Unbundling the Relationship between Authoritarian Legislatures and Political Risk*

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Abstract

A growing literature demonstrates a strong statistical association between the presence of legislative opposition in authoritarian regimes and investment. This finding has been interpreted as evidence that authoritarian legislatures constrain executive decisions and therefore reduce the threat of expropriation. Although the empirical relationship is robust, the micro-logic of the relationship between authoritarian legislatures and property rights is both theoretically unsatisfying and empirically untested. Scholars have not provided systematic evidence that authoritarian parliaments are able to restrain the actions of state leaders, reverse activities they disagree with, or remove authoritarian leaders who violate the implied power-sharing arrangement. In this article, we provide an alternative explanation for the robust correlation. We argue that authoritarian legislatures, by providing a forum for horse trading between multiple private actors, are far better at generating corporate governance legislation that protects investors from the avarice of corporate insiders than they are at preventing expropriation by governments. Our statistical analysis reveals that the strength of authoritarian legislatures is associated with corporate governance rules and not expropriation risk.

Keywords: Property Rights, Institutions, Economic Growth, Authoritarianism, Political Economy, Corporate Governance, Investment

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Introduction and Motivation

The relationship between institutions and economic performance is one of the most studied in political science. Central to these studies is how political institutions protect the property rights of investors, facilitating capital accumulation and economic growth.[1] Explaining how institutions affect the decisions of domestic investors is also useful in developing a deeper understanding of political institutions themselves, particularly how they operate, parameterize choices, and reflect domestic interests. Much of the literature on investor behavior focuses on democratic institutions, showing that variance in democratic protections[2] and constraints on executive policymaking discretion[3] are associated with lower risk and higher levels of investment.[4]

Scholarship on the political economy of investment has tended to view authoritarian countries as anomalous to the relationship between institutions and investment, believing natural resources, domestic market size, labor costs, and infrastructure to be more influential. Recent work in political science, however, has begun to demonstrate that there is wide variation in the institutional architecture of authoritarian regimes, and that these differences have important implications for economic performance[5] and domestic investment.[6]

Among the robust findings are the correlations between the presence and number of parties in authoritarian legislatures and economic growth, which scholars have interpreted as evidence that parliaments provide opposition with a chance to voice their views, and limited

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[1] North 1981; Weingast 1995; Acemoglu 2009. Property rights can also indirectly affect economic growth through the choice of establishing market enhancing institutions (Fleck 2000).
[2] Grossman and Hart 1986; Hart and Moore 1990; Hart 1995; Olson 2000; Jensen 2003; Li 2009.
[3] Weingast 1992, 1993; Henisz 2002; Acemoglu and Johnson 2005; Jensen 2008; Weymouth 2011.
[4] Guriev et al (2009) finds that nationalization in the oil sector is more likely when the quality of institutions is low and world oil prices are high.
[5] Gandhi 2009.
[6] Boix 2003; Wright 2008; Gehlbach and Keefer 2010. Institutions can also affect the structure of firms' operations. See for example Caprio et al (2012).

policy-making authority, which in turn constrains executive decision-making and therefore the threat of expropriation.[7] Although the empirical relationship is robust, the micro-logic of the relationship between authoritarian legislatures and actual expropriation is both theoretically unsatisfying and empirically untested.

In this article, we demonstrate that authoritarian legislatures are insufficient for limiting expropriation of private investment by the state. Instead, we argue that the true benefit of authoritarian legislatures is their facilitation of stronger contracting institutions among private actors. In particular, they limit the ability of corporate insiders to exploit minority shareholders. Legislatures provide this benefit, we claim, because they are better suited for fostering negotiations and tradeoffs among private actors with different economic interests than they are at constraining dictators or party leaders. In short, we suggest that correlation between authoritarian legislatures and investment is not driven by protection of investors from the state; rather, it operates through a formal forum that allows private actors to police themselves.

Our theory and empirical findings contribute more broadly to debates on the relationship between institutions and economic growth. While numerous studies have identified institutions that protect investors from government predation, our project aims to disentangle the alternative mechanisms through which institutions can facilitate investment and growth.

Our article proceeds as follows. In Section 2 we provide a theoretical overview of the literature on authoritarian legislatures. In Section 3, we discuss the literature on institutions and economic performance. Following North[8] we argue that property rights, which govern the relationship between private actors and the state, is only one of two critical

[7] Boix 2003.
[8] North 1981.

institutions that effect the decisions of investors – the other is contracting institutions, which govern the relationships among private economic actors. We highlight the importance of a particular set of contracting institutions – those that protect minority shareholders from the malfeasance of corporate insiders. Section 4 tests the two alternative mechanisms, revealing that the strength of authoritarian legislatures is associated with corporate governance rules ("investor protections") and not property rights institutions.

Authoritarian Assemblies and Economic Growth

The research on authoritarian institutions starts with the basic premise that nominally democratic institutions in authoritarian regimes matter. This premise may be surprising to casual observers, yet many authoritarian regimes spend a great deal of money and energy holding elections for national office, maintaining permanent legislatures, and erecting institutions for promotion and leadership selection. The great puzzle is what benefits such expensive institutions provide that could not be achieved more cheaply and expeditiously through other means. The null hypothesis for authoritarian institutions is that they are irrelevant and meant only to placate international and domestic audiences. If these seemingly democratic institutions were simply window dressing, however, then why would dictators lavish resources on them? In a rebuke to theorists such as Friedrich and Brzezinski[9], who argue that such institutions are unimportant, Gandhi [10]succinctly asks: "if legislatures are nothing but mere ornamentation, then why would some dictators 'dress their windows?"

[9] Friedrich and Brzezinski 1961.
[10] Gandhi 2008, 7.

The new literature on authoritarian institutions has provided one answer to this question by focusing on elections and assemblies as means to co-opt potential opposition.[11] According to the cooptation argument, rulers, especially in countries with fewer natural resources, need cooperation from broader swaths of society and will thus use elections and assemblies to give these groups a formal say in the policymaking process.[12] The elections may be used to incorporate elites, party members, or societal interests groups[13], but critically these groups must be outside of the ruling inner circle.

Gandhi and Przeworski summarize the cooptation argument in this manner: "Authoritarian rulers may need cooperation and may fear a threat from various segments of society.[14] Cooperation can be induced and the threat can be reduced by sharing spoils or by making policy compromises." They conclude that legislatures are well suited for this role. Wright takes the argument further, by suggesting that military and single-party regimes tend to have fewer natural resources and are therefore more likely to require institutionalized forms of cooperation to achieve economic growth.[15] Thus, these rulers will establish "binding" assemblies that will constrain them and allow them to make credible commitments to groups outside the winning coalition. A related alternative to the cooptation theory argues that the goal of institutions, such as strong parties and legislatures in authoritarian settings, is not about co-opting potential opposition but instead providing a

[11] Alternative hypotheses for authoritarian parliaments and elections have been suggested, such as the signaling of regime strength (Geddes 2006, Magaloni 2006), rents distribution (Boix and Svolik 2007, Lust-Okar 2006, Blaydes 2007), and as coercive force against potential opposition, where authoritarian rulers use strong institutions to subdue opponents (Slater 2003, 2008). While these theories are compelling, they do not offer clear observable implications for domestic investment and economic growth.
[12] Wright 2008; Gandhi and Przeworski 2007.
[13] Gandhi and Lust-Okar 2009.
[14] Gandhi and Przeworski 2007, 1283.
[15] Wright 2008.

mechanism for power-sharing with regime supporters that allows collective action against a regime leader.[16]

Wright concludes that binding assemblies in military and single-party regimes improve economic output by offering a credible commitment on national economic policies, "Thus, these dictators have a greater incentive to create a legislature that acts as a credible constraint on their power to expropriate."[17] By contrast, non-binding assemblies in monarchies and personalist regimes tend to hinder economic performance. This argument echoes Boix, who found evidence for the claim that authoritarian legislatures create additional veto points, which ensures investors that their outlays will not be expropriated.[18] Gandhi is more circumspect, but makes a similar claim, "when outside groups have access to decision making…they may be more willing to make costly and longer-term investments because these institutions constitute somewhat of a commitment that even if not entirely credible, is better than nothing" (23).[19] As evidence for their theories, all of the above authors offer robust correlations between binding authoritarian assemblies and private investment and economic growth.

The exact meaning of the word "binding" in this context is critically important. In the cross-national empirics, scholars have usually employed a dichotomous coding for whether a state has a legislature or not. Wright's coding of "binding" depends on what type of authoritarian regime hosts the assembly, not on the specific parliamentary rules.[20] Gandhi counts the number of opposition parties in the assembly to gauge the level of cooptation.[21] Importantly, the distinction means that our empirical analysis below cannot simply code

[16] Gehlbach and Keefer 2010; Boix and Svolik 2010.
[17] Wright 2008, 327.
[18] Boix 2003.
[19] Gandhi 2008.
[20] Wright 2008.
[21] Gandhi 2008; 2009.

whether a state has a legislature, but must also demonstrate variation in the ability of groups to effectively represent their interests within the legislature. As our theory particularly highlights the representation of different types of private actors, we find the Gandhi coding to more theoretically appropriate, as it provides a count of the actors (i.e., parties) that have the ability to use the forum to further their economic interests.

While cooptation theorists have strengthened their case with a plausible theory and robust evidence of correlations between binding assemblies (and multiple legislative parties) and investment and economic growth in authoritarian settings, little work has been done on rigorously establishing the micro-logic of these cross-national correlations. Most critically, the literature has yet to establish that assemblies in authoritarian regimes actually provide potential opposition with property rights protection.

As a first pass, it is useful to examine a well-known index of Property Rights Index, developed by the World Economic Forum and published in the Global Competitiveness Report[22] to investigate whether property rights perceptions are stronger in countries with multiple parties in the legislature. In fact, the average value of the index is actually lower in countries where there are multiple parties in the legislature (4.0) than in countries with single parties or no legislatures (4.7) -- a difference-in-means that is significant at the .05 level. This should give us pause about accepting the conventional wisdom too readily. Of course, we are reluctant to draw conclusions from this simple test, as survey data introduce perception biases that are difficult to control for when using blunt country averages. In the empirical section of the article, we seek to overcome these biases using measures of specific institutions derived from risk insurance pricing models and an objective index of business regulation.

