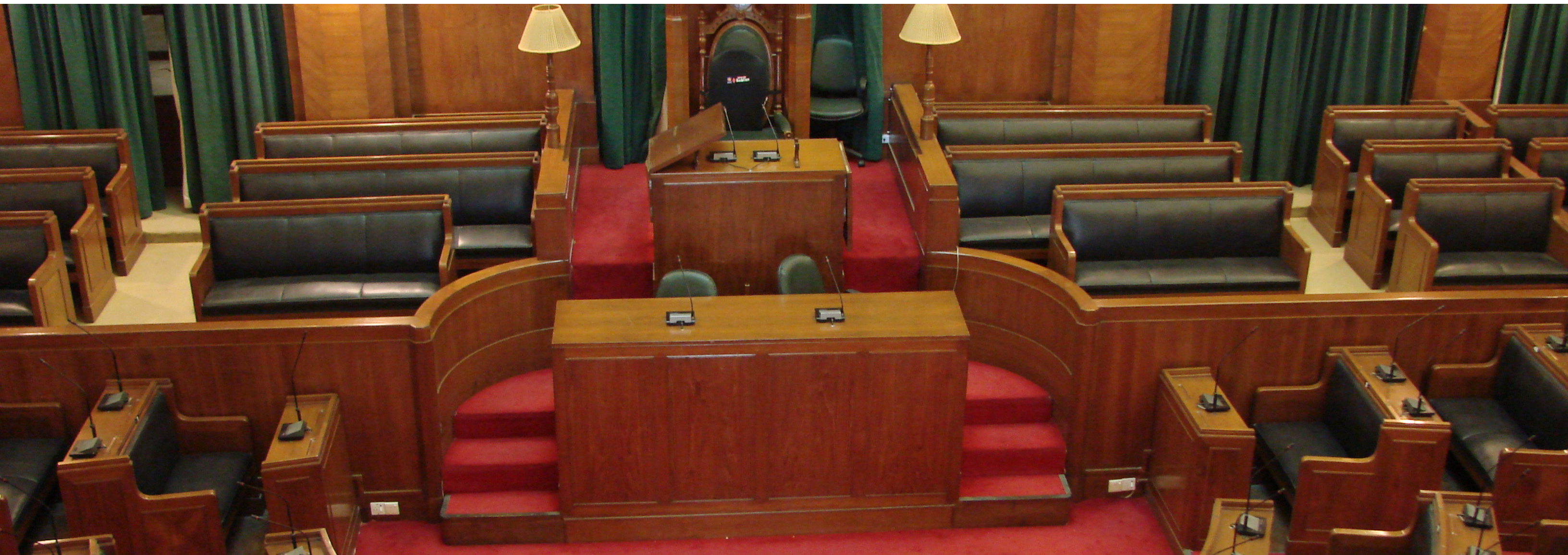
Do Legislatures Matter for Economic Growth?



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Do Legislatures Matter for Economic Growth?

Scholars have recently demonstrated that political institutions are an important (some would argue the most important) determinant of long-run rates of economic growth.[1] They argue that countries with "broad-based" political institutions are more likely to adopt good economic institutions, such as those that protect property rights and foster a transparent business environment, which, over the long run, contribute to greater levels of national income. Yet, although scholars have identified political institutions as a primary determinant of long-run rates of economic growth, they have not examined the effect of specific political institutions on economic performance.

This paper provides a new and arguably more fruitful way to think about the way that political institutions affect economic growth, one that examines the power of specific offices. In particular, it focuses on the strength of the national legislature and its effect on economic development. We argue, and the evidence confirms, that countries with more powerful national legislatures enjoy higher long-run rates of economic growth.

WHY POLITICAL INSTITUTIONS AFFECT ECONOMIC GROWTH

To begin, let us briefly recap the general argument about why political institutions affect long-run rates of economic growth. We will then examine how national legislatures, as a specific political institution, affect economic performance.

According to the field of new institutional economics, good economic institutions are the key to economic performance. Institutions are the mechanisms by which individuals can manage anonymous transactions and, as Douglass North explains, "impose constraints on human interaction in order to structure exchange."[2] Good economic institutions are those that enable transparent economic transactions and provide "security of property rights and relatively equal access to economic resources to a broad cross-section of society."[3] They encompass the fundamental "rules of the game," such as the rule of law and access to information, that enable individuals to engage in economic life in a fair and transparent way.

The logic linking good economic institutions to economic growth is simple. Without secure property rights and access to economic resources, individuals will lack the ability and the incentives to invest in the economy and to participate in economic activity. In countries with discriminatory economic institutions that benefit certain groups while systematically disadvantaging others, therefore, competition will be reduced and economic performance will suffer. When, on the other hand, economic institutions protect the economic interests of a large cross section of society, more people will be encouraged to participate in growth-enhancing economic activity and the national economy will be more likely to flourish.

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[1] For an excellent overview of this literature, see, for example, Daron Acemoglu, Simon Johnson, and James Robinson, 2005, "Institutions as a Fundamental Cause of Long-Run Growth," in *Handbook of Economic Growth, Vol. 1A,* eds. Phillippe Aghion and Steven N. Durlaf (Amsterdam: Elsevier B.V.).

[2] Douglass North, 1993, Working Paper No. 1, based upon his 1992 article "Institutions and Economic Theory," 3–6.

[3] Acemoglu et al., 2005, 395.

A country's economic institutions, in turn, are heavily shaped by its political institutions, for two reasons.[4]

First, broad-based political institutions are more likely to lead to broad-based economic institutions. Economic institutions are often set up to benefit holders of political power. In countries in which political power is concentrated in a narrow elite, this privileged group will be more likely to adopt discriminatory economic institutions that disproportionately benefit themselves to the detriment of the rest of society. Where political competition is limited, economic competition and access to markets is also likely to be constrained. When political power is dispersed, however, power holders are more likely to adopt economic institutions that protect the economic interests of a larger cross section of society. In such countries, power holders themselves have an economic incentive to promote the economic well-being of a broader segment of society. Moreover, the public in such countries can better hold their leaders accountable for economic mismanagement. Countries in which political power is dispersed, therefore, are more likely to adopt economic institutions that encourage economic competition and that result in higher rates of long-run economic growth.

Second, countries with political institutions that constrain executive power can provide more credible commitments to economic actors in society that good economic institutions, where they exist, will remain in place. Entrepreneurs will be reluctant to build new factories, managers will be loathe to hire new workers, and individuals will be hesitant to make long-term economic investments if the economic rules of the road are not clear, predictable, and transparent. In countries with relatively unconstrained executives, economic actors have good reason to be overly cautious because they know that the government can radically change economic institutions overnight. Even if such a government has every intention of maintaining sound economic institutions, it will be less able to make this commitment credible to the private sector. While donors may often find it easier to work economic reforms through a powerful executive branch, those reforms are more likely to be ephemeral and less likely to assuage the private sector than were they to be adopted in a country with a constrained executive.

