7. Economic Performance, Political Competition and Regime Stability in Postwar Latin America

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Guillermo O'Donnell's work examined many practically pressing and intellectually challenging problems. This chapter returns to one of them: the influence of economic performance on the stability of political regimes in Latin America. Like *Modernization and Bureaucratic-Authoritarianism* (1973), the chapter presents an empirical fact to motivate an evaluation of influential theories in contemporary studies of democracy and then advances an alternative interpretation. The empirical fact is that in postwar Latin America, economic performance seems to have had less of an impact on the survival of competitive regimes than on the stability of authoritarian governments. Most theories of the effect of economic performance on the stability of political regimes, including O'Donnell's, predict, on the contrary, that democracies should not be less vulnerable to economic outcomes than dictatorships. My main contention is that these theories place excessive emphasis on the impact of economic performance on income and downplay the relevance of political ambition as a motivation and political competition as a stabilizing mechanism. The alternative interpretation that this chapter advances is that economic performance affects the stability of regimes more because it sets in motion those aspiring to compete for political power than because it ignites the resistance of those hurt by economic outcomes. When political competition is not institutionalized or when it is blocked, poor economic results may encourage and provide aspiring elites with an excuse to irregularly replace incumbents. Thus, signs of government weakness or incompetence, such as bad economic results, should make dictatorships more vulnerable than democracies to coups and other forms of elite activity that compromise the stability of political regimes.

The literature offers five alternative accounts of the effect of economic performance on the stability of political regimes. Four of them predict that democracies should not be less vulnerable than authoritarian regimes to economic performance. This does not fit the experience of Latin America in the post war, as the evidence presented in this chapter suggests**.** The fifth argument posits that democracies should be less vulnerable to economic performance than dictatorships, which is consistent with my empirical findings.

This chapter develops an argument inspired in this fifth prediction. Bad economic performance creates problems and hurts governments. Good economic performance generates benefits and helps governments. Those problems and benefits affect the stability of regimes depending on the credibility of the promise of leadership turn over that the rules of political competition under each regime entail. Governments tend to be stable when economic times are good (Gil-Serrate et al. 2011; Kennedy 2010). Bad economic times encourage challenges to incumbents.

Challenges to governments may or may not succeed; successful challenges lead to the irregular replacement of governments but may not lead to regime change. This chapter focuses on the effect of economic performance on the odds that a challenge takes place. The probability that a challenge succeeds depends on the resistance capabilities of incumbents. As recent contributions find, those capabilities include the costs of making political transactions and forming coalitions, the normative attachments to regimes prevailing among political elites, the degree of radicalization of political actors and the support in neighbor countries or in regional hegemonic powers to incumbent authorities and to the established regime (Ahlquist and Wibbels

2012; Boix 2011; Pérez-Liñán and Mainwaring, this volume; Torfason and Ingram 2010; Wejnert 2005). By focusing on the incentives of potential challengers, this chapter accounts for a necessary condition of successful challenges, which are themselves a facilitating condition (neither necessary, nor sufficient) of regime change.[1] In this sense, the chapter is intended as an analysis of one significant link in the causal chain that goes from economic outcomes to the survival of political regimes. This chain also interested O'Donnell. In *Modernization and Bureaucratic-Authoritarianism*, he presented economic performance as a sign of the possibilities and limits of different political regimes. He recognized that economic crises destabilized authoritarian governments but stressed the debilitating effect of crises on competitive regimes. This chapter, in contrast, views economic performance as a sign of the competence of governments and stresses the robustness of competitive regimes. Bad performance does not compromise the stability of regimes when institutionalized political competition facilitates the replacement of governments that are perceived as incompetent.

The argument is based upon the conviction that credible leadership replacement, typically a result of unrestricted political competition, plays a key role in the survival of regimes, as has been forcefully expressed in an early evaluation of the experience of new democracies in South America (Remmer 1996) and persuasively presented in a more recent contribution (Lehoucq and Pérez-Liñán 2009). It is intended as an invitation to develop theories of regime stability that are more sensitive to the specifically political incentives of actors. Chapters by Pérez-Liñán and Mainwaring and by Gervasoni in this volume point in the same direction.

Previous empirical studies have found democracies to be less vulnerable to economic results than dictatorships (Burke and Leigh 2010; Przeworski et al. 2000: 123) and evaluated this independence as the source of a democratic advantage (Remmer 1996). My finding then, is not new, though it partially deviates from the conclusions of several studies (Ahlquist and Wibbels 2012; Epstein et al. 2006; Feng 1997; Gasiorowski 1998; Gasiorowski and Power 1998; Gil-Serrate et al. 2011; Hegre et al. 2012; Kennedy 2010; Londregan and Poole 1990; Svolik 2008). These studies find that economic performance affects the stability of all regimes, though they do not always examine specifically the contrast between authoritarianism and competitive regimes as I do here.

This chapter makes theoretical and empirical contributions. It presents a comprehensive critical review of theories about the effect of economic performance on the stability of political regimes. On this basis, it discusses in detail the relevance of elite aspirations to the understanding of regime stability and examines the validity of these theoretical insights by testing the effect of economic performance on different measures of regime stability in post war Latin America. First, it highlights a negative finding: economic performance did not affect the stability of competitive regimes in this region over this period. The negative finding is important, for it belies the most common prediction of the literature, which is that democracies should be vulnerable to bad economic results. Second, it compares the effect of economic performance on the stability of competitive and non competitive regimes. To do so, it focuses on a usually overlooked phenomenon: coup attempts.

