</td>
<td>23.3</td>
<td>82.4</td>
<td>6.2</td>
</tr>
<tr>
<td>Increased Security</td>
<td>9717.1</td>
<td>4456.8</td>
<td>2696.7</td>
<td>-</td>
<td>88.3</td>
</tr>
<tr>
<td>Total</td>
<td>12,110.9</td>
<td>5205.0</td>
<td>2799.3</td>
<td>610.3</td>
<td>212.2</td>
</tr>
<tr>
<td>% of GDP</td>
<td>4.9</td>
<td>4.1</td>
<td>0.6</td>
<td>0.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>


Hewitt (1993) concludes that most easily seen indicators are the immediate and direct effects --the people killed and property destroyed. These impacts can, in their turn, eventually produce changes in peoples' attitudes and behavior in a variety of contexts: economic, social and political.

Another descriptive study, Political Stability and Economic Growth also suggests that the economic growth has been achieved with sociopolitical stability in some developing countries (Chai, Chai, & Clark, 1994). Drawing on four case studies dealing with Asian NICs (Newly
Industrialized Countries), South Korea, Taiwan, Hong Kong, and Singapore, this book describes successful factors of economic growth in each country. According to Chan (1994), one of the contributors to this book, internal stability has been one of the major factors of economic growth, which has been commonly observed in every country. He argues that

The governments of Singapore, South Korea, and Taiwan have all placed high priority on establishing internal stability in the earlier years. Threats from their civil war opponents and/or traumatic severance from their historical economic hinterland created a sense of urgency to secure domestic order, and helped to mobilize (1994, pp.5-6).

In his research note, A Definition of Political Stability, published in 1975, Ake revisits the problem of a definition of political stability. According to Ake (1975), we should define "political" first before we define political stability. Ake (1975) argues that "we have clearly not defined the political in the usual sense of demarcating particular acts that are political from those that are not" (p.271). Based on this argument, he focuses on definition of `political' in terms of its effects. He argues that specifying a particular effect is more important than declarations about intrinsic differences between particular acts. He says that "if it is clear what this effect is, then the political is defined, whatever variety of particular acts that may be associ-
ated with this effect" (1975, p.272). He defines political stability as "the regularity of the flow of political exchanges. The more regular the flow of political exchanges, the more stability" (1975, p.273). According to him, the extent of political stability of a polity can be determined by systematic identification of both regularities and irregularities in the flow of political exchanges. Whether or not the flow of political exchanges is regular relies on whether or not there is a violation of political behavior or act or exchange.

His argument on measurement of political stability is expressed in terms of the concept of regularity. According to Ake (1975), "...the level of stability should be expressed quantitatively as a proportion: the ratio of regular exchanges to the totality of political exchanges" (p.277). However, in the another sense, he suggests that "if we wanted to transform our measurements into some formula for predicting changes in the level of political stability, some weighting would be necessary" (1975, p.278).

This research note does not tell us much about the definition of political stability itself. Rather, it suggests how to define and measure political stability in terms of 'political'. In the context of the purpose of this research note, Ake (1975) also mentions the merits of the definition of political stability. He suggests
that "first, the definition avoids the presumption that some political acts are intrinsically or universally de-stabilizing" (1975, p.279). Second, the definition makes it possible to avoid confusion between political instability with political change and political stability with absence of political change. According to him, the lack of change should be distinguished from political stability. Third, he says that "this definition is relatively free from the error of making statements about levels of political stability without seriously taking into account the totality of political exchanges" (1975, pp.280-281).

In the article, Political Instability and Economic Development in Sub-Saharan Africa, Mbaku (1992) shows that there is a relationship between political instability and economic development. In that article, Mbaku (1992) treats political instability as a dependent variable. As independent variables which represent economic development, Mbaku (1992) selects two different types of indicators which are traditional indicators and a quality of life index and human development index. First of all, he suggests that traditional indicators for gauging economic development do not correctly represent the degree of economic development (1992, p.44). He says,

... many researchers have criticized the use of income per capita for gauging economic development, especially in developing countries. It has been argued that in countries in which there are significant levels of inequalities in
income distribution, rising per capita income may arise primarily from income gains by a few families. Such growth, critics of the income approach to the measurement of economic development argue, may not be accompanied by significant improvements in income distribution, leaving the majority of the population poor and deprived (1992, pp.44-45).

As an alternative measure of economic development, Mbaku (1992) employs a Quality of Life Index (PQLI) and Human Development Index (HDI) in order to examine the relationship between political instability and economic development more significantly.

The multiple regression results generally indicate a negative relationship between political instability and economic development as expected. However, when economic development is measured by the traditional indicators, the parameter estimates are negative but are not significant. When compared to the traditional indicators, the coefficient estimate of HDI is negative and significant at the 10 percent level of significance.

Based on the regression results, Mbaku (1992) concludes that political instability is a significant constraint to the improvement of the human condition in Sub-Saharan Africa. He says,

... a significant number of countries in Sub-Saharan Africa have not been able to develop stable political systems. As a result, economic and human development have been given low priority as governments spend most of their time and national resources trying to maintain a monopoly on power. Unless these countries develop institutional frameworks that permit
unrestricted access to both political and economic markets, political instability will continue to be a pervasive part of the region, serving as a significant constraint to economic and human development (1992, p.50).

In his article, Democracy, Political Stability, and Economic Growth in Developing Countries, published in 1986, Goldsmith examines the impact of democracy and political stability on economic growth in the stable, less developed liberal democracies (LDLDs). Based on Olson's theory, Goldsmith (1986) suggests that because Olson's theory comes from the postwar experience of industrialized countries, it needs to be tested in developing countries. Goldsmith (1986) assigns time as an independent variable. He argues,

The longer a competitive political systems exists without major disruption, the greater the opportunities for interests to organize and lobby for distributive, antigrowth policies. Consequently, time can be used as the independent variable in the theory, serving as a proxy for the more complex underlying phenomena of pluralist interaction and countervalance (1986, p.519).