Societal actors know that if at some point in the future it behooves a loosely constrained government to, for example, expropriate a domestic industry, there are no political constraints to prevent it from doing so. In countries with more constrained executives, however, a government cannot simply reorder economic institutions on a whim. Governments in these countries can credibly commit to maintaining sound economic institutions because they cannot radically alter them on their own. While changes of government, even in countries with strong executive constraints, can lead to changes in economic policies, they are less likely to lead to changes in a country's fundamental economic institutions, such as the enforcement of legal contracts and the maintenance of property rights. This gives private-sector actors greater peace of mind when engaging in long-term economic planning.

In sum, countries with political institutions that disperse political power and constrain executive authority are more likely to adopt better economic institutions, which, in turn, will produce higher rates of economic growth.

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[4] For more on this argument, see, for example, Douglass North, John Wallis, and Barry Weingast, 2009, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (New York: Cambrridge).

BEYOND GENERALITIES: A LOOK AT WHICH POLITICAL INSTITUTIONS MATTER FOR GROWTH

The recent literature on the relationship between political and economic institutions has done much to advance our understanding of economic growth, but current conceptualizations of political institutions are too vague to be useful. What does it mean, for example, for political institutions to be broad based? How does one know what types of political systems best constrain executive authority? Many scholars assess good political institutions simply according to regime type, but knowing whether a country is democratic or authoritarian does not reveal much about where power truly lies.[5] After all, in some autocratic countries, legislatures possess a great ability to constrain the executive.[6] On the other hand, some legislatures in democratic countries have relatively few tools with which to influence executive authority.[7] This lack of conceptual clarity matters not only for scholarship, but also for policy. Reformers cannot easily remake a country's regime type, but they can work to strengthen this or that specific political institution.

In order to assess the real impact of political institutions on economic growth, therefore, we must move beyond general categories for classifying political systems and measure the power of specific institutions. This paper uses new data (explained in greater detail below) on the power of the national legislature in order to assess the relationship between legislative strength and economic performance. We conclude with practical implications that governments, donors, and the development community can consider in integrating legislatures in economic development planning.

LEGISLATIVE STRENGTH AND ECONOMIC GROWTH

Recognizing that political institutions matter, we examine how specific political institutions affect economic growth. We focus on national legislatures, because they are the principal political institution structured to disperse political power to a broad segment of society and to constrain executive authority.

Many political organs, such as the executive and judiciary branches, are purely state institutions, but the national legislature is specifically designed to link state and society. As such, legislatures disperse power in a variety of ways. First, parliaments disperse authority away from executive-branch officials by directly empowering the members of parliament. The executive branch of most countries is often composed of a tight-knit elite that includes the head of state and a dozen or so cabinet members. National legislatures, on the other hand, are generally large bodies consisting of hundreds of members. In countries in which national legislatures are genuine fonts of political power, therefore, authority is dispersed among a large number of individuals. Countries with powerful legislatures are more likely to push for economic institutions that

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[5] For literature on the relationship between democracy and growth, see, for example, Robert J. Barro, 1996, "Democracy and Growth," *Journal of Economic Growth* 1: 1–27; Adam Przeworski, Michael E. Alvarez, Jose Antonio Cheibub, and Fernando Limongi, 2000, *Democracy and Development* (Cambridge, England: Cambridge University Press); and Morton Halperin, Joe Siegle, and Michael Weinstein, 2004, *The Democracy Advantage: How Democracy Promotes Prosperity and Peace* (London: Routledge).

[6] On legislative strength, see M. Steven Fish and Matthew Kroenig, 2009, *The Handbook of National Legislatures: A Global Survey* (New York: Cambridge University Press).

[7] We recognize, of course that regime type may be better conceptualized as a continuum between totally autocratic and fully democratic. The point here is that the strength of legislatures varies greatly within and even across various types of political regimes.

protect the economic well-being of a broader cross section of society, because the power holders themselves benefit from such institutions. In addition, parliaments further diffuse power throughout society because members derive their authority in part from the representation of their constituents. Voters can hold lawmakers accountable for their handling of economic issues, further incentivizing legislators to adopt economic institutions that benefit a broad cross section of society. As Steven Fish argues in an empirical study on legislative strength and democracy, countries with more powerful legislatures "[are] better at linking the people and elected officials—that is, at promoting vertical accountability."[8] In short, countries with powerful legislatures disperse political power to a broader elite and may be better able to represent the interests of society at large. For this reason, they are more likely to adopt sound economic institutions.

The legislature is also the primary political constraint on executive power, previously noted as important for economic growth. In fact, checking executive power is a definitional mission of the national legislature. As Max Weber argues, the national legislature is "the agency for enforcing the public control of administration."[9] Strong legislatures can constrain the executive in a number of ways, including removing the chief executive from office; placing their own members in government; questioning executive-branch officials; conducting formal investigations of the executive branch; overseeing the police, military, and intelligence services; appointing the prime minister (if applicable); appointing cabinet ministers; and electing the president (if applicable).[10] Indeed, there is no more significant institutional constraint on executive authority than a potent parliament. On the other hand, in countries in which the legislature lacks many or all of these powers, executives face fewer institutional constraints on their rule. Again, according to Fish, "Stronger legislatures [serve] as a weightier check on presidents and thus a more reliable guarantor of horizontal accountability than [do] weaker legislatures."[11]

In sum, scholars have shown that political institutions that distribute power and constrain the executive branch contribute to the development of stronger economic institutions. Therefore, we hypothesize that powerful legislatures (mandated to distribute power and constrain executive authority) will be more likely to support good economic institutions, which in turn generate higher levels of economic growth.

It is important to note that this is not to argue that more powerful national legislatures always result in improved economic performance. Nor is it to claim that legislatures are, or should be, the only factor that shapes long-run rates of economic growth. Rather, the argument is probabilistic and multicausal. Of course, some countries with powerful legislatures experience periods of low or negative economic growth, and other countries with relatively weak legislatures are rapidly expanding. The argument presented here is that *on average*, countries with more powerful parliaments will tend to enjoy higher rates of economic growth. The link between legislative strength and economic growth is evident when looking across a broad cross

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[8] M. Steven Fish, 2006, "Stronger Legislatures, Stronger Democracies," *Journal of Democracy*, 17: 1, 18.