Conclusions from these theoretical and empirical exercises speak to two important questions in contemporary theoretical discussions on regime stability. One is the correspondence between regimes and policies. In contemporary political economy, the distinction between democratic and non democratic regimes is modeled as a difference in tax rates. Insights from this chapter suggest, in contrast, that competitive regimes are more flexible in terms of policy than these models allow. This does not necessarily deny the existence of a systematic difference between the policies that democracies and dictatorships are likely to implement, but it casts doubt on the relevance of this difference, should it exist, for the understanding of regime stability. The second question relates to the significance of policy safeguards for the survival of competitive regimes. Approaches to democratic stability that focus on distributive disputes, posit that constraining the range of policy variation dissipates redistributive threats and thus helps democracies survive. Conclusions from this chapter suggest that policy warranties may not be indispensable when the expectation of leadership replacement is sufficiently firm. Policy restrictions may also be counterproductive when they lead to excessive rigidity.

The exposition is organized as follows. The first section reviews hypotheses about the effect of economic performance on the survival of political regimes and derives their observable implications. The second section estimates the effect of different economic outcomes on the survival of competitive regimes using the same data and modeling strategy as the study of Pérez-Liñán and Mainwaring in this volume. Later, it tests the effect of economic performance on the probability that coups d'état take place and succeed. The third section underlines some of the theoretical lessons that may be derived from the empirical exercise for the understanding of the stability of democratic regimes. It argues in favor of a conception of democratic stability that acknowledges the central role of political competition and its two main components: leadership replacement and policy change. A fourth section summarizes the insights and findings of the previous three and explains their relevance for the study of contemporary challenges to the stability of democracies in Latin America.

Theories about the Impact of Economic Performance on Regime Survival

This section presents explanations about the effect of economic performance on the survival of political regimes and indicates the outcomes we expect to observe if these explanations were correct. *Economic performance* designates short to medium-term economic outcomes that are publicly relevant and that in most modern polities are usually taken to be influenced, at least in part, by government policies. Typical measures of economic performance are yearly per capita GDP growth, inflation and unemployment. *Political regimes* refers to the combination of formal rules, informal rules and established practices that regulate access to government positions. The literature offers a series of classifications of political regimes.[2] The chapter focuses on the contrast between competitive regimes (democracies and semi-democracies) and authoritarian ones.

Numerous empirical explorations either directly test the effect of economic performance on regime stability or control for this effect in analyses of other factors (Ahlquist and Wibbels 2012; Epstein et al. 2006; Gasiorowski 1995, 1998; Gasiorowski and Power 1998; Gil-Serrate et al. 2011; Hegre et al. 2012; Kennedy 2010; Londregan and Poole 1990; Przeworski et al. 1996, 2000; Remmer 1996; Reuter and Gandhi 2011; Svolik 2008). Though empirical studies abound and economic performance is widely assumed to determine the fate of governments under any political regime, specific theoretical analyses of this effect are relatively scarce. Still, five alternative accounts may be found among available explanations.

According to the most common accounts, the effect of economic performance on regime survival is either positive or neutral.[3] Arguments that good economic performance destabilizes political regimes are rare,[4] as are arguments that bad economic performance could stabilize some regime.[5] The accounts summarized here propose different mechanisms and different conceptions about the effect that performance may have on stability under different political regimes.

The first thesis is unconditional: bad economic performance decreases and good performance increases the probability that any kind of regime survives. Acemoglu and Robinson developed the most influential version of this kind of explanation (Acemoglu and Robinson 2001, 2006). In their account, economic crises may lower the costs of collective action for those opposed to established regimes. Thus, crises may help the poor rebel against dictatorships dominated by elites and they may also help elites mount challenges to democratic authorities when the costs of redistribution are larger than the costs of confrontation. The probability that any kind of rebellion takes place falls when economic performance is good. Therefore, we should observe that growth makes both competitive and authoritarian regimes more stable.

Three explanations in a second group hold that good economic performance prevents democracies from breaking down. In this view, the effect on authoritarian regimes is weaker or nonexistent.

The first kind of explanation in this group relates to the intensity of distributive conflicts and may be found in the seminal piece by Lipset (1959: 83). According to this portrayal, as income growths, workers become less impatient, diversify their social connections and loosen their ties to narrow class based groups, the middle class grows in size and the upper classes become more inclined to extend rights to the lower classes. The outcome of all these developments is a reduction of the intensity of distributive conflicts among social classes. Intense distributive conflicts make social actors more reluctant to accept the results of democratic mechanisms of political competition. Good economic performance protects democracies from this danger. Arguably, intense distributive conflicts may also compromise government stability under authoritarian regimes. However, autocratic rulers may rely on repression at a lower cost than democratic governments. Moreover, reasoning along these lines, the fall of an authoritarian government in a context of distributive conflict is unlikely to bring about a change of regime. Therefore, if bad economic results make distributive conflicts prevail, all else being equal, we should see democracies falling at a higher rate than dictatorships.[6]

Another kind of conditional explanation may be elaborated considering the direct impact of economic performance on income levels, in line with recent analyses by Przeworski (Przeworski 2003, 2005).[7] To the extent that the effect operates through the intensity of distributive conflicts, it could be considered as a version of the explanation in the preceding paragraph. However, this account is very specific and merits a separate consideration. According to Przeworski democracies survive when all representatives of social sectors choose to obey the results of elections. Actors maximize utility. Obedience depends on average income levels and on the results of elections. Both winners and losers of elections rebel in poor countries. Only those who lose elections rebel in countries with intermediate income levels. In richer countries no one rebels; not even those who never win elections. Improvements in economic performance increase the size of the set of distributive schemes that would be acceptable to all social sectors. It turns irrelevant the losses into which actors may incur when they lose elections. Dictators impose their most preferred distributive schemes. They fight distributive conflicts before becoming dictators and are therefore less dependent on the distributive preferences of other sectors. For this reason they are less vulnerable to economic performance. Growth deprives distributive conflicts from their corrosive effects on the stability of democratic institutions. Therefore, good economic performance protects democracies more than it protects dictatorships. Interestingly from the point of view of this chapter, it also makes political competition inconsequential for the survival of competitive regimes in rich countries.