[22] Porter and Schwab 2008.

Without more systematic evidence, there is a strong possibility that the correlation between assemblies and economic growth may result from alternative causal mechanisms. To list just a few examples: Perhaps investors have no faith that an assembly will protect their property rights, but value the debates in the assembly for providing information about forthcoming regulatory and macroeconomic policies. Indeed, Boix and Svolik provide empirical evidence that authoritarian countries with legislatures do provide higher quality statistical data.[23] Thus, assemblies may increase investment by providing information and increasing the transparency of the policymaking process, without augmenting the policy influence of investors. Gandhi, to be fair, is well aware of this and other alternative explanations for the correlations she observes, noting "Another possibility is that institutions facilitate the flow of information between the regime and domestic groups so that resources are mobilized and allocated more efficiently.[24] Lastly, it may be that because institutions provide a forum in which the demands of domestic groups can be made, those demands are not likely to be made in the street (23)." Although Gandhi introduces these alternatives, her work clearly favors the notion of a constrained executive.

Another threat to causal identification is unobserved heterogeneity among authoritarian regimes. Perhaps both assemblies and other attractive governance institutions result from the same constellation of interests of elite actors and are not causally related. In this case, we might see correlations between assemblies and economic performance that have nothing to do with better property rights.[25]

Authoritarian Parliaments, Parties, and Varieties of Expropriation Risk

[23] Boix and Svolik 2010.
[24] Gandhi 2008.
[25] Pepinsky 2011.

The most important limitation of the cooptation theory is its blunt theoretical discussion of property rights and investment risk. Because the work predominantly seeks to explain how authoritarians deal with opposition and supporters, it has developed orthogonally to the political economy work on political risk. As we noted above, scholars in the authoritarian literature have argued that parliaments are beneficial because they restrain authoritarian leaders from expropriation and therefore encourage domestic investment. But government expropriation is only one of a number of different types of risk that investors worry about when considering a new project; for instance, they also worry about changes in regulatory and tax policies, exchange rate fluctuations, and civil unrest.[26]

Most importantly, however, we argue that domestic investors are intimately concerned with the strength of contracting institutions, or the set of policies that govern economic relations between private actors in the economy. Specifically, outside investors seek to constrain corporate insiders from extracting rents on invested capital that the insiders control.[27] That is, investors favor strong corporate governance regulations that protect against expropriation by corporate insiders, including managers and controlling shareholders. Expropriation can take several forms, including outright theft, executive overpayment, or more subtly through the sale of assets at below market prices, a process known as transfer pricing or asset stripping. The underlying risk is that corporate insiders use the profits of the firm for their own benefit, rather than returning them to outside investors.[28]

Corporate governance regulations seek to prevent such expropriation. They are defined as "the set of processes, customs, policies, laws and institutions affecting the way

[26] See Henisz (2002) for a detailed discussion of the types of risks facing investors. Most notable, investors often weigh the political risks stemming from the government against the risks potential domestic partners taking advantage of weak contract enforcement. Thus, while establishing a joint venture by partnering with a politically influential domestic firm reduces the political risks from government, it can dramatically increase contract risks (Henisz 2000; 2002).
[27] La Porta et al. 2000; Bebchuk and Neeman 2010.
[28] La Porta et al. 2000.

people direct, administer, or control a corporation".[29] They consist of extensive disclosure requirements that reveal transactions to minority shareholders, explicit provisions for shareholders to hold the director and board liable for negligence or breach of fiduciary responsibility, and the transparency of business documentation available to plaintiffs in the event of corporate governance adjudication.

A large literature provides compelling evidence that corporate governance regulations, often referred to as *investor protections*, are fundamental drivers of investment and economic growth. On the first link in the causal chain, Pagano and Volpin assert "The amount of equity finance that external investors are willing to provide is affected by the degree of protection that they expect to receive from company law."[30] Castro et al. demonstrate the relationship formally, illustrating how strong investor protection in an economy can encourage risk sharing among private economic actors, increasing demand for capital, and encouraging economic growth.[31] Empirical work by La Porta and coauthors finds evidence for the Castro et al. observation by demonstrating a correlation between a simple index of rights of minority shareholders and the development of capital markets.[32] Using a newer and more complete measure of protection for minority shareholders, Djankov et al. shows how important investor protection is for the size and development of stock markets.[33] Building on this work, Haider estimates that each one-unit change in investor protections increases GDP growth by 0.26%, a statistically strong and substantially important finding in a fully-specified model.[34] Mitton examines the relationship at the firm level, and finds that firms with stronger corporate governance fared better during the Asian

[29] Haidar 2008, 1.
[30] Pagano and Volpin 2005, 1006.
[31] Castro et al. 2004.
[32] La Porta et al. 1997; 1999; 2006.
[33] Djankov et al. 2010.
[34] Haider 2008.

financial crisis.[35]

In light of this large and growing emphasis on contracting institutions in general and investor protections in particular, we suggest an extension of the literature on authoritarian legislatures that distinguishes between different sources of investment risk. To that end, we draw on the work of North, who differentiated between property rights institutions and contracting institutions, and their effects on growth.[36] He defined these, respectively, as institutions that: a.) protect individuals from expropriation of property rights by the state; b.) provide the legal framework for facilitating private contracts that facilitate economic transactions. In other words, private property institutions protect private citizens from expropriation by the government, while contracting institutions protect private citizens from malfeasance by one another. There is a dense scholarship studying the relationship between both of these institutions and long-term economic growth[37], but we are not aware of any work examining variation in these institutions within authoritarian settings.

Strong theoretical and empirical evidence exists for the relationship between property rights, domestic investment, and growth.[38] In the political economy literature, Weingast famously emphasizes the importance political institutions that generate a credible commitment that private property will not be seized by state authorities.[39] In development economics, de Soto argues that myriad businesses in developing countries remain informal because they are starved of critical resources, especially property rights and credit.[40] In particular, he predicts that, through the provision of land titles, entrepreneurs in the informal sector could be transformed into an important new source of economic growth in the

[35] Mitton 2002.
[36] North 1981.
[37] See, for example, Acemoglu and Johnson 2005.
[38] Jones 1981; DeLong and Shleifer 1993; Olson 2000.
[39] Weingast 1992; 1993.
[40] de Soto 1989; 2000.

developing world. Taking advantage of variation in land title distribution in Argentina, Galiani and Scargrodsky find convincing evidence for the de Soto hypothesis in terms of household investment.[41] Similar natural experimental approaches have been used to show that a one-time increase in property rights can bolster belief in the power and fairness of the market[42], increase the number of hours dedicated to productive work, [43] and facilitate the movement from the gray economy to registered, formal businesses.[44]

An equally rich literature, however, has explored the role of contracting institutions between private actors and economic growth, beginning with the seminal pieces of Coase, Williamson, and North and Weingast, [45] which have since been tested more extensively by operationalizing contracting institutions as the cost of contract enforcement and the overall level of confidence of citizens in legal institutions.[46] Evidence has also been found at the subnational level. Using variance in institutions across states in Mexico, Laeven and Woodruff[47] find a significant relationship between better contracting institutions and higher levels of growth in firm size, while Ardagna and Lusardi[48] show that contracting institutions increase the share of entrepreneurs that identify themselves as growth-oriented. This evidence suggests that investors distinguish between types of risk, and make investment decisions based on assessments of the quality of these institutions.

The 2011 Global Competitiveness Report (GCR) allows us to examine the importance of institutions governing the relations of *private* actors in the economy. After performing a survey of foreign and domestic investors round the world, the GCR weights

[41] Galiani and Scargrodsky 2006.
[42] Di Tella et al. 2007.
[43] Fields 2007.
[44] Malesky and Taussig 2010.
[45] Coase 1937; Williamson 1975; Williamson 1985; North and Weingast 1986.
[46] Grossman and Hart 1986; Hart and Moore 1990; Hart 1995.
[47] Laeven and Woodruff 2007.
[48] Ardagna and Lusardi 2008.

the strength of sub-indices and individual indicators by their contribution to economic growth. The "Institutions Pillar" derived from this analysis accounts for 25% of the "Basic Pillars Sub-Index." Disaggregating the weighting further, public institutions, which protect property rights, account for 15% of the Institutions Pillar, compared to 25% for Private Institutions, which includes measures of corporate governance and investor protection. Corruption, government inefficiency, and security account for the rest of the Pillar.[49] The authors defend the strong weighting of corporate governance and investor protection this way:

> The recent global financial crisis, along with numerous corporate scandals, has highlighted the relevance of accounting and reporting standards and transparency for preventing fraud and mismanagement, ensuring good governance, and maintaining investor and consumer confidence. An economy is well served by businesses that are run honestly, where managers abide by strong ethical practices in their dealings with the government, other firms, and the public at large. Private-sector transparency is indispensable to business, and can be brought about through the use of standards as well as auditing and accounting practices that ensure access to information in a timely manner.[50]

Thus, whereas current work by cooptation theorists studying authoritarian institutions does not distinguish between these two types of risk (expropriation vs. contracting risk), there is ample reason to believe that authoritarian institutions do not affect each type of risk equally. For instance, because assemblies must co-exist among a variety of other authoritarian institutions and actors (i.e. parties, dictators, cabinet officials, police forces, judiciaries, party offices, and local government offices) the role of legislative delegates in limiting expropriation is strongly constrained. Debates about expropriation may take place in assemblies, but ultimately enforcement and implementation fall to other actors in the polity. With rare exceptions, authoritarian assemblies do not actually have the power to expropriate directly from investors—their primary role is the production of legislation and

[49] Sala-i-Martin et al. 2011, 47.
[50] Sala-i-Martin et al. 2011, 4.

debate, which even then can be highly parameterized by the goals of the dictator or ruling party.[51] As we highlight below, expropriation infractions are generally committed by actors in the executive branch or by leaders at the subnational level. This is precisely the point made by Markus (2012), who examines the development of property rights in Russia and Ukraine. While both states had grandiose legal commitments to property rights on the books, they had limited ability to enforce these rules sub-nationally.[52]

To examine the determinants of the risk of government expropriation, we added questions to a 2011 survey by the Multilateral Investment Guarantee Agency's (MIGA) in an attempt to gauge risk perceptions of investors.[53] While we find that government expropriation is indeed rare—just 9% of investors in the survey experienced losses in the past three years due to nationalizations—it represents a catastrophic event for investors.[54] Further questioning in the survey reveals that 19% of investors divested or canceled future investments due to the threat of expropriation, and only 18% of investors noted that expropriation risk was not relevant to their decision-making.[55]

While it is clear that government expropriations are a real and salient threat, it is also clear that legislatures have very little impact on their prevalence. The largest percentage of

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[51] See Ginsburg and Elkins Comparative Constitutions Dataset for a breakdown of separation of powers in authoritarian constitutions (http://www.comparativeconstitutionsproject.org/publications.htm)

[52] Markus 2012, 247.