[9] Max Weber, 1978, *Economy and Society*, eds. Guenther Roth and Claus Wittich, 1454 (Berkeley: University of California Press).

[10] This list of ways in which the legislature holds influence over the executive branch is taken from Fish and Kroenig, 2009. A powerful legislature is marked by numerous powers and authorities, as indicated earlier—including the authority to constrain the executive, institutional autonomy, specified powers, and institutional capacity. Consistent with previous literature on economic growth, we focus on a legislature's ability to constrain the executive.

[11] Fish, 2006, 18.

section of countries, but it does not hold in every case. Moreover, economic growth is multicausal. Economists have identified many fundamental and proximate causes of economic growth, including investment, capital accumulation, factor endowments, geography, culture, and other factors.[12] The argument of this article is not that this list should be discarded, but rather that legislative strength deserves a spot on this list. Legislative strength is an important and, until now, overlooked enabling factor for economic growth.

EMPIRICAL ANALYSIS

LEGISLATIVE STRENGTH AND ECONOMIC GROWTH

To assess the relationship between legislative strength and economic growth, we will begin by taking a look at the numbers. To measure legislative strength, we draw on new data from Steven Fish and Matthew Kroenig that measure the strength of the national legislature for every country in the world with a population of at least 500,000.[13] This data set, the Parliamentary Powers Index, includes 32 separate indicators of legislative strength, grouped in four distinct categories: influence over the executive, institutional autonomy, specified powers, and institutional capacity. Because our interest is in the legislature's ability to disperse power and constrain the executive branch, we use an index provided by Fish and Kroenig that gauges the legislature's ability to influence the executive. The variable ranges from zero to seven, with higher values indicating a more powerful legislature. Data are available for all years from 1990 to 2006. To measure levels of economic development, we use gross domestic product (GDP) per capita.[14]

We focus our discussion on developing countries to better understand the relationship between governance and development and to inform development interventions implemented by governments and donors. When the analysis is performed on all countries in both the developed and developing worlds, however, all of the relationships between legislative strength and economic growth reported below continue to hold and indeed become even stronger.

Figure 1 illustrates the relationship between the strength of the legislature and the level of economic development in 2006 in a sample of the 97 developing countries for which data are available.[15] The analysis shows that there is a statistically significant link between legislative

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[12] For some important contributions to the study of economic growth, see, for example, Robert Solow, 1956, "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics* 70: 65–94; Paul Romer,1990, "Endogenous Technical Change," *Journal of Political Economy* 98: 71–102; and Jeffrey Sachs and Andrew M. Warner, 1997, "Sources of Slow Growth in African Economies," *Journal of African Economies* 6: 335–376.

[13] Fish and Kroenig's (2009) Parliamentary Powers Index (PPI) measures the strength of the national legislature for every country in the world. While recognized as a leading effort, these data have been criticized by some in the development community for focusing too heavily on formal powers and not adequately capturing important informal powers and capacities in come countries. This criticism is largely misguided, however, because the data were generated not only through a review of all formal powers enshrined in the national constitutions, but also through a large international survey of country experts who scored whether formal powers were exercised in practice. Where, according to country experts, the formal powers as articulated in the constitution and actual practice on the ground diverge, Fish and Kroenig code *de facto* not *de jure* power. While this is not an exact science, and future research could seek to improve the PPI, the index remains a best effort in measuring and analyzing legislative strength across countries.

[14] We use real GDP per capita measured in constant U.S. dollars. Data are from version 6.3 of the Penn World Tables. We also performed an analysis using annual economic growth rates as the dependent variable that controls for other factors that might affect annual rates of growth, including population size, investment levels, worker productivity, and economic openness. For these results, see Table 5.

[15] Developing countries are defined as countries that are not members of the Organization for Economic Co-operation and Development.

strength and economic development.[16] Countries with more powerful legislatures enjoy higher standards of per capita income.[17] The relationship is not only statistically, but also substantively, significant. An increase of the legislature's ability to influence the executive by one point on the seven-point scale corresponds with an increase of $597.40 in per capita income.[18]

Before concluding that stronger legislatures promote economic development, however, we must first consider whether legislative strength is the result, not the cause of, economic development. Definitively establishing the direction of the causal arrows is difficult. Indeed, it is likely that the causal arrows go both ways and that there is a virtuous cycle between legislative strength and economic development. Wealthier countries may be better able to provide the resources necessary to sustain a more capable parliament, just as more powerful parliaments lay the economic foundations for sustained growth.

To begin to assess the direction of the causal arrows, therefore, we examine the relationship between the strength of the national legislature in 1990 and levels of economic development in 2006. It is, of course, impossible for legislative strength in 2006 to affect the level of economic development in 1990. To rule out the possibility that the level of economic development in 1990 was the cause of both legislative strength in 1990 and levels of economic development in 2006, we control for level of economic development in 1990. This test allows us to analyze whether countries with more powerful legislatures in 1990 enjoyed greater gains in per capita income over the time period from 1990 to 2006. The findings again provide support for our hypothesis. There is a strong relationship between legislative strength in 1990 and levels of economic development in 2006 even after controlling for levels of economic development in 1990. The findings also continue to hold after accounting for other factors thought to influence economic performance. Moreover, the relationship between legislative strength and economic growth remains substantively important in this new test. Increasing the legislature's strength by a single point on the seven-point scale in 1990 is associated with an increase of $520.02 in per capita GDP in 2006.

To illustrate this effect, let us compare two typical countries with high and low levels of legislative strength, the Dominican Republic and Estonia. These countries are typical in the sense that they are practically on the regression line. The Dominican Republic scores a one out of seven in terms of legislative strength and possessed a per capita income of $8,968.77 in 2006. Estonia, on the other hand, scores a six out of seven and in 2006 enjoyed a GDP per capita of $17,214.55. Our estimate implies that the five-point difference in legislative strength between these two countries should translate into a difference of $2,600.10 in per capita income. This estimate implies that a substantial, but not implausibly large, difference in the levels of economic development between these two countries can be attributed to legislative strength.

LEGISLATIVE STRENGTH AND ECONOMIC INSTITUTIONS

We have demonstrated that countries that possessed more powerful legislatures in 1990 enjoyed higher levels of economic growth from 1990 to 2006. But what is the mechanism linking

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[16] Detailed results of all the statistical analyses reported in this essay are available in the Data Appendix to this paper.

[17] See Data Appendix, Table 1.