A third explanation in which democracies appear as more sensitive to economic performance than dictatorships may be found in Gasiorowski's work on economic crises (1995). One of the arguments the author evaluates[8] is, unlike the previous ones, centered on elites. According to it, democracies are more vulnerable to bad economic performance, for example, to economic crises, when "certain political actors who are capable of bringing about regime change believe that democratic and semi democratic regimes hinder the resolution of these crises because governments under such regimes are more responsive to popular pressure and therefore less capable of carrying out the painful measures needed to resolve these crises" (Gasiorowski 1995: 884). The diffusion of the belief that economic crises may not be overcome under democratic rules is central to the interpretation of the fall of Southern Cone democracies that O'Donnell presented in *Modernization and Bureaucratic-Authoritarianism*. For the same reason, because robust growth demands the adoption of socially costly measures and dictatorships are deemed to be less vulnerable to the imposition of social costs, authoritarian regimes should become more robust when economic results are negative. Gasiorowski labels this effect of economic performance on the probability of regime change in each direction, "complementary."[9]

A fifth approach to the effect of economic performance on regime stability is also elite based and conditional on the type of regime, but unlike the previous ones, predicts economic performance to be more consequential to the survival of autocracies than to the stability of competitive regimes. Remmer (1996) advances a clear and persuasive interpretation of the problem. According to Remmer: "Regime durability may be expected to vary indirectly with the incentives and opportunities of political actors to achieve their goals by changing the existing regime framework. Democracy dampens those incentives by institutionalizing opportunities for leadership and policy change" (1996: 617).

Remmer's insight could be interpreted as an elaboration of the conviction that democratic legitimacy offers more reliable support to face the problem of succession than the various legitimacy formulae to which authoritarian regimes resorted. This conviction was widely influential among classical studies on political regimes (Linz 1975), including O'Donnell's (1979b), and also inspires contemporary work on the efficacy of alternative power sharing arrangements under different types of authoritarianism (Gandhi 2008; Gandhi and Przeworski 2007; Magaloni 2008; Reuter and Gandhi 2011; Svolik 2009). According to this rich tradition of studies, the stability of political regimes depends crucially on the credibility of the paths to power they offer to organized political elites. Remmer's contention is that, in general, the promise that paths to power will not be permanently blocked is more credible under competitive than under non competitive regimes.

This explanation shares with the previous one the advantage of focusing on elite incentives but it is less dependent than accounts by Gasiorowski and O'Donnell (in *Modernization and Bureaucratic-Authoritarianism*) on the general prevalence among political actors of a particular interpretation of the possibilities of alternative regimes. The emphasis on elite incentives is important for two reasons. First, it places attention on a factor --elite behavior-- that immediately precedes the outcome of interest: regime survival.[10] Second, it emphasizes political ambition as a trigger of potentially destabilizing behavior. In my view, political ambition offers a more persuasive reason than dislike for policies to account for the risky and unusual decision to challenge governments. An account based on elite incentives cannot completely dispense of relative support for policies. Challengers feel encouraged to act only when someone blames incumbents for prevailing outcomes. But the trigger is elite intervention, not policy evaluation by some social sector.

From this review three different sets of predictions about the relative vulnerability to economic outcomes of competitive regimes and dictatorships may be derived. If the effect of economic conditions runs through the costs of collective action that social sectors face, as in Acemoglu and Robinson, good performance should increase the stability of both kinds of regimes. Democracies should be more dependent on economic outcomes if the main impact of performance runs through class based distributive conflicts or if, as O'Donnell's early study posited, elites distrust the ability of democratic regimes to effectively administer them. A finding that autocracies are more dependent on economic performance than competitive regimes, would speak in favor of the argument about the power concerns of political elites. As the next section shows, the experience of Latin American countries in the postwar comes closest to this third possibility.

Economic Performance and Regime Stability in Latin America: 1945-2010

This section examines the relationship between economic performance and the stability of political regimes in Latin America after 1945. It will present evidence suggestive that economic outcomes have been more relevant for the survival of governments under authoritarian rules than for the stability of competitive regimes.

The exposition is divided in two parts. The first one replicates the analysis of the survival of competitive regimes that Pérez-Liñán and Mainwaring perform in their chapter, adding new measures of economic performance to test the prediction, quite frequent in the literature, that the stability of competitive regimes should be sensitive to economic outcomes. The second part of the section, turning more directly to the theoretical argument that this chapter advances, tests the effect of economic performance on the probability that challenges to incumbent authorities, in the form of coups d'état, are mounted, and on the probability that they succeed. In both of these exercises the variables of interest are those that represent the effect of economic conditions on the probability that attempts are made to irregularly replace governments.

Effects of Economic Performance on the Survival of Democracies and Semi Democracies

I test the effect of three different measures of economic performance on the survival of competitive regimes. The test follows the modeling strategy that Pérez-Liñán and Mainwaring propose in their chapter. As in that piece, I work with a panel of 20 Latin American countries observed between 1945 and 2010.[11] The analysis in this chapter includes different measures of economic performance to check the possibility that a significant economic result was overlooked.

The outcome of interest is a dummy variable coded as 1 in the country year in which a democratic or semi-democratic regime breaks down.[12] A second measure of the dependent variable is presented. In this case, observations are coded as 1 when they transit from democracies to dictatorships as defined by Cheibub, Gandhi and Vreeland (2010).[13]

Alternative measures for both the dependent and the independent variables are included to establish on firmer ground estimations about the vulnerability of competitive regimes to economic outcomes.

The analysis includes four measures of economic performance. The first one is the rate of per capita GDP growth one year before the observation (GDP growth, t-1), the measure that Pérez-Liñán and Mainwaring report. Economic growth is expected to protect governments from threats. In line with the theoretical argument previously exposed, this protective effect should be felt more strongly under authoritarian regimes than under competitive regimes; this includes the possibility that growth does not affect the survival of competitive regimes at all.