[53] We included questions on the survey, which was administered on June-July 2011 by the Economist Intelligence Unit, using their existing panel of high-level executives. This survey is designed to specifically address how political risk affected firm's investment strategies and perceptions how different institutions and events affect these risks. The survey yielded 316 responses from a wide variety of investors, with the largest number of responses from U.S. and U.K headquartered investors (70 and 26 responses respectively). These investors represent 27 different industries and investments in 65 different developing countries. Beyond the existing questions asked by MIGA, our research team included a number of additional questions to the MIGA survey. 100% of respondents indicated that they were involved or familiar with the company's foreign investment strategy in developing countries. 47% of respondents were C-level directors or board members.

[54] The question asks: " In the past 3 years has your company experienced financial losses due to any of the following risks. Check all that apply". The options included 8 types of risk, including "expropriation/nationalization". The option of "expropriation/nationalization" to measure expropriation in all of the MIGA questions.

[55] The first questions asks: "To your knowledge, have any of the following risks caused your company to withdraw an existing investment or cancel planned investments over the past 12 months?". The second question asks: "In your opinion, in the developing countries where your firm invests presently, how do each of the risks listed below affect your company? Rate each risk on a scale of 1 to 5 where 1=Very high impact and 5=No impact."

respondents indicated that the executive was responsible for these risks (43%), while 23% answered national agencies or bureaucracies were actors most responsible for expropriations.[56] When asked a follow-up question on who these agencies report to, the largest percentage (43%) answered that these agencies are acting on behalf of the executive – not the legislature[57]

Of course, simply demonstrating that legislatures are not involved in expropriation is to win a shallow victory over a straw man version of the property rights mechanism. Cooptation theorists may argue that whether the legislature expropriates or not is irrelevant, the true benefit of a legislature is its ability to constrain the expropriation of other actors, police the actors who may be involved, reverse illegal government expropriation when it does happen, and credibly punish actors who expropriate. Unfortunately, there is very little evidence in the extant literature or even in careful studies of individual authoritarian regimes demonstrating that legislatures are duly empowered. The authoritarian institutions literature has emphasized that they provide opportunities for limited policy-making and the public expression of delegate viewpoints, which as Malesky and Schuler show through an analysis of delegate performance in Vietnamese query sessions, does take place.[58] Nevertheless, there is limited evidence for the credible commitment of policies in authoritarian legislatures. Scholars have not provided systematic evidence that authoritarian parliaments are able to restrain the actions of state leaders, reverse activities they disagree with, or remove authoritarian leaders who violate the implied power-sharing arrangement. As Brownlee has emphasized, party strength and internal party checks offer a far more credible check on

[56] The question asks: " In your opinion, which of the following is the most likely to be actively involved with an expropriation?" The options included "Head of Government (President, Prime Minister, etc), seven other options of national or subnational actors, plus "other" and "don't know" options.
[57] The question asks: "Disputes can arise between foreign investors and government agencies. When these arise in countries where your organization is investing, how do you view the relationship between these agencies and other government entities?". 43% selected "Agencies act on behalf of the national executive (President, Prime Minister, etc)."
[58] Malesky and Schuler 2011.

executive actions.[59] In short, the link between authoritarian assemblies and restraint of state actors is weak both theoretically and empirically. Indeed, the MIGA evidence seems to indicate that foreign investors believe that authoritarian parliaments are more likely to increase the risk of expropriation (38% of respondents) than reduce it (1% of respondents).[60]

On the other hand, there is theoretical motivation to believe that authoritarian parliaments can play an important role in governing economic relationships between private actors, which in turn could facilitate the social bargains required for the production of corporate governance regulation that protects investors. Indeed, Markus' surveys of firms in Russia and Ukraine, while profoundly rejecting the role of the state in protecting property rights, provide strong evidence that firms are able to secure their own property rights through strategic alliances with other non-market actors.[61] We see this as the most viable link between authoritarian institutions and investment.

Our argument draws upon insights from a growing literature on endogenous corporate governance regulation, which to date highlights how the distributional implications of reform lead to political conflict among contending social interests.[62] For instance, since investors tend to benefit from strong corporate governance institutions, a prominent argument suggests that minority shareholder protections reflect the influence of right-leaning political parties, who are more likely to count investors as one of their core constituencies.[63] Recent work has challenged this view, arguing that the Left will support improved

[59] Brownlee 2008.
[60] The question asks: "Many countries with non-democratic governments have elected legislatures. In your opinion, how do such legislatures affect the following kinds of risk?"
[61] Markus 2012.
[62] Bebchuk and Neeman 2010; Gourevitch and Shinn 2006; Pagano and Volpin 2005; Rajan and Zingales 2003; Roe 2003.
[63] Roe 2003.

contracting institutions such as minority shareholder protections to the extent that these institutions promote investment and thereby increase labor demand.[64]

Other work examines alternative social divisions over the degree of minority shareholder protections. Rajan and Zingales and Perotti and Volpin highlight the interests of established (incumbent) firms, which they argue oppose investor protections since these reforms breed competition from aspiring market entrants.[65] The mechanism operates through the positive effects of corporate governance reform on capital market development, which allows entrepreneurs to enter the market and compete with incumbent firms. Rajan and Zingales contend that incumbent firms' opposition weakens with openness to international trade and capital flows.[66] For Perotti and Volpin, the probability of improved investor protections increases with the level of political accountability, measured as the weight that politicians give the preferences of the general public.[67] Where accountability is low, insiders successfully block corporate governance reforms that improve investor protections. The inference is that democratic institutions improve the quality of corporate governance by increasing political accountability.[68]

Alternative accounts stress the ways in which political institutions filter divergent interests over investor protections into corporate governance regulation. Pagano and Volpin analyze the effects of electoral institutions on the influence of a cross-class coalition of corporate insiders: blockholders, managers, and workers, who seek to inhibit investor protections for fear they could lead to takeover by outside investors. They argue that proportional representation (PR) systems will have weaker investor protections than plurality

[64] Pinto et al. 2010
[65] Rajan and Zingales 2003; Perotti and Volpin 2007.
[66] Rajan and Zingales 2003.
[67] Perotti and Volpin 2007.
[68] Related work by Perotti and Von Thadden (2006) argues that the median voter's support for minority shareholder protections may increase with an expansion in the ownership of financial assets, such as equity based pension funds.

systems, since PR helps sustain the bargains that underlie the cross-class coalition of insider control.[69] Research by Tiberghien highlights the role of political entrepreneurs in staking out bargains between global investors and resistant domestic interests.[70] A key intervening variable in his analysis of corporate governance reform is the political autonomy of reform-minded policymakers. Kerner and Kucik argue that domestic political institutions and global competition for capital affect insider trading laws. They argue that institutions that promote economic voting pressure politicians to enact protections of minority shareholders.[71]

Although these studies differ substantially in the emphasis they place on coalitional alignments, institutions, and political actors, they share a common insight: investor protections are unlikely when insiders control the political process. By contrast, corporate governance is likely to improve once the coalition of insiders breaks down, loses political power, or is forced to incorporate elements of a broader section of the population that benefits from a regulatory environment that promotes investment.

In translating these debates to the authoritarian literature, we argue that the existence of parliaments with multiple parties increases the likelihood that investor-friendly interests will be represented in the policymaking process, and that they will be able to negotiate directly with business leaders, who are also represented. In terms of designing policies, delegates representing the interests of private actors are more likely to be balanced, requiring the log-rolling that generates such protections. For instance, the Singaporean Parliament includes delegates, predominantly elected from regional constituencies, who hold concurrent positions in national business associations, large state and private manufacturing interests,

[69] Pagano and Volpin 2005. See also Gourevitch and Shinn 2005.
[70] Tiberghien 2007.
[71] Kerner and Kucik 2010.

both state-owned and privately-held banks, and large-scale financial investors.[72] Likewise, the Vietnamese National Assembly includes representatives from the Vietnam Chamber of Commerce and Industry (VCCI), the Vietnam Association of Financial Investors (VAFI), general directors of state and private companies, and representatives of state and private banking interests.

While the preferences of these actors over economic policies may differ, our view is that parliaments provide a forum for the types of bargains that make corporate governance reform likely. Financial investors benefit from minority shareholder protections, such as disclosure requirements and liability provisions. In exchange for supporting the trade and public investment policies that benefit manufacturing, financial interests may be able to win concessions to minority shareholder protections.

Central to our argument is the role of these legislatures, not in constraining the state, but in facilitating contract enforcement between private parties. While some private market actors wield political power that could be used to extract rents from minority shareholders, there is far more likely to be parity between private market actors than between private market actors and government officials. As a result, agreements worked out between such parties are more likely to protect the interests of both interlocutors. More importantly, however, these agreements are more likely to be implemented and enforceable, because they do not require the cooperation of authorities with more power than the legislators, such as party members, cabinet officials and subnational officials. These agreements are, to some extent, self-enforcing. Business leaders who violate the interests of minority shareholders will not be able to return to them for financing at later stages. In this light, the true benefit of a legislature is that it provides a forum that facilitates the negotiation, and a mechanism

[72] http://www.parliament.gov.sg/mp/liang-eng-hwa?viewcv=Liang Eng Hwa

for formalizing the arrangements legally, which increases their visibility to actors outside elite circles. To be clear, we expect legislatures with multiple actors to strengthen investor protection provisions between private actors in the economy, not between private actors and state owned enterprises (SOEs).