[18] Figure 6 in the Data Appendix illustrates the same relationship excluding members of the Organization of the Petroleum Exporting Countries (OPEC). We can see in this figure that the relationship between legislative strength and economic growth is even stronger among non–oil exporting countries.

legislative strength to improved economic performance? We hypothesize that powerful legislatures fuel economic growth through their effect on economic institutions. To test this idea, we first examine the relationship between legislative strength and economic institutions and then examine the relationship between the quality of economic institutions and economic growth.

To measure the quality of economic institutions, we employ the index of economic freedom from the Heritage Foundation and *The Wall Street Journal*.[19] The index gauges the level of economic freedom in a country and ranges from 0 (least free) to 100 (most free).[20] The index aggregates 10 components of economic freedom (business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labor freedom) to arrive at a country's overall score.[21] To account for the possibility that more developed countries may be better able to afford more powerful legislatures and better economic institutions, and that any relationship between legislative strength and protection against expropriation therefore may be spurious, we also control for levels of economic development in 1990, and for other determinants of economic performance.

Figure 2 illustrates the relationship between legislative strength and the quality of a country's economic institutions. We can see that there is a powerful link between legislative strength and economic freedom.[22] The relationship is both statistically and substantively significant. An increase in legislative strength of one point on the seven-point scale corresponds to an increase of 2.5 points on the 100-point economic freedom variable. A shift from the minimum to the maximum level of legislative strength, therefore, is associated with an increase of 17.5 points in terms of economic freedom. The results strongly suggest that countries with more powerful legislatures, on average, adopt better economic institutions.

Economic Institutions and Economic Growth

The idea that the quality of economic institutions affects economic growth is well-established in the existing economics literature.[23] To further test this idea, we analyze the relationship between economic freedom and GDP per capita (see Figure 3). There is a statistically significant relationship between the quality of economic institutions and economic growth.[24] This relationship holds even after controlling for other factors thought to influence economic performance, such as culture and geography. The analysis reveals that increasing a country's level of economic freedom by 1 point on the 100-point scale is associated with an increase in its GDP per capita of $605.44. These tests provide strong support for the idea that the quality of economic institutions is an important determinant of economic performance.

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19 As an alternate measure of economic institutions, we tried a measure of average protection against expropriation risk. This variable is an imperfect but commonly used measure of the degree to which property rights are protected. Stephen Knack and Philip Keefer, 1995, "Institutions and Economic Performance: Cross-Country Tests Using Alternative Measures," *Economics and Politics* 7: 207–227.

20 Data are available from http://www.heritage.org/index/.

21 We use an average of a country's index of economic freedom score from 1995 to 2006.

22 See Data Appendix, Table 2.

23 See, for example, Acemoglu et al., 2005.

24 See Data Appendix, Table 3.

Do Stronger Legislatures Reduce Poverty?

To this point, we have demonstrated that countries with more powerful legislatures enjoy, on average, better economic institutions and higher levels of economic growth. A skeptical reader, however, may wonder how legislative strength influences other development outcomes. Increased GDP growth may not directly result in measurable benefits for many people. Perhaps more powerful assemblies increase aggregate levels of economic growth only at the expense of other development goals, such as education or health. To test these ideas, we examined the impact of legislative strength on the Human Development Index (HDI) and Gini coefficients to assess how legislatures affect the quality of economic growth.[25] The tests reveal that legislative power appears to be an unmixed blessing for economic development. Countries with more powerful national legislatures not only possess higher levels of economic growth, they also enjoy higher levels of human development and lower levels of income inequality.[26] These relationships are illustrated in Figures 4 and 5, respectively. This result suggests that by ensuring greater access to political power, an effective legislature can develop and advocate for economic and social policies that reduce overall poverty rates and disperse economic prosperity across society.

Telling Cases

We have seen that our hypothesis about the link between legislative strength and economic growth is consistent with the aggregate data, but how does this relationship play out in particular cases? In this section, we examine how legislative strength can improve the quality of economic institutions and economic growth through a number of brief case studies. In some countries, such as Vietnam, strengthening legislatures has played an important role in the adoption of pro-growth economic legislation that has contributed to economic expansion. On the other hand, a continually weak national assembly in Jordan has hindered efforts at economic reform, preventing improved economic performance. Finally, we examine the degree to which the important case of China fits our model. Taken together, these cases illustrate the aggregate relationship demonstrated above. More potent national legislatures can directly contribute to the adoption of pro-growth institutions necessary for economic development.[27]

Country Case Study: Vietnam

The National Assembly of Vietnam was established in its current form in 1992.28 Although set up after the beginning of the Doi Moi political and economic reforms, the legislature initially lacked a major role in domestic politics and de facto political authority remained largely concentrated in the executive branch.

Beginning in the early 2000s, however, the legislature began to acquire more clout. Among other authorities, the legislature started exercising its previously unutilized powers to influence the executive branch. For example, the legislature’s approval is required to confirm government ministers. While the National Assembly’s role in the appointment process had largely been

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[25] The HDI is a composite index that includes information on GDP at purchasing power parity, education levels, and life expectancy. The variable ranges from 0 to 1, with greater values indicating higher levels of human well-being. Data are drawn from the United Nations *Human Development Report 2009*. The Gini coefficient gauges the concentration of wealth within a society. It varies from 0 (perfect equality) to 100 (perfect inequality). Data are drawn from the United Nations *Human Development Report 2009*.

[26] See Data Appendix, Table 4.

[27] The case studies here are based upon interviews with country experts in April 2010.

[28] On the National Assembly of Vietnam, see Fish and Kroenig, 2009, 734–738, and Goran Andersson, Par Granstadt, Barbro Ronnmo, and Ngyuen Thi Kim Thoa, February 2002, *Strengthening the Capacity of the Office of the Vietnam National Assembly* (Stockholm: Swedish International Development Cooperation Agency).

ceremonial, the legislature began to use its authority in rare instances to change the party's choice of candidates for ministerial positions. In addition, the legislature's power to oversee executive-branch officials increased. Most notably, the National Assembly began exercising its previously dormant ability to question executive-branch officials. Indeed, members of the parliament began interrogating ministers in nationally televised question-time sessions. Rather than a party-orchestrated display of loyalty, the venue became an opportunity for members of the parliament to pose tough, probing, and sometimes embarrassing questions to key government officials.

As the legislature became a political organ with some genuine political power, it began attracting more qualified politicians. As Max Weber theorized over a century ago, the strength of the national legislature determines the type of talent that can be drawn to political life, and the skills of politicians in parliament in turn shape the power of the assembly.[29] In countries in which the legislature is merely a rubber stamp, ambitious and talented individuals view a term in the parliament as a stepping stone to more prominent positions in the executive branch, or simply avoid political careers altogether. Where the legislature is a genuine font of power, however, the best and the brightest consider the legislative profession. This dynamic was evident in the mid-2000s in Vietnam as talented and ambitious individuals left the executive branch and the private sector for positions in the National Assembly. The fact that such high fliers were willing to give up other professions to assume positions in the legislature evidenced the assembly's increasing authority.