The second measure is a logarithmic transformation of the inflation rate, also registered in the year previous to the observation. Inflation has been posited to negatively affect economic growth and therefore welfare (Dotsey and Ireland 1996; Feldstein 1979). Determining the exact size of this effect in developed economies has led to controversies (Lucas 2000) but in developing economies, typically larger inflation rates have been widely regarded as signs of macroeconomic inconsistency and policy mismanagement (Dornbusch 1992). Large inflation rates have a direct impact on personal income and, increasing uncertainty about the near future, reduce the utility that may be derived from that income; sometimes very significantly. Feelings of social disorder that go together with high inflation rates should then encourage challenges to incumbent authorities. Again, the encouraging effect should be felt more strongly when political competition is not institutionalized. Therefore, inflation should affect the survival of authoritarian regimes more than the survival of competitive ones, including the possibility that it does not affect at all the survival of democracies and semi democracies.

Two additional measures intend to capture the effect of recessions. Recessions may be important for perceptual or symbolic reasons. The relevance and potential political damage associated with recessions depend on their magnitude, yet the mere fact that an economy does not grow is usually portrayed in public discourse as a worrisome sign and, in political debate, as a sign of policy failure. For these reasons, the test includes two dummy measures of negative growth: the first one, codes as 1 country years with negative growth in the immediately preceding year; the second one coded as 1 country years preceded by two consecutive years of negative growth. Multi-year recessions are included in the analysis to capture effects that may not be perceptible with shorter episodes, for example, because shorter recessions are interpreted as cyclical variations not reflective of the competence of governments. Long recessions should make clear that governments fail to put the economy back on track, whatever the reason of the previous disruption.

Like in Pérez-Liñán and Mainwaring, the model is a logistic regression with random effects. Covariates are those the authors propose. Table 7-1 reports the results of three different models. The table includes two versions for each model: one, with the Mainwaring, Brinks and Pérez-Liñán indicator of breakdowns (MBP), the other one with the measure by Cheibub, Gandhi and Vreeland (CGV).

<TABLE 7-1 ABOUT HERE>

The analysis aims at determining to what extent measures of economic performance affect the odds that a competitive regime breaks down in a given country on a particular year, considering that it survived until that point and a set of attributes including: the average normative commitment to democracy of relevant political actors (pref. democracy in Table 7-1), the level of radicalization prevailing among them, the proportion of democratic countries observed in Latin America, the extension of the legal authority that the constitution grants to the president, the level of economic development (Pc GDP, ln) and, to test for nonlinear effects, its quadratic transformation, whether the national legislature seats more than 3 effective parties (multipartism), US policy toward the region, the incidence of industrial labor in the working force (share industrial labor) and whether the incidence of mineral exports exceeds 10 percent of total exports (mineral exports). A measure of the age of the regime, its square and its cubic transformations are included to verify whether the underlying unconditional probability that a competitive regime breaks down in a particular year, changes over time. Coefficients represent variations in the log of the odds that a breakdown takes place associated with changes in the independent variables. Positive signs represent variables that increase the odds that a competitive regime breaks down. Negative signs admit the opposite interpretation.

It is not surprising that Table 7-1 reports results very similar to those obtained by Pérez-Liñán and Mainwaring, for the specification is the same and the sample, almost identical.[14] The first set of models (1.1 and 1.2) adds lagged inflation to the base model. The second set tests the effect of a recession in the year preceding the observation and the third analyzes recessions that lasted two years before the country year of interest. Conditional on this set of controls, economic performance seems to have had no impact whatsoever on the probability that a democracy or a semi democracy died in a Latin American country in any year since 1945. Significantly, results are robust to different measures of the dependent variable. Models testing for non linear effects of previous growth and inflation (not shown) yielded similar results.

The negative finding is theoretically relevant, for most interpretations of the effect of economic performance predict democratic stability to benefit from good economic times and to suffer in bad times. This is not what happened in Latin America in the second half of the twentieth century. Though the sample is limited, economic performance varied widely, both across countries and over time. Had it had any bearing on the odds that a competitive regime survived, the statistical analysis should have captured it. Yet competitive regimes in this region and period seem to have perished or survived for reasons unrelated to economic outcomes.

The finding is also consistent with the argument made in other chapters and in the introduction to this volume: normative commitments and dispositions of political actors, as well as features of the international environment are much more reliable guides than economic factors in the search for the roots of democratic stability in Latin America.

These results do not undermine the idea that where political competition is institutionalized, bad economic performance presents no special challenge to established authorities and good economic performance grants no additional protection against other threats to regime stability. Does this happen because the possibility to replace leaders and policies in bad times discourages extra constitutional threats?

Effects of Economic Performance on Challenges to Incumbent Authorities

To answer this question a second test is performed. In this case I estimate the odds that a coup attempt takes place. Data on coup attempts have been drawn from Powell and Thyne (2011), who define these events as "overt attempts by the military or other elites within the state apparatus to unseat the sitting head of state using unconstitutional means" (p. 252). The list includes both successful coups[15] and unsuccessful ones. Though vulnerable to different sources of measurement error, [16] coup attempts approximate the phenomenon on which this chapter focuses; that is, the fact that economic outcomes encourage or discourage those aspiring to unseat incumbents to present a challenge.

Coup attempts may take place in competitive regimes as well as in authoritarian ones and represent, as previously explained, a necessary condition of irregular government replacement, which is a facilitating condition of regime change. In order to explore the effect of economic performance on irregular government replacement --an outcome that is one conceptual step closer to regime change-- a second dependent variable is introduced. It is the measure of coups that Lehoucq and Pérez-Liñán (2009) propose. The authors define a coup as "a successful attempt to overthrow the president by a group of state officials, typically executed by a part or the entire armed forces. A coup is an extra-constitutional and illegal replacement of the chief executive" (2009: 4).

The correlation between the measures of coup attempts and successful coups in this sample is 0.69 but the indicators capture different phenomena. This chapter is centrally concerned with one particular source of regime instability: the reaction of challengers to economic performance. Excluding unsuccessful attempts runs the risk of underreporting these reactions. The comparison between the determinants of coup attempts and successful coups sheds light not only on the incentives of challengers but also on the defensive capabilities of incumbents.