The notion of a legislature with multiple parties as forum for negotiation generates two downstream theoretical questions. First, why formalize these negotiations through legislation and official regulations? Why not just keep these as a private agreement between economic elites without extending the same minority protections to the rest of the population? This private contracting solution, of course, was the strategy adopted by the Russian and Ukrainian firms surveyed by Markus 2012.[73]

We argue that the formalization of these contracting rights through legislatures has a number of benefits to the authoritarian regime. First, as noted by numerous studies of institutions, formal institutions can reduce transaction costs of negotiations.[74] Second, formal institutions allow for repeated interactions—states do not need to rebuild a forum for renegotiation each time contracting rights need to be amended.[75] Third, there are "naming and shaming" possibilities available in legislative forums that do not exist elsewhere in authoritarian society. Without such a setting, an infringement of an individual minority shareholders rights can occur in isolation, with only the transgressor and victim aware of the incident. The legislature allows injured parties (or their representatives) to report the transgressions to other investors and responsible government actors, who have the ability to act upon the information. Thus, the formalization of power of business groups and the protection of minority investors can be more efficiently accomplished through an

[73] Markus 2012.
[74] Coase 1937.
[75] Williamson 1975; 1985.

authoritarian legislature. Furthermore, the establishment of investor protections caters to domestic and foreign investors without threatening the regime's hold on power.

Once investor protections are negotiated in the legislative forum, how do legislative institutions facilitate the enforcement of minority shareholder protections?[76] As we noted above, one of the most important features of the assembly is that it provides a forum for iterative negotiation, facilitating repeated discussions among parties and self-enforcement of agreements. Insiders who do not uphold their side of the bargain (for example, by expropriating profits) will find it more difficult to obtain further concessions (and financing) from minority investors in the future. Thus, the first line of protection for minority investors is self-enforcement, facilitated through the mandatory disclosure of accounting and financial statements as specified in the corporate governance legislation.

In some cases, however, self-enforcement may not be enough. Where corporate insiders violate the rights of investors, legal institutions such as courts can impact the efficacy of minority investor protections.[77] As La Porta et al. show, the most effective investor protections are generated by public institutions, and enforced among private actors through periodic disclosures and the ability to sue in the case of wrongdoing by corporate insiders.[78] In our empirical analysis we control for the quality and origins of the legal system, which allows us to isolate the impact of parties and legislatures on the generation of investor protections, given a particular endowment of legal quality. But we emphasize the critical nature of the relationship between legislatures which generate the legal framework and courts that enforce it. Future work that re-examines the effect of legislatures on investment

[76] We thank an anonymous reviewer for highlighting this point.
[77] La Porta et al. 2000.
[78] La Porta et al. 2006.

and economic growth should pursue the conditional relationship between legislatures and courts.

Nevertheless, even under conditions of poor legal quality, we believe that authoritarian leaders have an incentive to enforce contracting institutions such as the protections of minority investors, for reasons beyond their impact on economic growth.[79] Corporate governance institutions reduce investment risk for outside investors, lowering the cost of capital[80] and inducing more firms to seek public financing through equity markets.[81] For example, La Porta et al. find that a two-standard deviation improvement in their index of corporate governance quality increases the ratio of stock market capitalization to GDP by 33%.[82] The reduced cost of capital helps a host of economic actors and specifically benefits authoritarian rulers looking to roll-out expensive infrastructure or glamour projects or, for those more self-interested, raise money for their own business ventures or family concerns. In short, a lower cost of capital is a strong motivation for even for purely self-interested authoritarian leaders to invest in enforcement mechanisms that uphold investor protections.[83]

[79] Djankov et al 2006; Haidar 2009. Recent work by Staton and Moore (2011) argues that courts, domestic or international, face serious constraints in their ability to constrain state behavior, although domestic courts can be effective in enforcing contracts between private actors. Our theory relates to this work, although our focus is on legislative institutions. We argue that institutions can be effective in the protection of minority investors because the state has a pecuniary incentive to uphold these contracts, while legislative institutions lack the ability to limit the state's power.
[80] Stulz 1999.
[81] Schleifer and Wolfenzon 2002.
[82] La Porta et al. 2006. This is a large increase. The average stock market capitalization/GDP ratio in their sample is 59%.
[83] A potential exception to leaders' interest in enforcement is when the direct pecuniary interests of the state are impacted by the bargain. Consequently, we do not expect robust enforcement of corporate governance disputes against SOEs, connected businesses, or sovereign wealth funds. In these cases, the negotiations would be a one-sided battle between minority investors and top national leaders. Thus, similar to our argument regarding property rights, the enforcement of investor protections would rarely be attempted, and where it did exist, would be toothless. Unfortunately, data on the SOE representation in authoritarian legislatures is spotty, making it impossible to test this conditional hypothesis. It is important to note, however, that omitting the presence of SOE representation biases against finding a positive relationship between authoritarian legislatures and investor protections.

Comparative Examples of Authoritarian Assemblies and Investor Protections

To clarify how the relationship between authoritarian assemblies and investor protections work in practice we draw on a couple of examples. One compelling illustration of how an authoritarian parliament generates investor protections can be found in contemporary Malaysia. In the wake of the 1997 Asian Financial Crisis, corporate governance reform was an important policy initiative of a number of countries in the region, as the crisis exposed the dangers of poor disclosure requirements and weak investor protections.[84] In Malaysia, the impetus for reform brought by the financial crisis dovetailed with concerns raised by a series of high profile financial failures in the mid-nineties, such as Perwaja steel company, where minority shareholders were the primary victims of insider malfeasance.[85] Since that initial impetus, Malaysia has made major strides in reforming corporate governance, but these reforms were not enacted until after 2000.[86] Importantly, his timing coincides with the weakening of the monolithic power of the UMNO in the national assembly and the rise of opposition parties in the national legislature. The 1999 election was the first time, since its founding, that UMNO seats in parliament amounted to less than its allies in the Barisia National Coalition.[87] With a more diverse interests represented, opportunities emerged for deal making that had not existed under the zenith of UMNO power.

Consistent with our theory, the specific regulations approved by the Malaysian parliament were originally put forward by the Finance Committee on Corporate Governance (FCGG), a high level committee created by the National Assembly, consisting of senior government officials and heads of regulatory agencies, along with private companies,

[84] Nam and Nam 2005.
[85] Ow-Yong and Gui Kuan 2000.
[86] See Security Commission (2007) for a summary of corporate governance reforms.
[87] Wah and Taik 2002; Murphy 2006.

investor organizations, and professional business associations. [88] The FCGG allowed for debate among the different interests represented in its membership, and ultimately agreed upon a Code of Conduct to address disclosure and minority shareholder requirements.[89] After the Code of Conduct was published, the Parliamentary representatives legislated many of its provisions, including listing requirements and a minority shareholder watchdog group.[90] The improvements were so impressive that CLSA Emerging Market Watch ranked Malaysia first (above Singapore) on its 2003 ranking of Laws and Rules for corporate governance.[91] Thus, the pattern of corporate governance reform is consistent with our argument on the role of authoritarian assemblies in facilitating negotiations among diverse private sector interests.

A second example can be found in Sri Lanka, a country that has recently enacted corporate governance reforms, including the Companies 7 act of 2007.[92] Although the administrative capacity and implementation of investor protections has been spotty, the direction is clearly towards enhancing the protections of private interests from corporate maleficence.[93] This move towards stronger corporate governance, modeled after New Zealand's corporate governance laws, contrasts with the passage of "The Revival of Underperforming Enterprises and Underutilized Assets Act."

This act was proposed in 2011 by Sri Lankan President Mahinda Rajapaksa, targeting thirty-seven "underperforming" firms for expropriation. This legislation was sent to the National Assembly under a dubious "urgent" provision, allowing limited debate of the law

[88] Specifically, the committee was comprised of representatives of the Ministry of Finance, the SC, the Companies Commission of Malaysia, the Financial Reporting Foundation, The Malaysian Accounting Standards Boards, Bank Negara Malaysia, Association of Bank Malaysia, The Association of Merchant Banks Malaysia, KLSE, The Association of Stock Broking Companies Malaysia, The Malaysian of the Institute of Chartered Secretaries and Administration and the Federation of Public Listed Companies.
[89] Ow-Yong and Gui Kuan 2000.
[90] Aziz 2005.
[91] Abidin and Ahmad 2007.
[92] See IFC 2004 for a review of previous corporate governance reforms.
[93] Guneratne 2011.

and a streamlined voting procedure. The Sri Lankan Supreme Court held that this urgent process did not violate the constitution, essentially assuring the passage of the bill. Indeed, the bill passed along party lines on November 9, 2011, where the Government's party enjoyed a 2/3 majority in the national assembly.[94] While the exact motivation for this expropriation act is not directly observable, the majority of these affected investments are linked to opposition political figures and thus the bill provides some prima facie evidence for the inability of authoritarian legislature to protect foreign and domestic firms from expropriation.[95]

Both of these examples highlight the role of national legislatures in the enacting corporate governance reforms. Yet, in both cases legislatures have little power over the government's ability to screen, regulate, and expropriate from foreign and domestic investors. In the next section we systematically test the relationship between authoritarian assemblies, corporate governance reform, and property rights protections in non-democracies.

Determinants of Expropriation Risk

Since we seek to differentiate between the risk of expropriation by governments (countered by property rights which result from vertical restraints on the state) and the risk of expropriation by corporate insiders (countered by investor protections which result from horizontal constraints on private actors), we model two distinct dependent variables.

To measure vertical property rights, we rely on a direct measure of country-level political risk from the political risk insurance industry, covering nearly the complete universe

[94] Reuters 2011, Nov. 8.
[95] Reuters 2011, Nov. 17

of autocratic regimes.[96] In particular, we use data from the Belgian political risk insurance agency (ONDD), which has been analyzed by Jensen and Jensen and Young to create a proxy for vertical property rights.[97] These data are representative of the political risk insurance ratings, as ONDD serves as a price leader in that industry.[98] The variable *Property Protection* represents the inverse of the original 2002 ONDD seven-point risk rating.[99] Countries rated as a 7 (Singapore) have the lowest levels of risk for a 15 year, forward looking insurance contact, and therefore are viewed to have the highest level of *Property Protection*; countries rated as a 1 (Iraq, Somalia, and Zimbabwe), which are considered uninsurable, have the weakest protection of vertical property rights.