For the developing countries, he suggests, finding the dependent variable is also problematic (1986). He says, "[Olson's] theory predicts a number of economic consequences will emerge over time in stable and open societies" (1986, p.519). According to him,

All economic data from LDCs must be used cautiously. Most of these countries have a large subsistence sector, requiring use of shadow prices and error-prone estimates of household production. There is also a problems converting
these figures into a benchmark currency such as the dollar, because the price of the local currency is usually set arbitrarily. The United Nations has projected to correct this last problem by estimating purchasing power equivalencies for some currencies (1986, p.529).

Although there is a problem with data in LDCs, Goldsmith employs reasonably complete time series data available on certain major macroeconomic trends. Using those data, Goldsmith (1986) posts the three following hypotheses about the direction that stable LDLDs (Less developed Liberal Democracies) move over time: (1) their tendency to emphasize consumption over investment, (2) their increasing reliance on big government, and (3) their declining rate of economic growth (p.520). Goldsmith (1986) tests these hypotheses using both longitudinal and cross-sectional analysis. When testing seven LDLDs, Goldsmith (1986) finds that "less developed liberal democracies do not display tendencies toward disinvestment or larger-than-normal public sectors. There does, however, appear to be support for the third hypothesis that LDLDs undergo progressive economic slowdown" (Goldsmith, 1986, p.520).

In another article, Does Political Stability Hinder Economic Development?, published in 1987, Goldsmith applies his question to the direct relationship between political stability and economic growth in the Third World(1987). In his earlier work, he selected only sta-
ble developing countries, and found economic slowdown within those countries. He also focused somewhat on democracy. This article, however, selects seven less developed countries and examines the effects of political stability on the rate of change in income (1987). As indicators of political instability, Goldsmith (1987) employs four political phenomena: assassinations, irregular executive transfers, armed attacks, and deaths from domestic political violence (p. 474). Goldsmith (1987) sums each indicator over the two most recent decades in order to test Olson's theory (p. 474). Those two time periods are 1958-67, which is assigned as STAB1, and 1968-1977, which is assigned as STAB2, (1987, p. 474). Goldsmith (1987) employs time series on the growth of real gross domestic product (GDP) as an indicator of the dependent variable, economic growth (p. 475). According to Goldsmith (1987), the World Bank has calculated how quickly the GDP of its members grew between 1960-1970 which is assigned as GROW1 and 1970-1980 which is assigned as GROW2 (p. 475). Figure 1 shows the results of this analysis. The chronically unstable country group stands for "less stable" in both periods. The stabilizing country group stands for moving from "less stable" to "more stable." The consistently stable country group stands for "more stable" in both periods. The destabilizing country
group stands for moving from "more stable" to "less stable."

### Political Instability Index (1958-67)

<table>
<thead>
<tr>
<th></th>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>STAB1</td>
<td>38.5</td>
<td>11.1</td>
</tr>
<tr>
<td>STAB2</td>
<td>40.0</td>
<td>11.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Chronically Unstable</th>
<th>Destabilizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>23</td>
<td>7</td>
</tr>
<tr>
<td>GROW1</td>
<td>4.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td>GROW2</td>
<td>4.0%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Stabilizing</th>
<th>Consistently Stable</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>16</td>
<td>31</td>
</tr>
<tr>
<td>GROW1</td>
<td>4.9%</td>
<td>4.6%</td>
</tr>
<tr>
<td>GROW2</td>
<td>5.0%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>


Figure 1. Goldsmith's Country Groupings.

As Goldsmith (1987) indicates, this empirical result does not support Olson's theory. Goldsmith (1987) provides several possible explanations for that negative result, including short time periods and biased political instability data (p.477). Particularly, Goldsmith (1987) suggests that "Olson's theory may be only applicable to liberal democracies where interest groups have a dominant influence on political and economic processes" (p.477).

Fosu (1992) shows relatively more refined empirical analysis on the relationship between political instabil-
ity and economic development particularly in Sub-Saharan African countries. He employs political instability as an independent variable, and tries to find the impact of political instability on economic development. He argues that "some previous researchers fail to shed light on how political instability might have influenced economic growth" (1992, p.830). In explaining this failure, Fosu suggests that those researches either did not provide an accurate estimate of the impact of political instability or treat political instability as a dependent variable.

His hypothesis starts from the premise that "political stability may serve to reduce the availability of factors of production" (1992, p.830). According to Fosu, political instability influences economic development through several "factors of production" including lack of investment, emigrating labor forces, and reducing production output (1992). He hypothesizes that as a result of those steps, political instability, finally, may negatively influence the economic growth.

In his article, political instability has been defined as instability of governments, regimes, and communities within a nation (1992, p.830). He employs coup d'etat as an indicator representing political instability; "it is assumed that a successful coup indicates the greatest degree of instability, followed by an unsuccessful coup, and then by a plot" (1992, p.832). He assigns
respective weights of 5, 3, and 1 to these (1992, p. 832). This research measures political instability by assigning different weights depending upon whether or not it is successful. In this way, the successful coup d'état is assigned 5 points, unsuccessful coup d'état 3 points, and each plot will be 1 point. According to this measure, the lower the number of points that a nation has, the more stable it is.

However, Fosu (1992) observes that such a weighting scheme may be arbitrary.

Indeed, the resulting index [of political instability] has no interval significance. However, the index is highly positively correlated with indexes constructed from alternative additive weighting schemes, with rank ordering of the countries by degree of political instability generally preserved. However, the possibility that different weights may indeed result in appreciable changes in rankings suggests that a dichotomous variable based on the index may be preferable (Fosu, 1992, p. 832).

As Fosu mentioned, growth rates of labor, capital and exports have been added as independent variables with a measure of political instability to consider the production-function framework (1992). The growth rate of output has been designated as a dependent variable.

This article, as the author suggests, may be viewed as a first attempt to apply an economic framework to empirically account for the implications of political instability for economic growth. Nevertheless, the empirical findings in his article suggest that "political in-
stability has played a major role in the relatively stagnant economies of Sub-Saharan Africa, accounting for a substantial reduction in the region's overall GDP growth over the 1960-1986 period" (1992, p.838). Finally Fosu (1992) suggests that any future economic development program in the African countries should consider the problem of political instability.