<TABLE 7-2 ABOUT HERE>

Table 7-2 presents the results of three sets of models. Models in each set regress the dependent variables against the same group of independent variables and controls. Models 4.1, 5.1 and 6.1 use coup attempts as dependent variables. Models 4.2, 5.2, and 6.2 use successful coups. Models 4 test the effect of per capita GDP growth lagged one year and inflation, also lagged. Models 5 look into the effects of multi-year recessions and inflation. Models 6 replicate models 5, but on a subsample of only authoritarian regimes (as coded by MBP). This is one of two strategies to explore whether different regimes have run different risks of experiencing instability. To the same purpose, models 4 and 5 include a dummy variable coded 1 for country years under a competitive regime.[17] According to the theoretical discussion, coefficients of economic performance indicators should be higher in the subsample of authoritarian country years than in the whole sample and the coefficient for the dummy representing competitive regimes should be negative.

Results of models 4.1 and 5.1 are consistent with the hypothesis that economic growth affects the incentives of those who aspire to unseat governments. A one percent increase in per capita GDP significantly reduces the odds that a coup is attempted the following year. In line with this result, two consecutive years of negative growth increase by 20 percent the odds that a coup takes place on the third year. Growth seems to be a powerful deterrent and multiyear recessions, an encouraging sign for challengers.

The contrast between the effects of growth under alternative political regimes also lends support to the expectations derived from the theoretical discussion. The dummy variable for competitive regimes presents the expected negative sign in all models, although the estimation is imprecise and coefficients fail to reach significance at standard levels. Coefficients for multiyear recessions under authoritarianism (model 6.1) are higher than in the whole sample (5.1).[18] Challengers in an authoritarian regime are 10 percentage points more likely to find in a multiyear recession encouragement to mount a coup than are challengers in the whole sample of country years. This finding is consistent with the interpretation this chapter proposes: when the promise of leadership turnover is credible, as it typically is in competitive regimes, challengers should be less inclined to conspire against incumbents; therefore, the deterrence effect of growth and the encouraging effect of recession should be weaker when political competition is institutionalized.

Inflation, on the other hand, does not seem to have played an important role. Coefficients for this indicator are statistically significant at the 0.1 level in only one of six models. The sign of these coefficients is always negative, in contrast to the hypothesis that inflation should make governments more vulnerable to conspiracies. [19] The evidence suggests that inflation has neither inspired nor has it deterred conspiracies against governments in post war Latin America.[20]

Estimates of the effects of growth and multiyear recessions do not correlate with successful coups as strongly or precisely as they do with coup attempts. Coefficients in models 4.2, 5.2 and 6.2 show the same signs as their pairs in the previous models, but their magnitude is smaller and standard errors are larger. Coup attempts are, of course, a necessary condition of successful coups. It is therefore not surprising that analyses of their determinants yield some similar results. But the observed differences are, I believe, theoretically relevant. The success of conspiracies depends not only on the motivations of challengers but on the resolve and ability of defenders. It is possible the reason that economic performance shows no clearly discernible effect on successful coups is that signals encouraging challengers also prompt incumbents to raise their guard and prepare for battle. This observation suggests that a more comprehensive analysis of elite behavior as a determinant of regime stability should look at the incentives and capabilities of both incumbents and potential challengers.

Estimates for one of the control variables are consistent with the preceding interpretation. Multipartism in legislatures[21] seems to be a strong predictor of the success of coups, but not of coup attempts. This fact suggests that legislative fragmentation is related to the ability to defend established regimes from challengers. The positive coefficient may represent the higher transaction costs that a more fragmented incumbent coalition must pay in the face of a serious political threat. Further studies on this topic should delve more deeply into the factors that affect the size, resilience and effectiveness of both challenging and incumbent coalitions.

Some of the results for the covariates are consistent with previous studies but nevertheless, I think, interesting. A normative commitment to democracy is strongly and negatively associated with the odds that a coup takes place or succeeds. However, it seems to have had no bearing on those intent on forcefully deposing dictators (as models 6 show), perhaps because in post war Latin America most conspirators against dictatorial governments were not intransigent defenders of democracy but aspiring dictators themselves.

Estimates of the impact of the degree of radicalization of the main political actors show the expected positive sign, though they are imprecise. One possible interpretation for this fact is that policy radicalization affects the survival only of competitive regimes but not of dictatorships. Though the matter requires further exploration, it seems likely that authoritarian governments are neither sensitive nor vulnerable to actors with radical preferences.

Estimates for the number of democracies in the region are also imprecise. This occurs, perhaps, because international factors and diffusion effects kick in only when the irregular replacement of authorities derives in a change of regime. As the events unfold, irregular replacements may be difficult to tell from regime changes. Indeed, they often lead to regime change, but not always. This seems to be the reason that estimates for the number of democracies in the region show the expected sign but predict the odds that a coup is attempted or succeeds imprecisely.

Significantly, levels of wealth, as represented by per capita GDP, seem to be unrelated to the stability of any kind of regime. In Latin America, unconstitutional succession has been perversely egalitarian: open to all, both poor and rich.[22]

In sum, in postwar Latin America some economic outcomes have affected the odds that governments are challenged. The analysis of the determinants of coup attempts shows that growth deterred and recessions encouraged challenges to incumbents. Inflation seems to have been less relevant. As expected, the encouraging and deterrent effects of growth were felt more strongly under authoritarian regimes than under competitive ones. Economic performance does not appear to have had as strong an impact on the odds that an attempt to irregularly replace incumbents succeeds; possibly, because the signals that affect challengers also alert incumbents and thus increase the odds that they present an effective resistance. These findings are consistent with the most recent empirical studies on regime stability, which control for potential sources of endogeneity of economic performance (Burke and Leigh 2010) and lend support to the theoretical argument advanced in the previous section.