Our second dependent variable, *Investor Protection*, from the Doing Business project, measures the risk of investor predation by private actors. Specifically, *Investor Protection* captures "the strength of minority shareholder protections against the misuse of corporate assets by directors for their personal gain".[100] Minority shareholder protections have been shown to shield investors from insider predation, increasing the incentives for investment, and thereby contributing to the development of financial markets around the world.[101] The variable *Investor Protection* ranges from 0 to 10. We are forced to rely on data from 2006, the first year that Doing Business measured investor protections. Although our measure of

[96] Jensen 2008.
[97] Jensen 2008; Jensen and Young 2008.
[98] The ratings are constructed through a quantitative and qualitative analysis of potential host countries, providing country level ratings. Political risk insurers use this country rating as a starting point (or price floor) for risk insurance pricing. Investments in certain sectors, such as oil and gas exploration, are charged higher premiums than other investments. The specific location of the investment within a country and details of the business plan can all affect risk insurance pricing. Yet the country level risk ratings serve as a clear metric to compare levels of country risk.
[99] We reverse the scale, so that increases are interpreted as improvements in property rights (reductions in risk). A total of ten countries in our sample were not ranked by ONDD in 2002 but were ranked when ONDD expanded coverage in 2004. For this set of countries, we derive imputed scores based on the 2004 scores. The results are unchanged when we use only the (non-imputed) 2002 scores.
[100] Doing Business 2012. The variable is called the "Strength of Investor Protection Index" (Doing Business, 2012). It is created by surveying lawyers and obtaining the actual government regulations regarding investor protections than coding the regulations and assembling them into a ten-point scale. The index measures the extent of disclosure requirements to shareholder and public, the ability of shareholders to hold the director and board liable for negligence or breach of fiduciary responsibility, and the transparency of business documentation available to plaintiffs during a corporate governance trial.
[101] La Porta et al. 1997; 1998; 1999.

investor protection is slightly more distant from our independent variables than our measure of property rights, we believe the test is reasonable for two reasons. First, authoritarian institutions change very slowly over time. Between 1990 and 2002, the bivariate correlation between number of legislative parties and a two-year lag of the same variable is 0.83. Thus, there is very little risk that we are overlooking critical changes in particular regimes. Second, the bias favors finding a stronger relationship between authoritarian legislatures and property rights, which is more proximate. Consequently, the analysis is biased against the alternative hypothesis we support.

Independent Variables

The objective of our analysis is to examine the effects of the assembly representation on the two types of market institutions in non-democracies. An ideal test of our argument linking assemblies to investor protections would involve coding all authoritarian assemblies based on the type and composition of delegates. We could then test whether assemblies which include representatives from different private market actors (particularly majority and minority investors) have better property rights. Unfortunately, fine-grained data on assembly representation exists in too few countries to allow for this analysis. As a result, we use the number of legislative parties as proxy of the number of interests represented on the legislative floor. Fortunately, the proxy has the added benefit of being consistent with correlations discovered in the extant literature – more legislative parties in non-democratic assemblies are associated with greater investment and economic growth. As we noted above, our theory simply offers an alternative reading of this robust correlation. A downside of this strategy, however, is will tend to under-estimate the role of diverse economic

interests. As our examples from Singapore and Vietnam indicate, it is possible that different business interests can be represented even in single-party systems.

We begin by identifying the sample of non-democracies using the Hadenius and Teorell regime classifications.[102] To measure authoritarian institutions, we introduce data on authoritarian legislatures developed by Gandhi.[103] We rely on the variable *Parties in Legislature*, which is coded as follows: 0 = No legislature exists or there is a legislature but members are not allowed to belong to political parties; 1 = One political party holds all seats within the legislature; 2 = Two or more political parties hold seats within the legislature. Using *Parties in Legislature*, we generate two dummy variables. The variable *Legislature* equals 1 if a legislature exists (i.e., if *Parties in Legislature* equals 1 or 2), and 0 otherwise; and *Multiple Parties* equals 1 if two or more parties hold seats in the legislature (i.e., if *Parties in Legislature* equals 2), and 0 otherwise.

We estimate the following equation:

$$Y_j = \alpha + \beta I_j + \mathbf{C_j}'\boldsymbol{\sigma} + \delta_j + \varepsilon_j$$

where Y_j represents our alternative dependent variables, *Property Protection* and *Investor Protection* in country *j*. The index *I* captures the two institutional measures outlined above (*Legislature* and *Multiple Parties*).[104] To account for heterogeneity across countries, our models include a series of control variables, represented by the vector $\mathbf{C_j}$. Following Jensen, all models include the log of GDP/capita and regional dummy variables δ_j.[105] We probe the robustness of our main results to the inclusion of additional controls: GDP/capita growth,

[102] Hadenius and Teonell 2007.
[103] Gandhi 2009.
[104] These variables correspond to classifications for the year 2002.
[105] Jensen 2008. The regions are: Eastern Europe and post-Soviet Union, Latin America, North Africa and the Middle East, Sub-Saharan Africa, the Pacific Islands, East Asia, and South-East Asia.

trade, the log of total population,[106] a dummy variable indicating that a country is an oil exporter, dummy variables for legal origin[107], and a variable measuring the quality of the legal system (rule of law) from the World Bank Governance Matters dataset.[108] We estimate all of our models using OLS and two-stage least squares.[109] The summary statistics and a correlation matrix appear in the online appendix (Tables A1 and A2, respectively).

[Insert Table 1]

Table 1 reports the results of a series of models on the determinants of property and contracting rights in autocracies. All specifications include regional dummy variables to account for unobserved heterogeneity that may be associated with socio-cultural factors or the diffusion of institutions among neighbors. Regional fixed effects allow us to compare the impact of institutions within each regional setting. Columns 1-4 report our estimates of *Property Protection*. Our results indicate that our key independent variables, *Legislature* and *Multiple Parties,* have no impact on this form of expropriation risk. Consistent with the results reported in Jensen, [110] we find that trade openness is associated with better property rights. Not surprisingly, the rule of law index is also strongly correlated with property rights.

One potential criticism of our models of *Property Protection* is that the dependent variable solely captures perceptions of risk for foreign investors. Do these same results hold for domestic investors? To examine the robustness of these results we include alternative measures of property rights and expropriation risk from the Global Competitiveness Report,

[106] These variables are from the World Bank's World Development Indicators. The variables represent period averages from 1995-2002.
[107] La Porta et al 1999.
[108] Kaufmann et al. 2009. In addition, we also control for regime history, measured by the pre-authoritarian years of democracy experienced by the host country and the length of the current leader's tenure in years. To save space, these results are presented in Online Appendix – Table A5. These controls have no influence on the marginal effect of multiple parties.
[109] To ensure that the modeling approach is not responsible for our conclusions, we estimate several alternative models. Due to the ordinal nature of the variable *Property Protection*, our robustness tests fit ordered probit specifications. For *Investor Protection*, we fit a tobit specification as the data is both left- and right-censored. We find that our results do not depend on the specification or assumptions about the distribution of the dependent variable (see Online Appendix - Tables A3 and A6 of the online appendix).
[110] Jensen 2008.

[111] the Heritage Foundation, and the Fraser Institute.[112] We present the results in Table A4 of the online appendix, yet our findings remain unchanged. There is no evidence that authoritarian legislatures affect expropriation risk or other measures of vertical property rights protections.

Columns 5-8 of Table 1 present identical specifications as above, but this time the dependent variable is *Investor Protection* within authoritarian countries, representing the alternative contracting mechanism. In contrast to the models of *Property Protection*, we find strong support for the view that multiple political parties are associated with the protection of minority shareholders in authoritarian regimes (Columns 6-8).

Figure 1 contrasts the results from Column 7 with the result from Column 3. In particular, the figure displays the partial regression plots for both dependent variables based on the results from Columns 3 and 7. The figure represents the relationship between the two dependent variables and *Multiple Parties*, holding fixed the set of economic control variables. The slope of the linear fit is identical to the estimated coefficient corresponding to *Multiple Parties* in Columns 3 and 7 of Table 1. We note that outliers do not drive the relationship between *Multiple Parties* and *Investor Protection*: the strongly positive correlation appears quite general across countries.

The results in Columns 5-8 provide an important distinction between *de jure* and *de facto* institutions. In particular, the existence of a legislature alone is not robustly correlated with improved investor protections. Rather, the results indicate that investor protections are strongest where multiple parties actually exist within the legislature. The results hold after the inclusion of the economic controls (Column 7), and after the inclusion legal origin dummies and the rule of law in Column 8. This robust relationship between the existence of multiple

[111] Porter and Schwab 2008.
[112] Gwartney and Lawson 2006.

parties and investor protections strongly corroborates our theoretical intuition that the main role of an authoritarian assembly is not to facilitate trade-offs with the authoritarian leadership (be that a dictator or a party), but rather to facilitate log-rolling among multiple private actors, who may have different economic interests.[113]

[Insert Figure 1]

Robustness

We test the robustness of our results to a two-stage procedure that addresses concerns about institutional endogeneity using data on the historical origins of multi-party authoritarian regimes. While simultaneity bias is not a concern, as it is highly unlikely that property rights generate authoritarian parliaments, unobserved heterogeneity (i.e., omitted variable bias) poses a very real threat to causal identification. Specifically, it is possible that underlying constellations of domestic actors are responsible for the creation of parliaments and protections against expropriation and breach of contract. Consequently, the correlation between the two variables would be spurious, resulting from the fact that powerful interests demanded both of these protections, rather than an actual causal relationship between the political and economic institutions. Indeed, Pepinsky's[114]study of Malaysia and Indonesia demonstrates how different constellations of economic and ethnic actors underlying the strength of the chief executives[115] led to radically different economic policy choices made in the face of the Asian Financial Crisis. Most important for Pepinsky is that some of these

[113] It is important to note that our analysis is not a direct test of the Wright (2008) model, which interacts legislatures with the authoritarian regime type (personalist, military, single-party, monarchy). As our data is cross-sectional as opposed to the panel of countries that Wright analyzes, we do not have enough variation on assemblies within some regime types to precisely estimate these effects. As we note, by the late nineties very over 80% of single-party and military systems have assemblies, allowing very little variation. Wright avoids the problem by including data from the seventies and eighties. We replicate these interaction models using our cross-sectional dataset and present the results in the online Appendix (Table A7). Readers can observe that in line with our theory, legislatures have limited effect on property rights in any regime, but are associated with investor protections.
[114] Pepinsky 2009.
[115] Mahatir and Suharto.

actors were not represented in cabinets or legislatures; their influence resulted primarily from the financial support for the regime.