Among this group of more talented parliament members were several entrepreneurs whose economic success was a result of the Doi Moi reforms. These former business elites turned their attention to politics, ushering in to the National Assembly a new class of business-savvy parliamentarians. While the National Assembly was, of course, still highly constrained and fairly weak in comparative perspective, it had come to exercise more real powers than it had previously.

With this newfound power, the National Assembly began to shape the development of economic institutions in Vietnam. In critical cases, the legislature played an important role in adopting broad-based economic institutions and in thwarting the adoption of discriminatory provisions hostile to economic growth in government-proposed legislation. The strengthened and business-savvy National Assembly was much more likely to reject executive legislation that weakened Vietnam's economic institutions and that could have potentially stunted growth. For example, in 2003 the central laws devised to help Vietnam qualify for World Trade Organization membership and for the conclusion of a bilateral trade agreement with the United States, the Enterprises Law and Law on Investment, were continually delayed.[30] One key sticking point in the negotiations between the executive and legislative branches concerned foreign investment. The initial draft legislation introduced by the ministry contained excessive restrictions on investment by foreigners. The draft legislation was politically attractive to the executive branch because the discriminatory legislation would have disproportionately advantaged domestic industries and could have also helped to enrich select Vietnamese politicians. Many legislators, however, recognized that the discriminatory economic institutions would undermine Vietnam's

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[29] Weber, 1978, 1409–1416.

[30] Ibid.

investment climate. After vigorous objections from business-savvy members of parliament, the additional restrictions on foreign investment were reduced. The final Law on Investment, passed in 2006, provided similar protections to foreign and domestic investors.[31]

Since its passage, the Law on Investment has contributed to Vietnam's continued economic success. For example, in 2008 the nation recorded a record-high level of foreign direct investment of $31.6 billion. While the rest of the world was suffering a global financial crisis, the Vietnamese economy expanded by an estimated 6.2 percent that year.

Vietnam's recent economic success is undoubtedly the result of a number of factors, including a low level of initial development and the economic reforms begun in 1986. Yet, the strengthening of Vietnam's national parliament played an important role in the country's most recent round of economic expansion. By thwarting discriminatory investment provisions in one of the most important economic laws passed in the country's history, the National Assembly helped to ensure that Vietnam maintains a pro-investment environment, contributing to high rates of growth in tough economic times.

One could counter that it was economic growth in Vietnam that contributed to legislative strengthening, not the parliament's powers that fueled economic expansion. In reality, causality probably runs both ways. There are, however, at least two facts that support our argument about the legislature–growth link. First, there is reason to believe that successful businesspeople were willing to consider serving in the parliament because it had already become a political institution of some significance. After all, why would talented entrepreneurs abandon a meaningful and lucrative career in the private sector to serve in an impotent parliament? Second, it is clear that the newly assertive parliament was instrumental in shaping the final version of the 2006 Law on Investment. This law was one of the most important in Vietnam's economic history and is recognized as contributing to subsequent economic investment in Vietnam.

Country Case Study: Jordan

In 2009, the Jordanian Government—led by the Ministry of Finance—developed a reformed tax law intended to improve the business climate by reducing corporate tax rates and enacting other tax reforms. While considerable work was done by the executive branch, there was little to no involvement of the National Assembly of Jordan during the development of this new legislation until it was provided for deliberation and passage. Upon submission to the parliament, the law provoked productive discussions in the Economic and Finance Committee—with support from the Budget Office, which provides analysis on economic issues— however, it encountered significant resistance once it hit the floor for public debate and voting. Many members of the parliament questioned the value of the legislation (which was intended to increase private-sector opportunities and thereby help with employment and development) and saw an opportunity to score populist points by attacking private-sector interests.

After several weeks of raucous discussion, whereby some members attempted to change the law to increase tax burdens rather than reduce them, the legislation was pulled and the king dissolved the parliament. Supporters of this drastic measure point to the inability of the parliament to support good legislation, calling it a bottleneck to needed economic reform. Others have opined that the King was no longer able to control the parliament and wanted to control it politically.

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[31] Vietnam's Law on Investment is available at http://www.law.com.vn/download/THE%20LAW%20ON%20INVESTMENT.pdf.

What is clear is that by bypassing the legislature during the development of the law, the executive undermined its own efforts to develop economic reform. The National Assembly of Jordan, long considered weak as an institution, is marred by a lack of capacity among both its members as well as its underpaid and undertrained staff. Many members of the assembly lacked an adequate understanding of the bill and its potential benefits for their constituents. At the same time, some members seemed irritated at the expectation that they should act as a rubber stamp and resisted the legislation in an attempt to assert their relevance, rather than perform economic analysis. Therefore, had the legislature been consulted sooner and respected as a legislative body, the executive could have ensured greater chance of passage. Without a group of members to champion the legislation through the process and enough time for deliberation—the parliament was informed that it should pass the legislation in only 30 days—economic legislation that could have led to increased investment, entrepreneurship, and economic growth was hampered.

The case of Jordan demonstrates that weak legislatures (those lacking real ability and the capacity to influence and substantively engage in the policy process) result in poor deliberation and policy making. Such poor deliberation creates either a rubber-stamp institution (which is problematic if the executive legislation is poor) or an atmosphere of misunderstanding, undermining the passage of laws.

What About China?

Some readers may be convinced by the evidence presented so far but still wonder whether the logic of the argument applies to China. China, of course, is a country in which the legislature, the National People's Congress, is not known to exert considerable sway on national politics. Yet China has enjoyed astronomical rates of economic growth since the economic reforms instituted by Deng Xiaoping in 1979. How, then, does the argument that stronger legislatures are better for economic growth apply to this important case?

There are a number of answers to this question. First, the argument of this essay is probabilistic, not deterministic. In other words, the argument is that, *on average,* countries with stronger legislatures will enjoy higher rates of economic growth. This does not mean that every country fits this pattern. There are, of course, outliers. China may simply be an important exception to the observed rule.

Second, and on closer inspection, it is apparent that the National People's Congress, contrary to what one might expect, possesses important powers. Indeed, the national legislature in China can constrain executive power in important ways. The National People's Congress, for example, regularly questions executive-branch officials, conducts independent investigations of the executive branch, and plays an important role in appointing ministers.[32] Powerful legislatures are an important determinant of economic growth not because they contribute to the quality of democracy (although they often do) but because they can credibly constrain executive authority. This gives private actors a reason to believe that economic institutions will be relatively stable and incentivizes them to engage in productive economic activity.