Literature of Alternative Approaches

In this section, I will review some alternative approaches both on political instability and on economic growth in order to find out what kind of other factors that might determine political instability and economic growth are available. By doing so, we can draw more wide political factors that might determine the phenomena of economic growth.

In Political Order in Changing Societies, a classical study of political instability, Huntington (1968) focuses on the phenomenon of political stability and factors that shape a stable political condition in a changing society. His major concern is that in large part, the product of rapid social change and the rapid mobilization of new groups into politics is coupled with the slow development of political institutions. He suggests that the relationship between the rate of institutional and organizational formation within the political system
and the rate of social mobilization is an important factor that determines the degree of political order. He argues that "just as economic development depends, in some measure, on the relation between investment and consumption, political order depends in part of the relation between the development of political institutions and the mobilization of new social forces into politics" (p. vii). According to Huntington, the level of institutionalization of any political system can be defined by the adaptability, complexity, autonomy, and coherence of its organizations and procedures.

Huntington suggests that when the development of political institutions cannot follow social and economic change, that is a primary problem in the politics in terms of political instability. Development and the resultant political order are obtained when institutional and organizational growth are compatible with the rate of social mobilization and the resultant political participation. When the rate of social mobilization greatly surpasses the rate of institutional formation during certain period of time, the political system will not be able to cope with demands made upon it and political decay will set in. He suggests, thus, that in that case, there is a correlation between social frustration and political instability and this relationship is due to the lack of two potential intervening variables which are op-
opportunities for social and economic mobility and adaptable political institutions.

He also explains revolution in terms of dramatic progress to modernization. According to him, "revolution is a rapid, fundamental, and violent domestic change in the dominant values and myths of a society, in its political institutions, social structure, leadership, and government activity and policies" (p. 264). He argues that the cause and condition of revolution are the same as other forms of violence and instability. He says "revolution occurs in societies that have experienced some social and economic development and where the processes of political modernization and political development have lagged behind the processes of social and economic change" (p. 265).

In his work, political order has been treated in terms of the relationship between institutions and social forces. Also as reviewed earlier, political instability is a dependent variable, which is determined by the relation between social frustration and mobilization and institutionalization.

Contrary to Huntington's analysis on political instability and revolution, there are different approaches in terms of finding the causes of revolutions.

In States and Social Revolutions, Skocpol analyzes social-revolutionary transformations in French, Russia,
and China. She focuses on three major conceptions, state structure, international forces, and class relations in order to explain the origins and accomplishments of social-revolutionary transformations. In particular, the reason the book was attracts scholars' attention is that it introduces 'the Statist approach' to explore these three social revolutions. Skocpol, one of neostatists, tries to place the state at the center of the analysis of social-revolutionary transformations and focuses on its autonomy and capacity.

According to her, revolutions can be defined as "rapid, basic transformations of a society's state and class structures; and they are accompanied and in part carried through by class-based revolts from below" (p. 4). She argues that existing social-scientific theories of revolutions, including Marxists and structure-functionalists, are not adequate for explanation in order to analyze the causes and the outcomes of social revolutions. She criticizes the social scientific approach and Marxist approach because of their failure to consider state structure and economic determinants. Accordingly, she argues that social revolutions should be studied in the context of social and state structure. She suggests three theoretical perspectives, a structural perspective, international and world-historical contexts, and the potential autonomy of the state.
She follows a Weberian perspective in terms of consideration of the state, that is, the state must be considered as more than the government. Based on those conceptions on the state, Skocpol argues that "the historical realities of social revolutions insistently suggest the need for a more state-centered approach" (p. 29). As a matter of fact, Skocpol's state-centered model provides a new heuristic ground to understand another side of political reality that many social scientists have ignored.

Another alternative to the study of economic performance can be found in Katzenstein's book, *Small States in World Markets*. Katzenstein's observation on the world economy during 1970s and 1980s is that the structure of the world economy has been changed. A central question following from this observation is how small European states cope with structural change in world economy and succeed in both economically and politically. In order to explain his main thesis, Katzenstein focuses on two phenomena which are observed in small European states, 'flexible adjustment' and 'democratic corporatism.'

According to Katzenstein, there are three political responses to economic change corresponding to the dominant political forms of contemporary capitalism. First, liberal states such as the United States and Britain, rely on macroeconomic policies and market solutions in
the economic change. In the case of the United States particularly, Katzenstein argues that,

confronted with economic change, the U.S. government and U.S. firms prefer adjustment in global markets to reliance on government action. Free trade and foreign investment by firms rather than industrial policy coordinated by the government is the option they favor (p. 25).

The industrial policy of the United States coping with economic change can be seen as voluntary export restraints, orderly marketing agreements, and administrative interventions.

Second, Statist states such as Japan are endowed with the means and the institutions to preempt the costs of change through policies that pursue the structural transformation of their economies. Katzenstein argues that Japan's industrial policy is focused on anticipating structural changes in markets and to assisting industries to be able to compete in certain industry segments or product lines. As a typical example of the statist state, Katzenstein describes Japan and its industrial policy in the changing economy as follows; "Japan's innovative industrial policy focused on long-term market development, relied on protection while establishing international competitiveness, and relinquished that protection, often under intense foreign pressure, when international competitiveness had been achieved" (p. 26).
Finally, democratic corporatism on which Katzenstein mainly focuses in this book shows that small European states respond to economic change with flexible policies of industrial adjustment. According to Katzenstein, small European states "neither export the costs of change through protection nor preempt the costs of change through structural transformation" (p. 58). In terms of success or failure in adjusting to economic change, Katzenstein argues that "...small countries have largely succeeded in this task, and they have done so by taking into account both the economic and the political requirements of rapid change" (p. 29). According to Katzenstein, small European states that follow democratic corporatism "adjust to economic change through a carefully calibrated balance of economic flexibility and political stability" (p. 29).

As a conclusion, Katzenstein argues that the economic openness and democratic corporatist structures of the small European states have had a strong effect on their political strategies and successful economic performance.