To address this concern, we rely on a quasi-experiment provided by the legacy of institutions in authoritarian regimes. In many countries, the parliaments and the number of parties represented in them were not created anew at the time a new authoritarian regime was founded; rather, they were inherited from the colonial past[116] or bequeathed from a previous democratic or authoritarian episode.[117] Cambodia and East Timor offer the most obvious cases, where their parliament and electoral system were constructed under United Nations auspices after a multi-national intervention. During the dislocation caused by decolonization, war, or civil unrest that lead to regime transitions, many leaders have found it convenient to rely on the edifices of power from the past to quickly establish order and begin re-building.[118] Countries with inherited legislatures and opposition parties allow us to more directly trace through the causal implications of a parliament, as it cannot be the case that the parliament was selected by the same set of actors that determine expropriation and investor protection policies.

To be sure, as Slater[119] demonstrates, these inherited institutions can be packed, rigged, and circumvented by clever dictators, as was the case of Mahatir in Malaysia and has been more recently demonstrated by Hun Sen in Cambodia. These dictators are able to choose which institutions they prefer and will continue to support, which ones to do away with, and which ones to coopt to their own purposes. Although inherited institutions limit the choice set of authoritarian executives, they cannot constrain them entirely. This fact

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116 Acemoglu et al. 2005.
117 Ginsburg, Elkins, and Melton 2011; Magaloni 2008. For instance, in our *Property Protection* sample, 65% of countries inherited multiple parties; in the remaining countries, only the regime's party existed, or all political parties were banned. In the *Investor Protection* sample, 66% of countries inherited multiple parties.
118 Slater 2010.
119 Slater 2003; 2007.

allows for a more nuanced set of predictions regarding the effects of authoritarian parliaments. Once we account for the legacy of inherited institutions, we are unlikely to observe a relationship between authoritarian parliaments and vertical restraints on state executives, who have too many tools at their disposal to circumvent them. On the other hand, the inherited parliaments and opposition parties are much more likely to lead to multiple interests being represented in the parliament, and will therefore be more likely to engender the trade-offs between non-state actors that result in horizontal checks on market actors. As long as these horizontal checks are neutral in their effect on leaders' interests, they will be likely to survive and influence investors' decisions.

To address unobserved heterogeneity in institutional selection, we introduce our theoretically grounded instrument in a two-stage procedure, where we first estimate the existence of the legislature and the number of parties in authoritarian legislatures, and then use the predicted value of these variables derived from historical legacy in the second-stage. Essentially, this two-stage procedure alleviates the threat that legislatures were created to simply reflect existing bargaining powers of actors in the polity. The variable *Inherit*, developed by Gandhi and Przeworski, is coded 2 if multiple parties are inherited, 1 if only the regime party existed, and 0 if all political parties were banned in the previous regime. Data correspond to 1996, which represents the final year in the Gandhi and Przeworski time series.[120] Our two-stage identification strategy employs *Inherit* as an instrument for *Legislature* and *Multiple Parties*.

Instrument validity requires that inherited institutions fulfill the exclusion criterion, which states that the instrument must be conditionally correlated with the independent variable, but must be uncorrelated with the error term in the second stage. In practice, this

[120] Gandhi and Przeworski 2007.

means that inherited institutions should have an effect on the number of parties represented in the legislature, but should not be independently correlated with the development of property rights or contracting institutions that develop in the new regime. The exclusion criterion would be violated, for instance, if elite divisions prior to the previous regimes' collapse were responsible for both the number of parties and for future policies about contracting institutions. An especially problematic case would be one where these specific economic institutions defined elite divisions in the prior regime.

While an inspection of the cases in our dataset reveals this worry is not a threat, we also run several diagnostic tests to probe the validity of the instrument. First, we note the first-stage estimates reported in Table 2 indicate that *Inherit* is strongly associated with *Legislature* and with *Multiple Parties*, significant at the .01 level. The results are also substantively quite large: holding the control variables at their means, results from a probit model indicate that the predicted probability that an authoritarian legislature will have multiple parties is 92% if multiple parties were inherited, compared to 63% where only the regime's party existed, and just 24% where no parties were allowed. In addition, the bivariate correlations between the variables are quite compelling. The bivariate correlations between *inherit* and *multiple parties* is 0.50 and statistically significant at the 0.05 level. The bivariate relationship between and inherit and investor protections is only 0.14 and not statistically different from zero.[121] Another reason to believe the exclusion restriction is upheld is the simple fact that the two-stage strategy recovers the same theoretical result as the OLS analysis -- there is no relationship between multiple parties and property rights, but there is an association with contracting rights. This finding is at odds with the most likely threat to the exclusion restriction – that negotiations during regime transition affected both

[121] See Web Appendix A2

Inherit and *Investor Protections*. If previous political dynamics influenced which parties survived regime transition *and* the choice of economic institutions that would survive into the new state, it is extremely unlikely that the founders of the new regime would neglect property rights and only address contracting institutions during the initial negotiations.

To further probe the relevance of the instrument, we test for underidentification. Since our models drop the i.i.d. assumption and estimate robust standard errors, the appropriate underidentification test relies on the Kleibergen-Paap[122] LM statistic, a generalization of the Anderson canonical correlation test. In the first stage, the Kleibergen-Paap LM statistic ranges between 7 and 15 and is always significant at the 99% level of confidence, and so we can reject the null that the equation is underidentified.

We conduct additional tests of weak identification, which occurs if the instrument (*Inherit*) is only weakly correlated with the main institutional variables. To test for weak identification, we report the Kleibergen-Paap Wald F-statistic, again the appropriate test under the assumption of non-i.i.d. errors. The K-P Wald F-statistic ranges between 13 and 21 in each of the *Investor Protection* models, far exceeding the rule of thumb cutoff of 10. In our tests of the effect of *Multiple Parties* on *Investor Protections*, we note that the estimated K-P Wald F-statistics also surpass the critical value for 5% Wald test.[123] These tests bolster our story that inherited parties do not have an independent effect, but influence the investor protections primarily through their role in generating a greater likelihood of multiple parties in the new regime.

Having confirmed the relevance of the instrument, we turn to the instrumental variables results, reported in Table 2. The results from these models confirm our previous findings. The first four columns of Table 2 model the determinants of *Property Protection*. In

[122] Kleibergen-Paap 2006.
[123] See Stock and Yogo 2005.

Columns 1 and 2, the main independent variable of interest is *Legislature;* Columns 3 and 4 introduce *Multiple Parties*. We begin in Column 1 with a parsimonious model, including only GDP per capita and the regional fixed effects as control variables. The coefficient corresponding to *Legislature* actually enters with a negative coefficient in this two stage model, albeit without statistical significance. In Column 2, we include our additional control variables, and *Legislature* remains statistically insignificant, this time with a positive sign. We conduct an identical set of tests in Columns 3 and 4, this time instrumenting for *Multiple Parties*. We find no statistically significant relationship between *Multiple Parties* and *Property Protection.* In sum, the results from our robustness tests, which attempt to address the potential endogeneity of authoritarian institutions, are not consistent with the view that legislatures and parties improve vertical property rights protections in autocracies.

To further probe the positive relationship between these authoritarian institutions and investor protections, we run an identical set of robustness tests on the determinants of *Investor Protections*, and report the results in Columns 5-8 of Table 2. In contrast to our models of *Property Protection*, we find consistent support for the hypothesis that multiple parties in the legislature increase the protection of minority shareholder rights (*Investor Protection*). We also find a significantly positive relationship between the existence of a legislature and investor protections. The variable *Legislature* enters positive and significant in the parsimonious (Column 5) and fully specified models (Column 6). We also note that *Multiple Parties* retains a positive coefficient, significant at the 99% level of confidence in Columns 7 and 8. Thus, we conclude that the evidence is consistent with the hypothesis that parties in the legislature have a positive causal effect on the degree of investor protections in authoritarian regimes.

[Insert Table 2]

Conclusion

Scholars studying the relationship between institutions and investment have largely ignored the rich variation within authoritarian regimes. In this article we highlight the recent contributions in the study of authoritarian legislatures and test the theory of how "binding" legislatures can reduce political risks for investors. Our empirical tests not only inform the literature on the relationship between investment and political regimes, they also provide a more direct causal test of an important stream of literature in comparative politics on the impact of authoritarian institutions on economic performance.

While we believe that the empirical correlation between authoritarian parliaments and investment/GDP growth is robust, we offer an amendment to the perceived causal logic that parliaments constrain executives and thereby reduce the risk of government expropriation. Authoritarian legislatures are by and large too weak to restrain the actions of the leadership, be they dictators, military juntas, or single-parties—the actors most likely to commit such expropriations. Moreover, they are very unlikely to punish or reverse such transgressions when they do take place.

Rather, we argue, the most important effect of authoritarian parliaments is to facilitate representation by multiple types of private economic actors, who are represented in the body. These actors have divergent economic interests, leading to policy trade-offs that facilitate improved corporate governance statutes that constrain the ability of corporate insiders to expropriate from investors. In short, we argue that while authoritarian parliaments are unlikely to facilitate vertical checks on powerful state actors, they can enable private actors to check one another in the form of strengthened investor protections. Our

argument, therefore, points to an alternative channel through which authoritarian legislatures contribute to investment and economic growth.

Using both political risk insurance ratings and objective measures of investor protection to test these hypotheses statistically, we find that authoritarian legislatures have very limited impact on property rights. Correlations between property rights and legislatures with multiple parties do not survive in models with a reasonable set of covariates or an identification strategy that exploits the inheritance of particular institutions. Survey evidence from MIGA provides additional confirmation that expropriation risk insurers, country analysts, and plant location consultants perceive these authoritarian legislatures as having very little impact on vertical expropriation risk.

By contrast, we find robust evidence that multiple parties in authoritarian parliaments generate better investor protections, as measured by the Doing Business project. This is an important contribution, as a long-lived and extensive literature has shown that such protections facilitate stock market development, domestic investment, and ultimately economic growth. Our findings clearly illustrate that authoritarian parliaments can improve economic performance by reducing investment risk. But the grabbing hand that they bind is not that of dictator or single-party; it is the hand of the corporate insider seeking to exploit investors through the misuse of assets for personal gain.