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[32] Fish and Kroenig, 2009, 140.

The stability of the economic institutional environment is widely touted as a reason for China's ability to sustain high rates of economic growth.[33] The findings of this article suggest that the abilities of the National People's Congress to constrain executive power may be an overlooked, yet important, part of China's stable macroeconomic environment. Future research could examine in greater detail the degree to which the National People's Congress's powers shapes the development of China's economic institutions.

THE LESSONS FOR DEVELOPMENT

The findings of this research contain important lessons for governments and donors interested in promoting economic growth in the developing world. Democratic institutions are often valued because they provide citizens with more political freedom and greater opportunities for participation in the political process. Historically, support for legislatures, like many good governance initiatives, has been championed by donors and the international community through a normative and rights-based perspective, focusing on the legislature's role in advancing democratic and human rights, such as through capacity building for staff and members or in electoral assistance and monitoring.

While legislatures have been integrated in economic-growth programs, they are often seen as an afterthought—a hurdle to surmount—to get laws passed. It is more common for economic-growth or other sectoral programs (health, environment, and so on) to work through executive-branch offices such as ministries to achieve development outcomes. Our findings suggest, however, that governance reforms should not be evaluated solely based on their contribution to the quality of a nation's political life. They also contribute to economic growth and broader development goals of poverty reduction. Incorporating strategies that strengthen national legislatures and include them in development programs, therefore, could yield greater impact as part of a more holistic approach to development.

As such, governments, donors, and development practitioners may wish to consider ways to better integrate the legislature as a core counterpart for economic-growth programs, where appropriate, rather than just ministries. While the goal of the reform activity—whether reducing regulatory burdens to business or improving fiscal policy— may be helpful, limiting work to the executive branch can have several negative impacts. First, as the political institution with the mandate to represent the public it's important to ensure the legislature's active involvement in policy making and oversight. Without that involvement, policies can be created don't represent the needs and desires of citizens. Without the legislature, reforms can also be viewed as top-down and externally driven, and if they inflict any perceived social costs, such as layoffs or increased taxation, the executive authorities risk alienation from citizens. Second, while including the legislature early on (not just when passing a bill) may require greater coordination because there are more individuals involved in the process, increased input provides opportunities for early correction and improved policy making. Negative externalities may not be foreseen by a small team of ministry staff. Legislators, however, may provide a different perspective as well as an opportunity for wider review by constituents.

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[33] Jeffrey Sachs and Wing Thye Woo, 2003, "China's Economic Growth after WTO Membership," *Journal of Chinese Economic and Business Studies* 1,1: 1–31.

While each country is unique and requires a nuanced political economy analysis when considering ways to involve the legislature in economic growth activities, our findings suggest a few broad programming considerations:

1. Address institutional capacity on economic policy issues by providing training and technical assistance to specific legislative committees (such as public accounts and economic policy committees); expanding research facilities to increase understanding of economic principles and international best practices; and supporting legislative drafters in the parliament, not just within ministries. Strengthening the capacity of legislative departments will not only improve lawmaking, but will strengthen the oversight capacity so important for economic growth.

2. Economic growth and civil society programs often provide support to associations, such as chambers of commerce and watchdog oversight groups to strengthen their engagement on policy reform. However many of these activities – particularly business associations – focus their advocacy efforts towards executive branch institutions. Programs therefore should also include capacity building on the legislative process and ways to engage the legislature on issues such as policy development and budgeting. Likewise, parliamentary programs should incorporate the private sector, an important constituent group.

3. Coupled with increased capacity, economic-growth programs can help by advocating for greater independence and authority of the legislature. As highlighted in the case study on Jordan, weak legislatures may view their ability to oppose legislation suggested by the executive branch as one of their sources of authority. Without meaningful ability to govern and share power with the executive body in a way that makes them accountable to their constituents, legislators may operate in parochial ways that serve a small constituency but not the broader national effort. In this way, a culture of resistance to policy change can develop—whether intentionally to gain more power or through lack of capacity—which hinders effective policy making. Working to strengthen legislative authority and capacity, therefore, can help to support a more responsible legislative process and assists in creating an enabling economic policy environment.

4. Integrating legislatures into economic planning can reduce policy fragmentation. National development strategies and poverty reduction strategy papers (PRSPs) should include the legislature to ensure national buy-in. This can be done by including committee chairpersons and champions within the parliament in PRSPs or development strategy working groups; working with legislators in their constituency outreach to develop a results-based mechanism that incorporates local needs; and supporting budget oversight mechanisms and oversight to ensure that commitments created through these national strategies receive the funding required for long-term implementation.[34] Legislatures serve a critical role not only providing citizens a voice in the process but also with critical oversight of the budget and expenditures. If the parliament has not been included in setting national priorities, its role as both a representative body and an oversight mechanism is clearly undermined.

CONCLUSION

Despite continued debate, there is a growing consensus that political institutions and governance are critical factors in economic development. This article advances our understanding of the

[34] Additional approaches and in-depth suggestions can be found in the World Bank Institute's 2004 working paper "Parliaments and the PRSP Process," by K. Scott Hubli and Alicia Mandaville.

effect of political institutions on economic performance by highlighting the role of a specific political institution, the national legislature, in shaping trajectories of economic development. Like all good research, this study raises as many questions as it answers, and future research should continue to examine the relationship between specific political institutions and economic performance. Nevertheless, the findings of this article strongly suggest that legislatures—long overlooked as key counterparts in economic development strategies—have an important role to play in a country's economic development and that strengthening national legislatures must be an urgent priority for governments and donors seriously committed to improving standards of living in the developing world.