In postwar Latin America governments have been more vulnerable to conspiracies under authoritarian regimes than under democracies or semi-democracies. This happens, I argue, because a credible promise of leadership replacement makes challengers less prone to adopting irregular tactics and weaken their public justifications for resorting to those tactics. Interestingly, if this is correct, more sensitive measures of political competitiveness, measures that allow for finer distinctions among both democracies and autocracies, could lead to different results. In that case, according to the reasoning proposed in this chapter, democracies with restrictions on political competition should be more vulnerable to attacks and autocracies with credible succession rules should be less vulnerable.[23] However, on average, leadership replacement should be more credible under competitive regimes, so the effect of institutionalized political competition should be discernible in every contrast of political regimes. This hypothesis merits systematic examination in further studies.

Studies of political regimes have long recognized electoral competition as a more legitimate mechanism for the replacement of leaders than many of the various formulae that authoritarian regimes have proposed in modern times. The argument I present here is consistent with this thesis. Institutionalized political competition may be interpreted as one of the components of the legitimacy of democratic rule. It is surprising that theoretical discussions of the effect of economic performance on regime stability have so often overlooked this thesis. Instead, attention has focused on economic motivations and the distributive confrontations they could unleash. The institutionalization of distributive conflicts is, no doubt, part of the puzzle that erecting stable democracies entails. But a focus on economic motivations and distributive confrontations is, as several contributions to this volume make abundantly clear, particularly ill-suited to account for the experience of Latin American countries. Conversely, a systematic exploration of the link between economic performance and regime stability in Latin America sheds light on the shortcomings of some of the conceptions that infuse contemporary discussions of regime stability. Drawing on the insights from the previous study, the next section turns to identifying those shortcomings, discussing the problems they entail and suggesting some remedies.

Policy Restriction, Political Competition and the Stability of Democracy

This section presents some theoretical lessons that may be drawn from the study of regime stability and coups in Latin America since 1945. I believe these lessons shed light on contemporary discussions of the sources of stability of political regimes; especially on those referred to the stability of democracies. I make two points. First, that a focus on the potential effect of policies on the income of social sectors yields no definite prediction on the stability of governments or regimes if it does not take into account the crucial mediating effect of political competition. Political competition is important because it allows for both leadership replacement and policy change. My second point is that the institutionalization of both leadership replacement and policy change helps democracies survive. The stress on policy change is important because several contemporary approaches to democratic stability posit, on the contrary, that democracies survive by restricting policy variation.

Let us begin by exploring one corollary of the main finding in the empirical section. Why would economically ineffective dictators run a higher risk of being challenged and overthrown than ineffective constitutional presidents? Focusing only on the effect of policies under each regime on the income of social sectors does not lead to a plausible answer to this question. Suppose that an increase in income raises personal utility and a reduction in income lowers personal utility more under an authoritarian government than under a competitive government. This is conceivable but odd. It is far easier to accept the idea that the relationship between income and utility is the same under both regimes but that changes in the income of social sectors unleash different political dynamics depending on the prevailing fundamental rules. According to the argument advanced here, bad economic performance, construed as a sign of incumbent incompetence, may encourage those aspiring to unseat incumbents. Signs of government incompetence may motivate public acquiescence in and elite support for coups. But economic shocks of similar size should lead to wider challenging coalitions when the regime makes the prospect of leadership replacement less certain. Otherwise, political insiders have little incentives to join conspiracies. An explanation of democratic stability that pays attention only to the impact of economic outcomes on income levels or distributions is likely to miss the key mediating factor: political competition, which is more vigorous under democratic rules.

Recognition of the relevance of leadership turnover for regime stability leads to a consideration of a closely associated problem: policy change. Insensitivity to leadership turnover leads us to underestimate the potential for policy change of competitive regimes.[24] This has consequences for the way we think about democratic rule and its chances of survival.

Influential recent studies (Acemoglu and Robinson 2006; Boix 2003) have narrowed the inquiry about the sources of democratic survival to a search for the conditions that make distributive conflicts manageable. This narrower question admits of two general answers. One possible answer is that democracies endure to the extent that they restrict the range of policy change. The other one is that democracies endure because they make policy change reversible.

Contemporary political economy studies of democratic stability devote themselves almost exclusively to advancing different versions of the first kind of answer. From this perspective, conflicts over political regimes are reducible to conflicts over levels of taxation. Thus, structural circumstances such as a more equal distribution of assets and income, weaken the demand for higher taxes (Acemoglu and Robinson 2006; Ardanaz and Mares 2012; Boix 2003; Boix and Stokes 2003). Other structural features such as assets that can move between economic sectors (Boix 2003) or countries (Freeman and Quinn 2012) make high tax rates unfeasible. Structural restrictions to high taxation are posited to strengthen democracies.

These studies are illuminating and they do more than discussing safeguards to the interests of powerful social actors. However important, recent contributions cast doubt on the empirical validity of factor-based accounts (Ahlquist and Wibbels 2012; Haggard and Kaufman 2012). Part of the empirical inaccuracy of this general approach may stem from the privileged focus on domestic factors. Several contributions have convincingly demonstrated that international systemic and regional diffusion effects play a crucial role in democratization, particularly in the third wave and in Latin America (Brinks and Coppedge 2006; Gleditsch and Ward 2006; Mainwaring and Pérez-Liñán 2007; Torfason and Ingram 2010; Wejnert 2005). Recent efforts in the structurally inspired tradition include a systematic exploration of international factors (Boix 2011). Yet the empirical inaccuracy may reflect a more fundamental theoretical oversight: democracies may handle intense distributive conflicts when electoral competition offers credible opportunities for both leadership replacement and policy reversal.