Table 1. Authoritarian Institutions and Property Rights

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable:	Property Protection				Investor Protection			
Legislature	0.170				0.536			
	(0.460)				(0.394)			
Multiple Parties		0.366	0.319	0.196		1.118***	1.018***	0.957***
		(0.346)	(0.314)	(0.276)		(0.373)	(0.376)	(0.359)
GDPPC	0.609***	0.611***	0.318**	-0.191	0.514***	0.510***	0.473**	0.150
	(0.137)	(0.127)	(0.137)	(0.146)	(0.184)	(0.170)	(0.208)	(0.208)
Growth			-0.000	-0.008			-0.038	0.001
			(0.047)	(0.026)			(0.026)	(0.021)
Population			-0.082	-0.030			0.176*	0.091
			(0.097)	(0.077)			(0.098)	(0.102)
Trade			0.009***	0.005*			0.007	0.000
			(0.002)	(0.003)			(0.005)	(0.005)
Oil Exporter			-0.552*	0.186			-0.186	0.286
			(0.328)	(0.287)			(0.411)	(0.387)
Rule of Law				1.934***				0.548**
				(0.275)				(0.271)
Regional dummies	yes	yes	yes	yes	yes	yes	yes	yes
Legal origin dummies	no	no	no	yes	no	no	no	yes
Observations	75	75	74	74	85	85	84	84
R^2	0.284	0.294	0.412	0.723	0.259	0.340	0.392	0.520

Note: The tables report OLS estimates of the determinants of *Property Protection* and *Investor Protection.* All models include regional dummy variables. The variable *Property Protection* represents the ONDD political risk rating for expropriation/breach of contract risk. The variable *Investor Protection* is the Strength of Investor Protection Index, developed by the World Bank.[125] A constant is estimated but not reported. Heteroskedasticity-robust standard errors in parentheses. ***, **, and * indicate statistical significance levels of 1, 5, and 10 percent, respectively.

[125] Doing Business 2012.

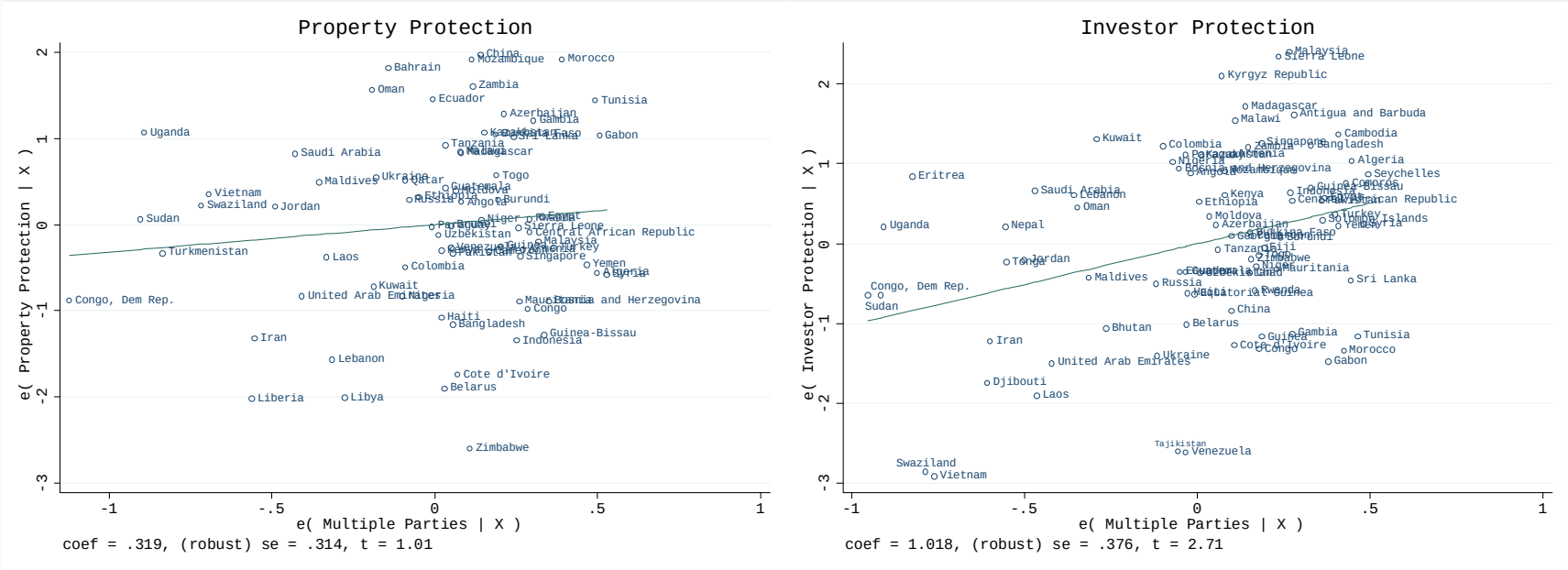
Table 2. Authoritarian Institutions and Property Rights (Robustness)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable:	Property Protection				Investor Protection			
Legislature	-0.473	0.396			3.005***	2.005**		
	(1.230)	(0.805)			(1.055)	(0.796)		
Multiple Parties			-0.344	0.433			2.095***	1.677***
			(0.895)	(0.880)			(0.596)	(0.621)
GDPPC	0.522**	-0.144	0.566***	-0.155	0.656***	0.094	0.528***	0.106
	(0.221)	(0.164)	(0.146)	(0.152)	(0.208)	(0.211)	(0.161)	(0.196)
Growth		-0.007		-0.008		-0.005		-0.003
		(0.023)		(0.024)		(0.024)		(0.020)
Population		-0.048		-0.063		0.103		0.054
		(0.098)		(0.122)		(0.101)		(0.096)
Trade		0.004		0.004		0.002		0.000
		(0.003)		(0.003)		(0.004)		(0.004)
Oil Exporter		0.131		0.153		0.470		0.441
		(0.269)		(0.265)		(0.368)		(0.354)
Rule of Law		1.893***		1.864***		0.677**		0.642***
		(0.269)		(0.302)		(0.285)		(0.245)
Regional dummies	yes	yes	yes	yes	yes	yes	yes	yes
Legal origin dummies	no	yes	no	yes	no	yes	no	yes
Observations	74	73	74	73	84	83	84	83
K-P LM Stat	7.021	8.454	9.116	7.102	10.617	11.850	15.358	14.021
K-P Wald F-stat	7.692	9.787	10.415	8.322	13.699	15.569	21.383	19.161
First Stage								
GDPPC	-0.093*	-0.060	-0.001	-0.029	-0.018	0.025	0.035	0.023
	(0.050)	(0.046)	(0.054)	(0.061)	(0.030)	(0.049)	(0.034)	(0.056)
Inherit	0.185***	0.212***	0.254***	0.193***	0.213***	0.232***	0.306***	0.277***
	(0.067)	(0.068)	(0.079)	(0.067)	(0.058)	(0.059)	(0.066)	(0.063)
Growth		-0.005		-0.003		0.010		0.010
		(0.016)		(0.014)		(0.008)		(0.009)
Population		0.074***		0.103***		0.015		0.047*
		(0.027)		(0.029)		(0.020)		(0.028)
Trade		0.001		0.001		-0.001		0.000
		(0.001)		(0.001)		(0.001)		(0.001)
Oil Exporter		0.052		-0.003		0.012		0.032
		(0.090)		(0.115)		(0.088)		(0.090)
Rule of Law		0.143		0.198*		0.026		0.053
		(0.112)		(0.116)		(0.086)		(0.096)

Note: The table reports two-stage least squares estimates of the determinants of *Property Protection* and *Investor Protection*. The variable *Property Protection* represents the ONDD political risk rating for expropriation/breach of contract risk. The variable *Investor Protection* is the Strength of Investor Protection Index, developed by the World Bank.[126] A constant is estimated but not reported. Heteroskedasticity-robust standard errors in parentheses. ***, **, and * indicate statistical significance levels of 1, 5, and 10 percent, respectively.

[126] Doing Business 2012.

Figure 1. Multiple Parties and Property Rights (Partial Regression Plots)



Note: Based on the models reported in Columns 3 and 7 of Table 1, which respectively regress *Property Protection* and *Investor Protections* on *Multiple Parties* and a vector of economic control variables, the figure displays the partial regression plots for both dependent variables.

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Proposed Online Appendix

Table A1: Summary Statistics

variable	N	mean	sd	min	max
Property Protection	75	3.648	1.352	1	7
Investor Protection	86	4.441	1.368	1.700	9.300
Legislature	85	0.835	0.373	0	1
Multiple Parties	85	0.765	0.427	0	1
Inherit	84	1.536	0.719	0	2
GDPPC	86	6.642	1.247	4.561	9.995
Growth	86	2.141	4.503	-4.775	29.994
Population	86	15.901	1.787	11.215	20.942
Trade	84	81.207	50.447	25.220	368.161
Rule of Law	86	-0.661	0.659	-1.872	1.500
Oil Exporter	86	0.186	0.391	0	1

Note: The table reports summary statistics for the variables used in the paper. Variable definitions and sources appear in the text.

Table A2: Correlation Matrix

	Property Protection	Investor Protection	Legislature	Multiple Parties	Inherit	GDPPC	Growth	Population	Trade	Rule of Law	Oil Exporter
Property Protection	1										
Investor Protection	0.2131	1									
Legislature	-0.1472	0.0694	1								
Multiple Parties	0.0112	0.2234	0.7895*	1							
Inherit	-0.2480	0.1407	0.4678*	0.4958*	1						
GDPPC	0.4948*	0.3727*	-0.3563*	-0.2736*	-0.3175*	1					
Growth	-0.1002	-0.0064	0.0392	-0.0008	0.0309	-0.0540	1				
Population	-0.3108*	0.0095	0.1884	0.1867	0.2864*	-0.3071*	-0.0115	1			
Trade	0.5106*	0.3230*	-0.0403	-0.0199	-0.1051	0.4498*	0.1790	-0.4364*	1		
Rule of Law	0.8110*	0.4240*	-0.2511	-0.1498	-0.3430*	0.6798*	-0.1074	-0.3225*	0.4559*	1	
Oil Exporter	-0.0131	0.0526	-0.1024	-0.1043	-0.1997	0.3206*	-0.0744	0.1007	0.0454	0.0122	1

Note: The table reports pairwise correlation coefficients of all variables used in the paper. * indicates significance at 1%.