FIGURE 1. RELATIONSHIP BETWEEN LEGISLATIVE STRENGTH AND ECONOMIC DEVELOPMENT, 2006

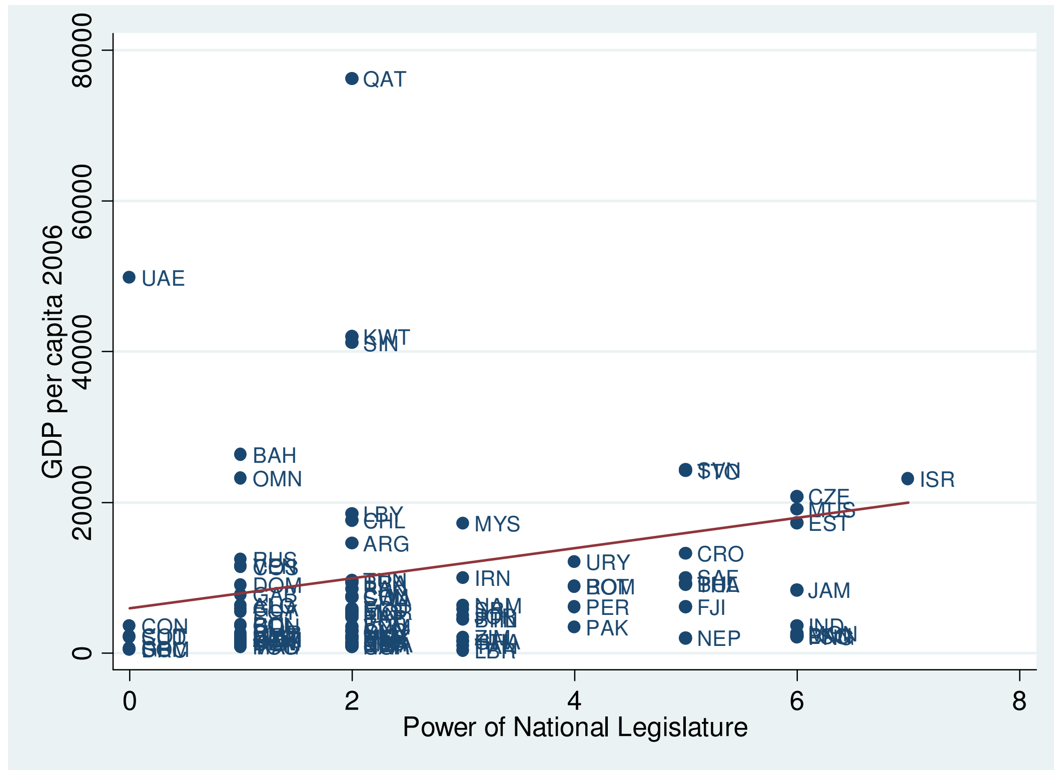


FIGURE 2. RELATIONSHIP BETWEEN LEGISLATIVE STRENGTH AND ECONOMIC FREEDOM, NON-OECD COUNTRIES, 1990–2006

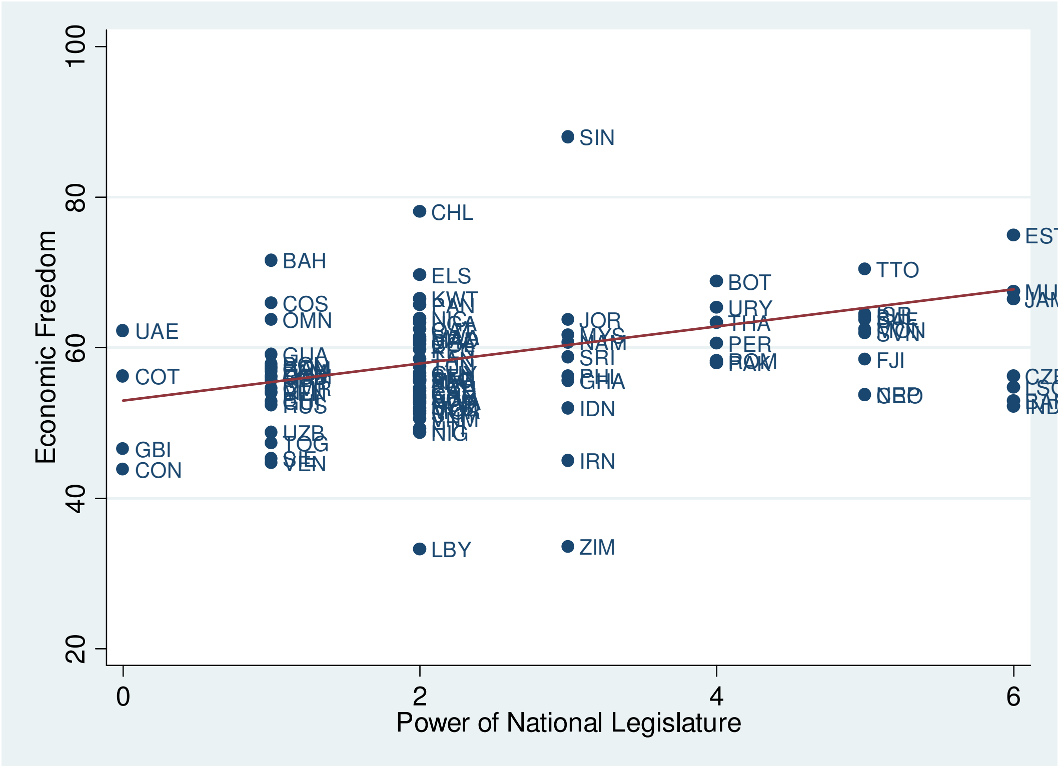


FIGURE 3. RELATIONSHIP BETWEEN ECONOMIC FREEDOM AND ECONOMIC DEVELOPMENT, NON-OECD COUNTRIES, 1990–2006