Summary

Studies on the relationship between political instability and economic growth show differences depending upon what researchers focus on, how they construct their
regression model; that is what is the dependent variable. In this chapter, two research tendencies have been reviewed. The studies that assign political instability as the dependent variable are reviewed in the first section. In the most of studies, political instability has been conceptualized in terms of political violence or conflict. Various studies find that there is a negative relationship between economic growth and political instability. Second, I review the studies that employ political instability as the independent variable seeking its impact on economic growth, which affect the hypothesis of this thesis. Particularly, I review the study of Sub-Saharan African countries dealing with the relationship between political instability and economic growth. Political instability, in those studies, has been conceptualized in terms of elite instability, which is operationalized by number of coups. They find that political instability hinders economic growth.

At the end of this chapter, three important studies on political order and social revolutions have been reviewed. Huntington's analysis of political order discusses the cases of political instability during modernization period in underdeveloped countries. Skocopol's study of social revolution provides an alternative approach to the cause and outcome of social revolution. Finally Katzenstein's Small States in World Markets shows
that democratic corporatist structures along with economic openness in small European states have had a strong effect on their political strategies and successful economic performance.
CHAPTER III

DESIGN AND METHODOLOGY

Hypotheses

In order to test the impact of political instability on economic development, the following hypotheses will be examined:

H1: Cross-nationally, Political Instability may serve to decrease the availability of factors of production.

H2: Cross-nationally, Political Instability will decrease the quantity of labor.

H3: Cross-nationally, Political Instability may negatively influence the timing and organization of the production process.

Design of the Thesis

The purpose of this study is to examine the empirical relationship between political instability and economic development. In order to do that, this study employs a statistical method using cross-sectional multiple regression analysis using cases from the developing nations, including Asian, Central and Latin American, and African countries.

The estimated equation is as follows:
\[ G = a_0 + \beta_1 K + \beta_2 L + \beta_3 X + \beta_4 P + v \]

where \( G, K, L, \) and \( X \) are growth rates of output, labor, capital, and exports respectively. \( P \) is a measure of Political Instability, that is, the independent impact of Political Instability when quantities of labor and capital are controlled for, and \( v \) is the stochastic disturbance, which is assumed to be independently and identically distributed.

Consistent with neoclassical theory, \( \beta_1 \) and \( \beta_2 \) are expected to be positive. Given the desirable influence of exports on economic growth found in previous studies, \( \beta_3 \) should be positive. Most important, the above theoretical discussion regarding the effect of political instability leads to the prediction that \( a_4 \) will be positive.

In this thesis, the cases include developing countries in Asia, Africa, and Latin and Central America. As indicated in the first chapter, the research question of this thesis is based on previous research on the impact of political instability on economic growth in Sub-Saharan countries. In order to increase the explanatory power of the impact of political instability on economic growth, it is necessary for this research to cover more
regions and cases. Therefore, Asian, Latin, Central American, and African countries are included in this thesis. East European developing countries are excluded because they used to be communist societies so they do not provide proper economic data for this research. Other communist countries such as China and North Korea are also excluded because of a lack of data. Countries that are considered in this thesis are listed in Appendix A.

Definitions of the Concepts

Political Instability

Political instability is a concept that can be explicated in various ways. According to Hurwitz (1973), there are five different ways to define political instability/stability. First, it can be explicated in the context of the "existence of violence". Feieraband & Feieraband (1966) thus define political instability as

the degree or the amount of aggression directed by individuals or groups within the political system against other groups or against the complex of officeholders and individuals and groups associated with them. Or, conversely, it is the amount of aggression directed by these officeholders against other individuals, groups, or officeholders within the polity (Feieraband & Feieraband, 1966, p.250).

Lack of a legitimate constitutional order has also been used as a definition of political instability. For example, Lipset (1981) regards legitimacy as a vital com-
ponent of any serious study of political stability. Hurwitz (1973) indicates that "Lipset states that a legitimate [stable] society is evidenced by the absence over the past 25 years of a major political movement opposed to the democratic rules of the game" (p. 456).

Existence of structural change has also been considered as evidence of political instability. Hurwitz (1973) states that

A system is seen as stable if it has been able to avoid changes in its basic structural arrangement/configuration over the years. Continuity or persistence of form distinguishes stable polities from those unable to maintain their pattern in the face of environmental pressures (p. 457).

Ake (1967) and Field (1967) define political instability in the context of the existence of structural change.

According to Hurwitz (1973), political stability can be defined "in the sense that it is 'systemic stability' rather than any one isolated monomeasure" (p. 458). He explains that

This approach of course, is less amenable to precise quantification because the various societal attributes offered by some do not easily lend themselves to mathematical indicators. This does not mean that the approach is without merit, however, for it rightfully recognizes that the concept of 'stability' cannot be reduced to isolated variables (Hurwitz, 1973, p. 458).

Finally, according to Hurwitz (1973), there is a governmental duration approach in the definition of political instability. Hurwitz (1973) describes that
"Country A is deemed to be more stable than Country B if the former has a government/administration that remains in office, on average, for a longer time span than that of the latter" (p.452).

The definition of political instability used in this thesis is based largely on Hurwitz's categories regarding the lack of governmental duration and structural change. In most of the Less Developed Countries, government has played a major role in the economic performance. In that sense, in order to capture the relationship between political instability and economic development in the developing countries, it is appropriate that political instability is defined in terms of the lack of governmental duration.

Economic Growth

Economic growth can be defined in various ways depending upon the dimensions of economic phenomena that researchers focus on. During the peak of modernization theory, economic growth was considered in terms of a series of historical stages. Typical of this approach is Rostow's *Stages of Economic Growth: A Non-Communist Manifesto* (1960). Berberoglu (1992) briefly describes Rostow's five stages of economic growth as follows:

The initial stage is called "the traditional society," characterized by traits supposedly typical of the rural, non-capitalist sector of
underdeveloped countries. Next is the "preconditioning" stage, followed by the "take-off," the "drive to maturity," and, finally, the "age of high mass-consumption" (p.9).

Economic growth thus becomes a matter of whether or not certain condition exist, such as free markets, free enterprise, modern tax systems, the rationalization of the state and so on.