Table A3: Authoritarian Institutions and Property Rights (Ordered Probit and Tobit Estimates)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable:	Property Protection				Investor Protection			
Legislature	0.180				0.560			
	(0.427)				(0.385)			
Multiple Parties		0.343	0.352	0.353		1.191***	1.087***	1.015***
		(0.316)	(0.312)	(0.420)		(0.389)	(0.378)	(0.341)
GDPPC	0.553***	0.556***	0.318**	-0.345*	0.555***	0.553***	0.515**	0.169
	(0.127)	(0.120)	(0.138)	(0.207)	(0.198)	(0.184)	(0.213)	(0.200)
Growth			0.001	-0.006			-0.041	0.001
			(0.045)	(0.040)			(0.027)	(0.020)
Population			-0.073	0.010			0.198**	0.111
			(0.095)	(0.118)			(0.099)	(0.102)
Trade			0.012***	0.013***			0.008	0.001
			(0.003)	(0.005)			(0.005)	(0.005)
Oil Exporter			-0.590*	0.293			-0.223	0.276
			(0.328)	(0.404)			(0.392)	(0.353)
Rule of Law				3.283***				0.587**
				(0.484)				(0.257)
Regional dummies	yes	yes	yes	yes	yes	yes	yes	yes
Legal origin dummies	no	no	no	yes	no	no	no	yes
Observations	75	75	74	74	85	85	84	84
Pseudo R^2	0.093	0.097	0.159	0.395	0.083	0.117	0.142	0.213

Note: The tables report estimates of the determinants of *Property Protection* and *Investor Protection.* All models include regional dummy variables. The variable *Property Protection* represents the ONDD political risk rating for expropriation/breach of contract risk. The variable *Investor Protection* is the Strength of Investor Protection Index, developed by the World Bank (Doing Business, 2012). We estimate the *Property Protection* models using ordered probit; we estimate the determinants of *Investor Protection* using tobit. Heteroskedasticity-robust standard errors in parentheses. ***, **, and * indicate statistical significance levels of 1, 5, and 10 percent, respectively.

Table A4: Authoritarian Institutions and Alternative Measures of Expropriation Risk

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable:	Global Competitiveness Report		Heritage Foundation		Fraser Institute	
Legislature	0.041		-1.256		-0.788	
	(0.334)		(6.218)		(0.485)	
Multiple Parties		0.029		3.899		-0.788
		(0.283)		(4.779)		(0.485)
GDPPC	0.222	0.219*	8.027***	8.484***	0.342*	0.342*
	(0.139)	(0.126)	(2.285)	(2.129)	(0.177)	(0.177)
Regional dummies	yes	yes	yes	yes	yes	yes
Observations	55	55	76	76	50	50
R^2	0.461	0.461	0.327	0.334	0.625	0.625

Note: The tables report estimates of the determinants three separate measures of property rights. All models include regional dummy variables. We estimate the models using OLS. Heteroskedasticity-robust standard errors in parentheses. ***, **, and * indicate statistical significance levels of 1, 5, and 10 percent, respectively.

Table A5: Models of Investor Protection, Controlling for Regime History

	(1)	(2)	(3)	(4)
Multiple Parties	1.081***	1.086***	0.951**	0.970**
	(0.374)	(0.410)	(0.369)	(0.406)
Democracy Years since 1950	0.014		0.016	
	(0.011)		(0.011)	
Years in Office		-0.010		-0.002
		(0.018)		(0.018)
GDPPC	0.453**	0.519**	0.438**	0.422*
	(0.186)	(0.213)	(0.208)	(0.245)
Growth			-0.035	-0.051*
			(0.025)	(0.026)
Population			0.204**	0.238**
			(0.098)	(0.105)
Trade			0.006	0.008
			(0.005)	(0.005)
Oil Exporter			-0.153	-0.124
			(0.412)	(0.403)
Regional dummies	yes	yes	yes	yes
Observations	85	81	84	80
R^2	0.352	0.329	0.407	0.399

The tables report OLS estimates of the determinants of *Investor Protection.* All models include regional dummy variables. The variable *Investor Protection* is the Strength of Investor Protection Index, developed by the World Bank (Doing Business, 2012). A democracy year is defined as a Polity score greater than or equal to 7. Years in Office captures the length of the authoritarian regime; data from the Database of Political Institutions. Heteroskedasticity-robust standard errors in parentheses. ***, **, and * indicate statistical significance levels of 1, 5, and 10 percent, respectively.

Table A6: Authoritarian Institutions and Property Rights (Ordered Probit and Tobit Estimates)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable:	Property Protection				Investor Protection			
Legislature	-0.539	1.062			2.060***	1.411*		
	(0.907)	(1.262)			(0.797)	(0.760)		
Multiple Parties			-0.519	0.668			1.569***	1.744**
			(0.791)	(1.012)			(0.560)	(0.735)
GDPPC	0.367***	-0.121	0.378***	-0.166	0.551***	0.163	0.514***	0.153
	(0.127)	(0.213)	(0.107)	(0.184)	(0.167)	(0.183)	(0.151)	(0.190)
Growth		-0.016		-0.010		-0.033		-0.031
		(0.059)		(0.051)		(0.037)		(0.035)
Population		-0.138		-0.099		0.179*		0.141
		(0.184)		(0.165)		(0.107)		(0.122)
Trade		0.007		0.008		0.007		0.006
		(0.006)		(0.006)		(0.006)		(0.006)
Oil Exporter		0.027		0.031		0.039		-0.015
		(0.448)		(0.412)		(0.400)		(0.377)
Rule of Law		2.367***		2.301***		0.839**		0.907***
		(0.460)		(0.433)		(0.375)		(0.335)
Observations	74	73	74	73	84	83	84	83
First Stage								
Inherit	0.785***	0.705***	0.815***	0.763***	0.880***	0.916***	1.060***	1.000***
	(0.211)	(0.244)	(0.219)	(0.246)	(0.229)	(0.296)	(0.234)	(0.261)
GDPPC	-0.284*	-0.352**	-0.175	-0.232	-0.084	0.332	-0.004	0.093
	(0.165)	(0.179)	(0.140)	(0.178)	(0.151)	(0.222)	(0.136)	(0.191)
Growth		-0.023		-0.045		0.151		0.050
		(0.065)		(0.052)		(0.113)		(0.068)
Population		0.270**		0.174		-0.133		-0.018
		(0.128)		(0.120)		(0.112)		(0.090)
Trade		0.006		0.002		-0.001		0.002
		(0.004)		(0.004)		(0.004)		(0.004)
Oil Exporter		0.160		-0.014		-0.464		0.173
		(0.337)		(0.414)		(0.427)		(0.368)
Rule of Law		0.044		0.155		-1.157**		-0.494
		(0.480)		(0.392)		(0.517)		(0.405)

Note: The table reports estimates of the determinants of *Property Protection* and *Investor Protection*. The variable *Property Protection* represents the ONDD political risk rating for expropriation/breach of contract risk. The variable *Investor Protection* is the Strength of Investor Protection Index, developed by the World Bank (Doing Business, 2012). The models rely on a two-stage procedure. In the first stage, we estimate a probit model of *Legislature* or *Multiple Parties* as a function of parties inherited by the autocratic regime (*Inherit*). The second-stage estimates rely on the predicted value of *Legislature* and *Multiple Parties*. We do not include regional or legal origin fixed effects since these some of these variables perfectly predict the first stage dependent variable. First-stage standard errors are robust to heteroskedasticity. The second-stage standard errors are estimated using nonparametric bootstrap with 500 replications. ***, **, and * indicate statistical significance levels of 1, 5, and 10 percent, respectively.

Table A7. Interaction Models Using Institutional Data from Wright (2008)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Dependent Variable:	Property Protection					Investor Protection				
GDPPC	0.603***	0.476***	0.629***	0.510***	0.587***	0.764***	0.860***	0.761**	0.830**	0.741**
	(0.150)	(0.167)	(0.151)	(0.163)	(0.152)	(0.284)	(0.312)	(0.285)	(0.309)	(0.284)
Legislature	0.563	1.207**	0.482	0.151	0.262	0.393	-0.096	0.442	0.733	0.235
	(0.497)	(0.608)	(0.486)	(0.644)	(0.496)	(0.472)	(0.470)	(0.480)	(0.667)	(0.505)
Military Regime	-0.604					0.069				
	(0.383)					(0.663)				
Military x Legislature	dropped					dropped				
	(.)					(.)				
Monarchic Regime		2.237***					-1.229			
		(0.673)					(0.818)			
Monarchic x Legislature		0.893					-0.086			
		(0.765)					(0.819)			
Military-Personalist Regime			0.854*					-0.380		
			(0.489)					(0.455)		
Military-Personalist x Legislature			dropped					dropped		
			(.)					(.)		
Personalist Regime				-1.329					1.231	
				(0.904)					(0.865)	
Personalist x Legislature				0.555					-1.278	
				(0.941)					(0.869)	
Single-Party Regime					-1.353***					-0.382
					(0.514)					(0.563)
Single Party x Legislature					1.609*					0.844
					(0.828)					(0.780)
Observations	50	50	50	50	50	53	53	53	53	53
Pseudo R-squared	0.123	0.209	0.126	0.157	0.136	0.112	0.128	0.113	0.119	0.117

Note: The tables report estimates of the determinants of *Property Protection* and *Investor Protection.* All models include regional dummies. The variable *Property Protection* represents the ONDD political risk rating for expropriation/breach of contract risk. Models of *Property Protections* are estimated using ordered probit with robust standard errors. The variable *Investor Protection* is the Strength of Investor Protection Index corresponding to the year 2006, developed by the World Bank (Doing Business, 2012). We estimate the determinants of *Investor Protection* using Tobit regression. For variable definitions not provided in the text, see Wright (2008). ***, **, and * indicate statistical significance levels of 1, 5, and 10 percent, respectively.