To illustrate the previous point I refer to the fall of the party system and consequent erosion of democracy in Venezuela before 1998, an example of frequent leadership replacement without policy change. Studies performed before (Coppedge 1994) and after the ascent of Hugo Chávez (see also the general discussion in Mainwaring (2012) and Seawright (2012)) portray the ideological and policy similarities between the *Acción Democrática* and *Copei* administrations as a corrosive factor for democracy. Ideological similarities did not prevent first *AD*'s Carlos Andrés Pérez and later *Copei*'s Rafael Correa to attempt different changes in economic policies during their last presidencies. However, these attempts failed to significantly alter the policy status quo.

The frequent rotation in power of the two traditional Venezuelan parties does not seem to have protected Venezuelan democracy from erosion in the face of the very bad economic results of the 1980s and 1990s. Evidence of government inefficacy undermined a competitive regime even when the promise of leadership replacement was credible.

The question challenges us to think more clearly about the stabilizing role of political competition. Institutionalized access to power is relevant for government and regime stability per se. The survival of political regimes requires that political insiders trust them, regardless of what they do once they reach power. But credible leadership replacement is not sufficient to stabilize democracies. Policy flexibility is also necessary. Without policy flexibility, established elites are vulnerable to the mobilization of those who do not see themselves represented by established players. Universal franchise increases the size of the set of potentially mobilizable sectors, and therefore makes the requirement for policy flexibility a more central component of political competition under democratic rules.

Chávez rose to power mobilizing sectors that, he claimed, policies adopted during the previous party system left out. So did Evo Morales in Bolivia and Rafael Correa in Ecuador. Arguably, the consolidation of these populist leaderships contributed to the erosion of democracy in those countries. Interestingly, the erosion often consisted in imposing restrictions on political competition. They were usually justified as a means to anchor the changes of policy that these presidents brought about. This illustrative story suggests that it is the combination between leadership replacement and policy change that helps democracies survive.

The complementary theoretical risk is to think that policy flexibility is all that matters for regime stability. If actors associate their welfare to particular policies, they would not conspire against a particular regime as long as they believe that the regime makes the policy they prefer sufficiently likely (and the policies they oppose, sufficiently unlikely). In this view, leadership turnover matters only because it is a vehicle for policy change and policy change matters because it mitigates distributive conflicts. This view is incorrect.

Recent studies find that the proportion of democracies that fall in the context of intense, class based distributive conflicts is far from overwhelming (Haggard and Kaufman 2012) and other studies find that even when class based conflict is intense, such as in Bismarck Germany, exclusively political motivations may lead representatives to support regime changes that could threaten the economic interests of their constituencies (Ziblatt 2008). Political aspirations of elites may contribute, independently from the economic interests of constituencies, to the stability or change of political regimes. In other words, policy changes in which social sectors may be interested need to be brought about by individuals and organizations with specifically political motivations.[25]

Contemporary political economy discussions of the survival of political regimes focus on the direct impact that policies adopted under alternative regimes are likely to have on the income of social sectors. This is, I believe, the main reason they conceive of the survival of democracy as a matter of restricting the range of policy change. The finding that in postwar Latin America autocratic governments were more vulnerable to irregular challenges than governments under competitive regimes suggests, instead, that income variations are relevant only as long as they prompt political elites to act. On the other hand, elites intent on exercising power may bring about the policy changes that could make social actors acquiescent, if not loyal, to democratic rules.

Conclusions

Numerous empirical studies identify an effect of economic performance on the survival of political regimes. The evidence in this chapter suggests that this effect is stronger for authoritarian than for competitive regimes. The most convincing theoretical argument points in the same direction.

The effect of economic performance on regime survival does not seem to run through its direct impact on personal income but, more indirectly, through its effect on the perceptions and incentives of political elites. Bad economic outcomes under both authoritarianism and competitive regimes encourage elites intent on unseating incumbents to mount coup attempts. Good economic outcomes deter potential challengers from attempting coups. The incentive to challenge in bad times and the protective effect of good performance should be more powerful when the rules of the political game do not offer a credible promise of leadership replacement. The credibility of this promise is then closely related to all factors that shape political competition and should, on average, be higher under democratic rules than under authoritarianism and higher in authoritarian regimes that have some rule to handle the problem of succession.

Results from an empirical exploration of the sensitivity of democratic survival and government stability to economic performance in postwar Latin America support this interpretation. Since 1945, the survival of competitive regimes has not been affected by growth or inflation. This negative result is robust to alternative specifications and codings of the dependent variable. Economic growth seems to prevent coup attempts from taking place under either authoritarian or democratic rule. The effect appears to be stronger in authoritarian regimes. The fact that economic performance encourages conspiracies and that this happens more often when political competition is restricted are consistent with the previous theoretical examination.

From the point of view of interpreting democratization trends in Latin America, these results and findings should be put in the wider context of the arguments that the literature and other contributions to this volume offer. Two stand out among those proposed more recently.

First, regional diffusion effects, international systemic effects and the foreign policy of international hegemons crucially determine the chances of democratization and democratic survival. In the context of the discussion in this chapter, international factors could be interpreted as determinants of the credibility that leadership turnover may take place or, alternatively, as components of the cost of trying an extra-constitutional strategy. The interaction between international factors and the credibility of political competition appears as an area for potentially fertile further exploration.

Second, normative commitments are important. An unconditional disposition to play by the rules appears to have had a very significant effect both on the survival of democracy and on the probability that a coup takes place. In the context of the argument developed in this chapter, normative commitments to democracy may be interpreted as signals that actors receive about the disposition of other actors to keep the regime competitive. Reciprocally, the experience of effective and institutionalized political competition may help forge and galvanize these commitments. This problem also seems to merit further consideration.

Acknowledging the relevance of specifically political incentives and the stabilizing role of political competition offers a portrait of democracy that seems to be theoretically more convincing and empirically more accurate than other portraits that may be composed relying on some conceptions that are common in political economy studies of democratization. In particular, the stability of democracy does not seem to hinge on restrictions to policy change but on the credibility of leadership turnover and policy reversal. Significantly for the purposes of this discussion, leadership turnover may not suffice to make democracy stable when it goes together with policy rigidity.