In more recent years, economic growth has begun to be considered in the context of production. Although most empirical research dealing with economic growth does not clearly define the theoretical concept of economic growth, these authors intentionally consider economic growth in the context of the growth of production. Based on extensive research (Olson, 1982; Goldsmith, 1986, 1987; Weede, 1990; Fosu, 1992; Mbaku, 1992; Chai, Chai, & Clark, 1994), the definition used in this thesis limits its meaning to the overall increase in the national product. This thesis employs several economic factors, growth of capital, gross domestic investment, and growth of the labor force, which are treated as production inputs. Fosu (1992) argues that "[certain] type of study on economic growth investigates the degree to which inter-country economic growth differentials may be explained by differences in production inputs" (p.829). According to him, "such studies tend to emphasize the role of exports in LDCs and employ an augmented production-
function framework with exports as a functional argument" (1992, p.839).

Operational Definition

Political Instability

There are several operational definitions of political instability in the context of governmental duration. Russett (1964) measures political instability by tracing the number of chief executives. He measures the average number of years the chief executive remained in office (Russett, 1964). Blondel (1968) and Taylor and Herman (1971) also define political instability in the context of governmental duration. Blondel's operational definition is presented in terms of years per government (1968). According to Blondel (1968),

...any administration is considered as on government which fulfilled two conditions: that of being headed by the same prime minister and that of relying on the support of the same party or parties in the Chamber (p. 190).

Taylor and Herman (1971) operationalize political instability as the number of separate governments and the duration of those governments in days. This thesis borrows its operational definition from Blondel and from Taylor and Herman. However, since this thesis considers both presidential and parliamentary systems, the meaning of the government in the presidential system has to be de-
fined. In this thesis, any administration is considered as one government when one president remains in office in the presidential system. In those countries which have parliamentary systems, the meaning of government is considered as the same as Blondel's. Finally, political instability can be operationalized as average number of years chief executive remains in office.

Economic Growth

First, the dependent variable, economic growth, will be measured as the mean annual GDP growth rate (in percent) over the 1948-1977 period. Following Fosu, growth of capital, growth of labor force, and growth rate of merchandise exports have been selected as independent variables in order to examine the indirect effects of political instability on economic growth (1992). Growth of capital can be measured as mean gross domestic investment as a percentage of GDP. Growth of the labor force can be measured as the mean annual percent growth rate of the labor force. Growth of exports can be measured as the average annual percent growth rate of merchandise exports (Fosu, 1992).

Data Collection Procedures

Data for average number of years chief executive officers remain in office are calculated from [Current world]
CHAPTER IV

RESULTS OF ANALYSIS

Findings of Analysis

Multiple regression analysis has been employed to examine the production function in economic development. Table 2 shows the result of multiple regression analysis. $R^2$, the coefficients of determination, (.317) shows that the independent variables, the Growth of Capital, Growth of Capital, and Growth of Merchandise moderately explain the variance of economic growth. Consistent with expectations, the coefficients of Growth of Capital and Growth of Merchandise Export are all positive, although growth of capital is only marginally significant. Contrary to expectation and the results of Fosu's study (1992), the coefficient of Growth of Labor Force is not significant.

Including the above index of political instability, the result of the analysis raises the standard error of the estimate in Growth of Capital and Growth of Labor Force in Table 3. $R^2$ has not been changed. In addition, the coefficient of the index of political instability does not have the expected positive sign, nor is it
Table 2

Multiple Regression Equations for Economic Growth

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Constant</th>
<th>β</th>
<th>Standard Error</th>
<th>$R^2$</th>
<th>T stat.</th>
<th>Sig. Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of Capital</td>
<td>-.309</td>
<td>.294</td>
<td>.062</td>
<td>.317</td>
<td>2.001</td>
<td>.052</td>
</tr>
<tr>
<td>Growth of the Labor Force</td>
<td>-.309</td>
<td>.091</td>
<td>.428</td>
<td>.627</td>
<td>.534</td>
<td></td>
</tr>
<tr>
<td>Growth of Merchandise Export</td>
<td>-.309</td>
<td>.393</td>
<td>.049</td>
<td>2.918</td>
<td>.006</td>
<td></td>
</tr>
</tbody>
</table>

The growth of capital is measured as mean gross domestic investment as a percentage of GDP; Growth of the Labor Force is the mean annual percent growth rate of the labor force; Growth of Merchandise Export is the average annual percent growth rate of merchandise exports.
Table 3
Multiple Regression Equations for Economic Growth 2

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Constant</th>
<th>$\beta$</th>
<th>Standard Error</th>
<th>$R^2$</th>
<th>T stat.</th>
<th>Sig. Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of Capital</td>
<td>-.300</td>
<td>.295</td>
<td>.063</td>
<td>.317</td>
<td>1.972</td>
<td>.056</td>
</tr>
<tr>
<td>Growth of the Labor Force</td>
<td>-.300</td>
<td>.091</td>
<td>.434</td>
<td>.619</td>
<td>.539</td>
<td></td>
</tr>
<tr>
<td>Growth of Merchandise Export</td>
<td>-.300</td>
<td>.393</td>
<td>.050</td>
<td>2.862</td>
<td>.007</td>
<td></td>
</tr>
<tr>
<td>Political Instability</td>
<td>-.300</td>
<td>-.005</td>
<td>.049</td>
<td>-.035</td>
<td>.973</td>
<td></td>
</tr>
</tbody>
</table>

The Growth of Capital is measured as mean gross domestic investment as a percentage of GDP; The Growth of the Labor force is the mean annual percent growth rate of the labor force; The Growth of Merchandise Export is the average annual percent growth rate of merchandise exports.
statistically significant. As Fosu (1992) indicated, the index of political instability might have a lack of interval significance, so a dichotomous variable for political instability may be applied. Consequently, the dummy variable for political instability, PD, has been assigned, which takes on unity if a given country has an index value below the mean value for the cases and zero otherwise. Using this dichotomous scheme, the cases of countries are classified into "high"- and "low"- countries, as shown in the Appendix A.

Regression results with the binary PI variable PD replacing the index of political instability are reported in Table 4. Contrary to Fosu's study (1992), not only is the coefficient of PD statistically insignificant, but also the sign of the coefficient is negative. The individual coefficients of the remaining variables have not been changed. The dummy variable does not help to increase significance but affects nothing in the original model. Consequently, according to the statistical results, there is no evidence that political instability as measured by average number of years the chief executive remains in office has an impact on economic growth as measured by average growth of Gross Domestic Product in the developing countries.

