

Economic Transparency and Political (In)Stability

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Abstract

We develop a new measure of the degree to which governments make information about their actions and the resulting economic outcomes available to the general public. We explore the variation in transparency across countries and time and its effect on political variables such as protests, revolutions and coups, democratic survival and autocratic collapse. We also explore the effects of transparency on economic variables, such as type and location of investment and the choice across borrowing instruments by sovereign states.

In this talk, we emphasize the effects of transparency on domestic political stability. Perhaps not surprisingly, democracies – even poor ones – make economic data more available than do autocracies of a similar level of development. Young democracies that fail to improve their transparency scores, however, risk autocratic reversal. Autocracies that do make economic data more available attract foreign investment but at the cost of political stability: mass unrest becomes more likely (even if the coup-risk declines). Often, autocrats use the threat of mass unrest to unify the ruling elite in order to entrench the regime more deeply. Overall, autocratic policymakers battle with the trade-off between more transparency, and the economic (and some political) benefits that come with better functioning markets, with increased risk of revolt and potential political instability.