Interestingly, some of the most significant threats to democratic stability in contemporary Latin America seem to derive from governments that in the name of drastic policy change attempt to impose restrictions to political competition. If the arguments in this chapter are correct and in line with Mazzuca's argument in this volume, by restricting political competition, these governments are making their stability more dependent on the quality of economic outcomes. Paradoxically, imposing restrictions on competition these governments may be undermining one of the most powerful pillars of democratic survival and of the independence of democratic rules from economic outcomes in the third wave: the conviction that no economic result merits a rebellion, for whatever happens with inflation or growth, incumbents may be replaced in next election.

NOTES

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[1] Regimes may break down, erode or be replaced through negotiations, this is why successful challenges are not a necessary condition. These challenges do not always lead to new rules of the game. This is why they are not a sufficient condition for regime change either. However, successful challenges to established authorities, especially when they are repeated, undermine and thus contribute to the replacement of regimes.

[2] McGuire's chapter in this volume discusses the strengths and weaknesses of more complex or more simple classifications.

[3] Of course, part of the literature accepts the possibility that performance affects governments but has no impact over any regime. Regimes are sets of broad and general rules that allow for a very wide array of outcomes. In this sense, it may sound reasonable that the fate of all regimes has very little to do with economic performance, particularly in the sense of "short to medium term outcomes" proposed here. This is a sound observation but if governments may be affected it seems more plausible that regimes could be affected as well, though under some specific

condition (for instance, when recessions are deep or long). Indeed, this chapter may be interpreted as an effort to identify some of those conditions.

[4] Only in some interpretations of Samuel Huntington's (1968) argument, economic performance is posited to compromise the stability of political regimes. I am not sure that this is the most faithful interpretation of his argument. I believe that the effect of performance Huntington proposes is conditional on the level of institutional development. This thesis is certainly not an accurate portrayal of O'Donnell's analysis in *Modernization and Bureaucratic-Authoritarianism*. In that case, the argument is clearly that uneven and disappointing economic performance helped destabilize democracy in Argentina in 1966. The extent to which that was an accurate assessment of the evolution of the Argentine economy at that point --a contemporary review argued it was not (Brodersohn 1973)-- is a different matter.

[5] However, Gasiorowski (1995) considers one such argument. It will be analyzed below.

[6] Lipset's account included also the possibility that democracies survive because they are perceived as legitimate and regardless of economic outcomes. The effect of economic performance is not the only one he discussed.

[7] Notice, however that these arguments differ from the one Przeworski presented in *Democrcy and the Market* (1991) where he argued that the expectation of party turn over mitigated distributive conflicts and contributed to the stability of democracies.

[8] Which is not necessarily the one the author espouses.

[9] Gasiorowski's piece discusses other possible effects, but they are similar to the ones discussed previously.

[10] Regimes may survive or perish for reasons independent from what elites intend to do. However, some kind of elite behavior is necessary if a government replacement turns into regime

change. Though elite intervention is not always the efficient cause, it is rarely irrelevant for regime survival.

[11] The number of country years effectively observed is, in some cases, reduced, due to data restrictions.

[12] Breakdowns are switches to the category “authoritarian” in the coding system proposed by Mainwaring, Brinks and Pérez-Liñán (2001). The switch may happen through a coup d’état, a self-coup or erosions of rules of competition, civil liberties or constitutional checks that are not traceable to any particular event.

[13] These two data sets use different coding criteria and therefore classify some cases differently. Yet the correlation between these two dichotomous measures is 0.86.

[14] In some cases I recoded the age of the regime to make it consistent with the coding of the breakdown indicator.

[15] Successful coups are those in which “perpetrators seize and hold power for at least seven days” (Powell and Thyne 2011: 252).

[16] Coups are usually plotted in secrecy. In several instances it might be very difficult to distinguish a coup attempt from a minor conspiracy that never got off the ground. Though subject to this source of measurement error, the indicator may be interpreted as an approximation to the sort of intra elite tension we are exploring.

[17] The simultaneous inclusion of this variable with the measure of executive powers created problems of multicollinearity. For this reason, *executive powers* has not been included as a control in this analysis.

[18] A model with the indicator of growth as independent variable, not shown to save space, also yields higher coefficients.

[19] Gasiorowski (1995, 1998) also finds that inflation *decreases* the odds that incumbents are replaced, particularly incumbents under authoritarian regimes.

[20] Someone that finds the result in model 6.1 and the consistently negative signs of the coefficients more persuasive could argue that inflation has protected governments against conspiracies. I do not find this interpretation convincing, yet I do not believe the results suffice to rule it out completely.

[21] Multipartism is coded as 1 when the regime, competitive or not, has a legislature with more than three effective parties. Otherwise (if fragmentation is lower or if there is no legislature) the code is 0.

[22] In light of previous studies on coups (for example, Londregan and Poole 1990) I expected to find a positive effect for the relative incidence of previous coups in each country. I did not. This is intriguing and may be related to the fact that most previous studies use dynamic probit models, which estimate determinants of switches between alternative states instead of correlates of the odds that one particular event takes place.

[23] The exploration of political instability that Lehoucq and Pérez-Liñán (2009) are carrying out is headed in this direction. Credibility of succession rules may be part of the consistency of political regimes that Gates and coauthors (2006) posit to be a strong predictor of regime stability.

[24] Of course, policy may change even if leaders do not, but policy variation is more probable when leaders are replaced.

[25] This is consistent with one of the arguments of the introduction to this volume and Pérez-Liñán and Mainwaring's chapter: preferences over political regimes may not be derived from preferences over distributive schemes. This is because normative commitments that are

independent from economic interests often drive political behavior. Economic concerns may be an imprecise guide in the selection of regimes even when they prevail, for the correlation between basic political institutions and public policy has been, as the experience of Latin America in the postwar attests, weaker than some contemporary theories would allow.