Tables 5, 6, and 7 show the indirect impact of political instability on economic growth by analyzing the
### Table 4

Multiple Regression Equations for Economic Growth

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Constant</th>
<th>$\beta$</th>
<th>Standard Error</th>
<th>$R^2$</th>
<th>T stat.</th>
<th>Sig. Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of Capital</td>
<td>-.172</td>
<td>.293</td>
<td>.063</td>
<td>.318</td>
<td>1.968</td>
<td>.056</td>
</tr>
<tr>
<td>Growth of the Labor Force</td>
<td>-.172</td>
<td>.090</td>
<td>.433</td>
<td></td>
<td>.618</td>
<td>.540</td>
</tr>
<tr>
<td>Growth of Merchandise Export</td>
<td>-.172</td>
<td>.400</td>
<td>.050</td>
<td></td>
<td>2.898</td>
<td>.006</td>
</tr>
<tr>
<td>Political Instability (dummy)</td>
<td>-.172</td>
<td>-.043</td>
<td>.598</td>
<td></td>
<td>-.316</td>
<td>.754</td>
</tr>
</tbody>
</table>

The Growth of Capital is measured as mean gross domestic investment as a percentage of GDP; The Growth of the Labor Force is the mean annual percent growth rate of the labor force; The Growth of Merchandise Export is the average annual percent growth rate of merchandise exports; Political Instability dummy variable takes on unity if a country has an index value above the mean, but zero otherwise.
Table 5
Indirect Effect of Political Instability on Economic Growth 1

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Constant</th>
<th>$\beta$</th>
<th>Standard Error</th>
<th>$R^2$</th>
<th>T stat.</th>
<th>Sig. Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Instability (dummy)</td>
<td>2.686</td>
<td>-0.101</td>
<td>0.192</td>
<td>0.010</td>
<td>-0.754</td>
<td>0.454</td>
</tr>
</tbody>
</table>

Dependent Variable is Growth Rate of Labor Force

Political instability dummy variable takes on unity if a country has an index value above the mean, but zero otherwise.

Table 6
Indirect Effect of Political Instability on Economic Growth 2

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Constant</th>
<th>$\beta$</th>
<th>Standard Error</th>
<th>$R^2$</th>
<th>T stat.</th>
<th>Sig. Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Instability (dummy)</td>
<td>20.494</td>
<td>-0.049</td>
<td>1.645</td>
<td>0.002</td>
<td>-0.379</td>
<td>0.706</td>
</tr>
</tbody>
</table>

Dependent Variable is the Growth of Capital.

Political instability dummy variable takes on unity if a country has an index value above the mean, but zero otherwise.
Table 7
Indirect Effect of Political Instability on Economic Growth

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Constant</th>
<th>$\beta$</th>
<th>Standard Error</th>
<th>$R^2$</th>
<th>T stat.</th>
<th>Sig. Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of Capital</td>
<td>.399</td>
<td>.204</td>
<td>.198</td>
<td>.059</td>
<td>1.201</td>
<td>.237</td>
</tr>
<tr>
<td>Growth of the Labor Force</td>
<td>.399</td>
<td>-.045</td>
<td>1.388</td>
<td>-.264</td>
<td>.793</td>
<td></td>
</tr>
<tr>
<td>Political Instability(dummy)</td>
<td>.399</td>
<td>.150</td>
<td>1.896</td>
<td>.967</td>
<td>.339</td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable is the average annual percent growth rate of merchandise exports.

The Growth of Capital is measured as mean gross domestic investment as a percentage of GDP. The growth of the labor force is the mean annual percent growth rate of the labor force. Political Instability dummy variable takes on unity if a country has an index value above the mean, but zero otherwise.
impact of political instability on growth capital and the
growth rate of merchandise export. Table 5 shows the im­
pact of political instability on the growth rate of the
labor force. The coefficient of determination of the
equation is just .010 and the sign of correlation coeffi­
cients is negative. Furthermore, the T value is not sta­
tistically significant. Table 6 also examines the impact
of political instability on growth of capital. Consis­
tent with the above result, the coefficient of determina­
tion is very low, .002, and the sign of correlation coef­
cients is negative. Statistical significance is even
lower than above. Table 7 shows the impact of growth of
capital, growth rate of the labor force, and political
instability on growth rate of merchandise exports. As
seen in Table 7, the coefficients of determination is
very low (.059). The sign of the coefficients for the
growth rate of the labor force is unexpectedly negative.
None of those independent variable is statistically sig­
nificant. Consequently, consistent with the result of
direct impact, there is no statistical evidence of the
impact of political instability on those variables.

Going back to the hypothesis that I developed in the
previous chapter, the multiple regression procedures do
not reject the null hypothesis that there is no statisti­
cal relationship between political instability and eco-
nomic growth. Some possible explanations for this insignificance will be described in the following section.

Possible Reasons for Insignificance

In the empirical research, statistical significance is crucial to support hypotheses or to reject null hypotheses. It is fair to assume that researchers do not want their analysis to be insignificant. However, when the analysis is not statistically significant, that situation becomes a new challenge for researchers. In other words, suggesting reasons for insignificance becomes a new part of the analysis. Consequently, statistical insignificance has to be analyzed in the various dimensions. Under this new challenge, I identify several possible reasons for the statistical insignificance found in the empirical research. They can be divided into two categories, theoretical and methodological.

Theoretical Consideration

The crucial theoretical problem is how to select or employ a relevant explanatory variable in the explanation of the phenomenon. It is virtually impossible to validate and define the exclusive impact of only one independent variable, which in my case is political instability. In the phenomenon of economic growth, there would be various variables that might have an impact on eco-
nomadic growth. Here, the fact that the selection of an independent variable might be influenced by a certain approach will be considered.

First, I have to ask if a systems approach really helps to find the impact of political instability on economic growth in developing countries. This deals with the debate between the state approach and systems approach. As briefly indicated in the Introduction, the systems approach does not consider the characteristics of the state itself. In other words, the state can never be an independent variable. More important variables in the system approach are, as Isaak (1981) argues, the system and its behavior including interaction of its elements. In that context, the hypothesis employed in this thesis is derived from the system approach.

In the *State and Social Revolution*, Skocpol (1979) argues that in the study of social revolution, existing theories which are based on the assumption of the system approach do not help us to understand the causes and outcomes of social revolution. The reason is that, according to her, social revolution occurs not by purposive action but by structural forces within the certain states which are autonomous from society (1979). Consequently, the concept of state is necessary to find the causes and outcomes of social revolution (1979).
Then, how is the state approach related to the subject of this thesis? The main hypothesis of the thesis is that political instability negatively influences economic growth. There is no consideration of the state in this thesis. However, as long as statistical analysis does not support the hypothesis, it might be worthwhile to consider the impact of the state as an intervening variable or even an independent variable. For example, the corporatist perspective and bureaucratic authoritarian perspective can be considered in some way.

In the study of successful economic performance in small European states, Katzenstein employs the concept of corporatist states. He identifies three kinds of state, including the liberal state, statist state, and corporatist state depending upon how each kind of state copes with changes in the world economy. According to Katzenstein, democratic corporatism, on which he mainly focuses, shows that small European states respond to economic change with flexible policies of industrial adjustment. Consequently, according to Katzenstein, economic success in small European states can be explained only when democratic corporatism is considered.

In his book, The State and Society: Peru in Comparative Perspective, Stepan (1978) argues that state plays a major role in some of the models used in contemporary political analysis. While introducing Organic-Statism and
its model of governance, the corporatist state, he argues that in Latin American countries, such as Mexico, the state apparatus plays a central role in creating the political, ideological, and economic infrastructure necessary for the emergence of the national bourgeoisie. According to him, state matters in relation to development and it should be treated as a significant independent variable in the analysis.

Hirschman (1958) assumes that capital is necessary for development and in developing countries, a major source for capital is the state itself due to the lack of economic performance of individuals and private groups. According to him, no developing country can pursue its development without state involvement in the economy.

Consequently excluding the influences of the state in the analysis of economic performance, especially for the analysis of developing countries, might be a mistake.

Methodological Consideration

The Problem of Conceptualization

Concepts are the basic units of analysis in the theory, which is the final product of scientific study. Phillips (1976) suggests that "concepts are abstractions used by scientists as building blocks for the development of propositions and theories that explain and predict
phenomena" (p. 56). Thus, scientific theory cannot be gained without sound conceptualization. According to Isaak (1981), concepts are defined at two levels of abstraction, the theoretical and the observational. Definitions at the theoretical level are called intuitive definitions, and definitions at the observational level are called operational definitions.

Intuitive definitions are theoretical and convey the general meaning of a term. According to McGaw and Watson (1976), "they indicate what the term means in a general sense, and they suggest how the concept relates to other concepts. Intuitive definitions, however, do not specify unequivocal instructions for observing and measuring instances of a concept" (p. 125).

Operational definitions define concepts by specifying the operations for observing and measuring their instances. According to Isaak, operational definitions connect intuitive definitions with empirical observables.

As indicated in a previous chapter, political instability can be defined in various ways. As indicated in the previous chapter which deals with intuitive definition, the phenomena of political instability have several dimensions. The problem is that intuitive definitions cannot configure the context of political phenomena perfectly. Consequently, the lack of statistical significance of this thesis could be due to the lack of validity.
of the concept of political instability which was defined in terms of the lack of government duration.

There is another possible reason for statistical insignificance. It is the issue of operational definitions. The operational definition that has been employed to observe the lack of government duration empirically is the average number of years a chief executive remains in office. A possible problem results from the question whether those indicators can capture the theoretical concept. The fact is that there is a gap between existing political phenomena and empirical indicators which are defined in quantitative terms. Consequently, statistical insignificance might be caused by the empirical indicators which cannot fully represent political phenomena such as political instability.

The Problem of Design

Another question about statistical insignificance might be the usefulness of cross-sectional analysis. As a matter of fact, this issue is related to intuitive and operational definitions. In many cases of empirical research, the type of research design relies on how to define and operationalize the key concepts. I define political instability in the context of government duration, and compare forty three developing countries cross-sectionally. If the configuration of political instabil-
ity is defined in other ways, such as in terms of domestic violence, then the design would be different from what I employed. I already mentioned questions about conceptualization and operationalization problems. Now, I have to answer another dimension of the methodological issue which is the type of design.

In his article, *Deprivation and Political Violence in Northern Ireland, 1922-1985*, Thompson (1989) argues that theories of social conflict and political movements cannot be efficiently tested with cross-sectional data. According to him,

> rather, time-series data, where variables are measured at regular intervals over a period of time, are required... the evaluation of social policy is inherently oriented to change, and time-series analysis is appropriate for assessing the effects of policy shifts (p. 677).

The statistical insignificance of this thesis might be caused by the type of design, cross-national analysis, which does not capture time impact of countries that have been tested. Of course, in general, time-series analysis has a limitation in terms of the number of cases, since available data are limited to certain years. Thus, given the number of cross-national cases, representing developing countries of Asia, Latin and Central America, and Sub-Saharan Africa, it would be more powerful and appropriate if pooled time-series analysis were employed. The
advantage of pooled time series analysis will be dis-
cussed more at Chapter V.
Economic growth is one of the major issues in the less developed countries. Economic growth and political stability have been major subjects in the modernization approach for several decades due in large part to the reflection of political and economic phenomena in the less developed countries. The relationship between economic growth and political stability has been studied in various forms depending upon which factor scholars are using as the dependent variable. Until recently, economic growth was an independent variable which allegedly determined political order or stability. Scholars focused on why certain countries are not stable while others are. In this kind of study, scholars conclude that rapid economic growth is highly related to relative deprivation and ultimately causes political instability. On the other hand, some scholars studying primarily African countries employ economic growth as a dependent variable which is explained by political order. They suggest that the more political stability, the more economic growth. They find an empirical relationship between those two variables in recent years. Those studies emphasize the political factor in economic growth. However, those
studies limit their scope to a certain geographical area which is the Sub-Saharan African countries. In there an empirical relationship between political stability and economic growth not only in some African countries but also in all developing countries? That is the main theme of this thesis.

In this thesis, I have hypothesized that political instability, defined in the context of governmental duration, is likely to have a negative effect on economic growth. The relationship between political instability and economic growth has been examined cross-nationally over the 1970-1990 period for a sample of 43 developing countries. Multiple regressions based on augmented production-function framework, which includes as functional arguments labor, capital, and export, as well as political instability, measured by average number of years chief executive remains in office, do not lend support to the hypothesis that political instability has a deleterious impact on economic growth.

Some explanations about statistical insignificance have been represented in Chapter IV in terms of theoretical and methodological dimensions. First, in the selection of the explanatory variable, I examined other possibilities in the context of other approaches such as the statist approach focusing on the characteristics of the state. Second, in the explications of methodological
problems, I examined two dimensions. First, the problem of defining configurations of the phenomena of political instability has been explained in two different levels of abstractness, conceptual and operational definitions. Second, alternative types of designs, time-series analysis and pooled time-series were introduced.

Despite the fact that the null hypotheses have not been rejected, this thesis makes several contributions to the study of political instability and its impact on economic growth. First, in terms of theory, this thesis has tried to expand the generalizability of the empirical findings which have been found in Sub-Saharan African countries to other developing systems, including Asian, Central and Latin American countries. Since Mbuka (1992) and Fosu (1992) empirically demonstrated the impact of political instability on economic growth in Sub-Saharan African countries, I expected to find empirical results which demonstrated the impact of political instability on economic growth in other developing countries; thus this thesis could make more generalizable relationships between political instability and economic growth. However, the statistical result does not support my hypothesis. Given the conceptual and operational definitions and the result of multiple regression analysis, there is no statistical relationship between political instability and economic growth in developing countries. Consequently, this the-
sis proves the efficiency of the middle range theory which applied to only certain geographical areas.

This thesis attempted to employ a different configuration of the conceptual definition of political instability. Government duration has been used in the study of developing countries as described in Chapter III. However, in terms of consistent policy making, I expected that the government duration concept could be applied to every country, regardless of whether it is developed or underdeveloped. Contrary to studies on developing countries, this thesis could not achieve statistical support for the relationship between political instability, which is defined in terms of government duration, and economic growth. In developing countries, I found that government duration might not be a useful definition of political instability. Rather, I found that other contexts of political instability should be defined.

Cross-sectional analysis is not quite appropriate for searching for the impact of political instability on economic growth. Rather, longitudinal analysis would be preferable. In order to maximize generalizability, however, we need to combine longitudinal analysis with cross-sectional analysis. It would be better if we capture the impact of longitudinal changes or shifts, and at the same time obtain enough cross-sectional cases. Statistically, pooled time-series analysis makes this possi-
ble. This thesis also shows that the proper set of data is needed to conduct empirical analysis. Compared to economic data, the set of political data is not abundant.

Consequently, although this thesis does not statistically confirm the impact of political instability on economic growth in developing countries, a consideration of the possible reasons for this finding can contribute to the further study of the relationship between political instability and economic growth by developing more useful research designs and conceptualizations.

Recommendations for Further Study

I examined various possible reasons for statistical insignificance from the theoretical to methodological. Based on this consideration, I recommend the following strategies for further study of the impact of political instability on economic growth. First, it would be better if more appropriate and possible explanatory variables were considered along with political instability. Second, in the process of conceptualization, it would be better if the intuitive and operational definitions of political instability and other variables were considered in terms of representing temporal changes and shifts. Third, it would be better to use pooled time-series analysis. It would help both theoretically and methodologically in terms of expanding generalizability and not
losing the degree of freedom. What kind of research design may be employed, in this case, is solely determined by how to conceptualize and operationalize political instability. Even if pooled time-series analysis is a truly powerful design, as seen in this thesis, when political instability is captured by average number of years chief executive remains in office, we cannot assign pooled time-series analysis. When I assert that pooled time-series would be better, I also intend that more reliable and validated indicators should be employed. For example, when we are able to capture and make indicators for all intuitive definitions of political instability that Hurwitz (1973) provides, which are existence of violence, existence of structural change, lack of constitutional order, systemic instability and lack of governmental duration, we could assign various research design such as pooled time-series analysis and cross-national analysis in single research.

Fourth, I would suggest that it would be better if the regime type were considered in the model. As I indicated in Chapter II, even if a simple relationship between regime type and economic growth has not been confirmed by various scholars (Przeworski and Limongi, 1995; Roemer, 1995), the regime type might be an intervening variable between political instability and economic growth. For example, if we are surely able to define re-
gime type for each country, we can assign make regime type as a dummy variable and capture the impact of regime type.
Appendix A

Sample of Developing Countries
*ARGENTINA  MADAGASCAR
*BANGLADESH  MALAWI
*BOLIVIA  *MALAYSIA
*BRAZIL  *MEXICO
*BURKINA FASO  *NICARAGUA
*BURUNDI  *NIGER
*CAMEROON  *NIGERIA
*CHILE  *PAKISTAN
*COLOMBIA  *PANAMA
*COSTA RICA  PARAGUAY
*ECUADOR  *PERU
*EL SALVADOR  PHILIPPINES
*ETHIOPIA  SENEGAL
*GUATEMALA  SIERRA LEONE
*HONDURAS  *SRI LANKA
*INDIA  *THAILAND
*INDONESIA  TOGO
*IVORY COAST  *TURKEY
*JAMAICA  *URUGUAY
*KENYA  *VENEZUELA
*KOREA  ZAMBIA
*ZIMBABWE

*Classified as 'high' political instability
(remainder as 'low' political instability)

Mean of Political Instability is 6.86
Appendix B

Correlation Matrix
<table>
<thead>
<tr>
<th>Growth of Capital</th>
<th>Growth of Labor Force</th>
<th>Growth of Merchandise Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of Capital</td>
<td>.402</td>
<td>.185</td>
</tr>
<tr>
<td>Growth of Labor Force</td>
<td></td>
<td>.035</td>
</tr>
<tr>
<td>Growth of Merchandise Export</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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