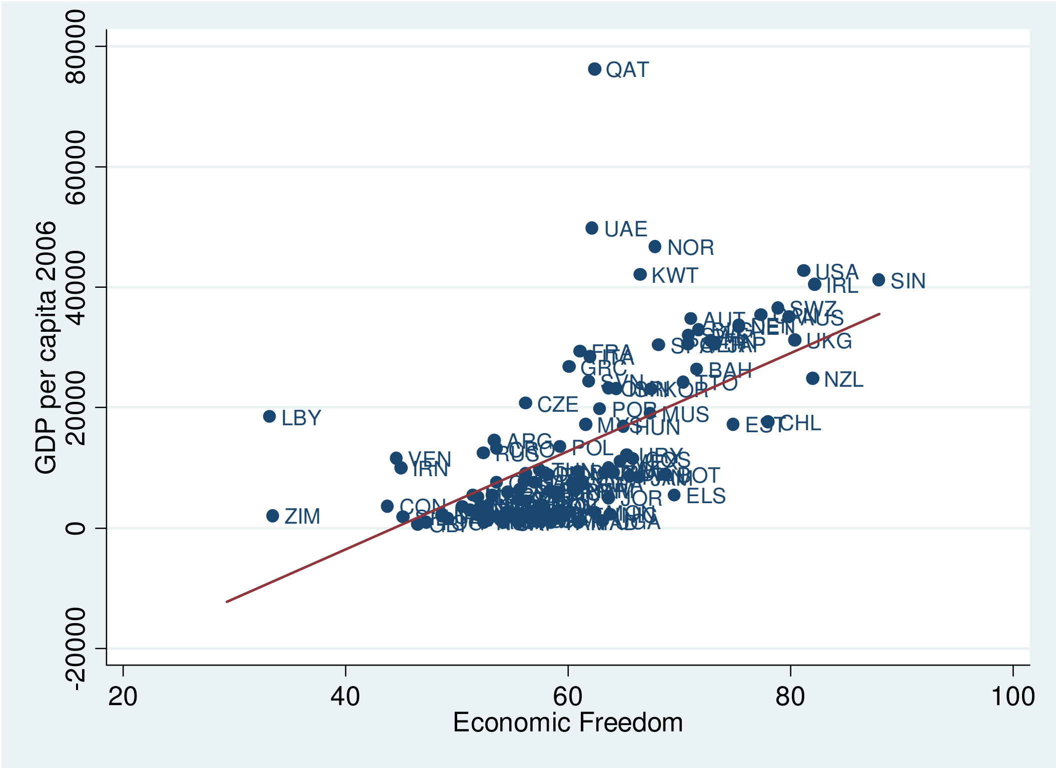


FIGURE 4. RELATIONSHIP BETWEEN LEGISLATIVE STRENGTH AND HUMAN DEVELOPMENT, NON-OECD COUNTRIES, 1990–2006

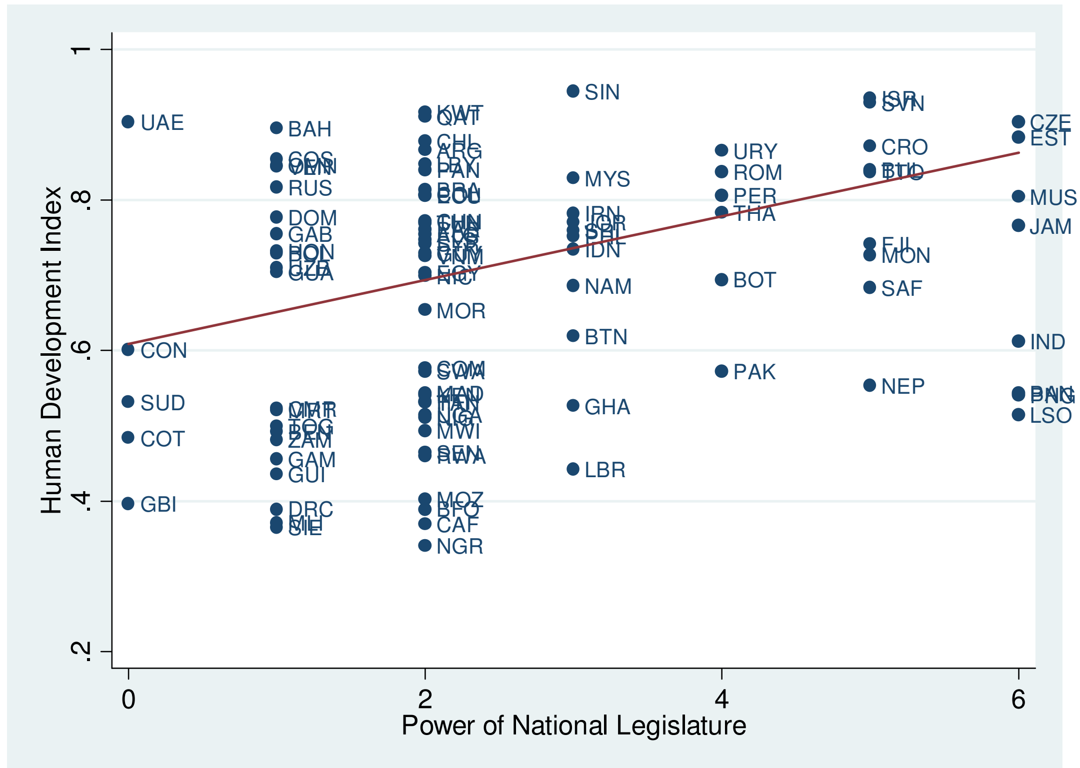
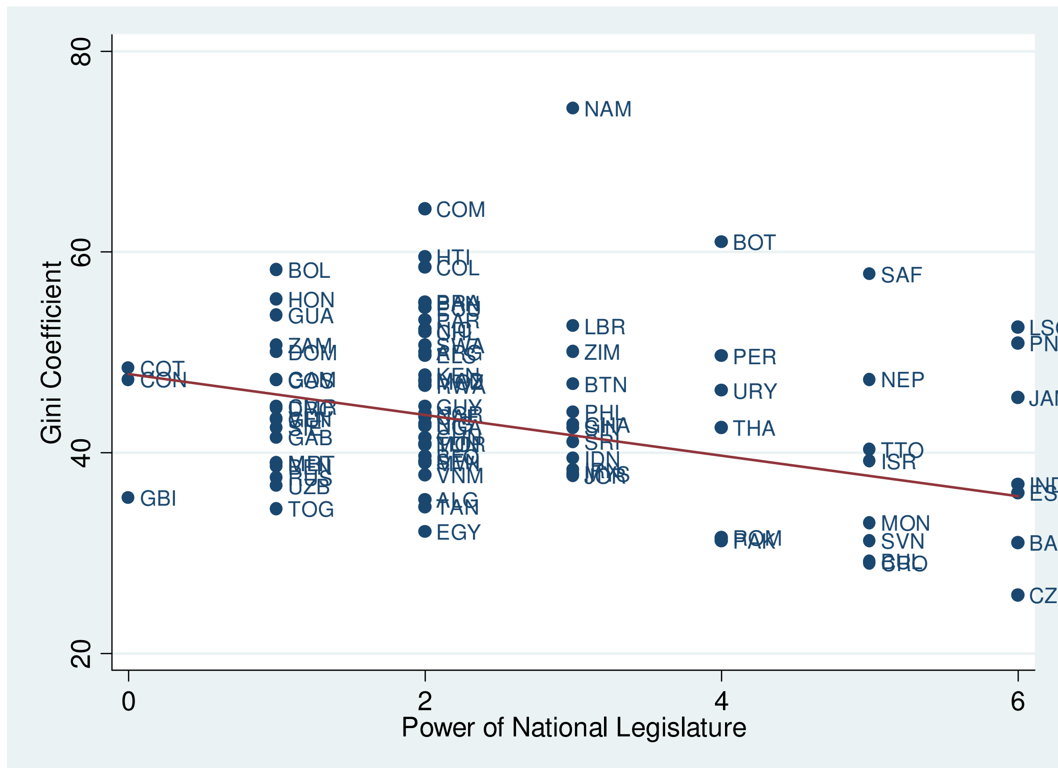


FIGURE 5. RELATIONSHIP BETWEEN LEGISLATIVE STRENGTH AND INCOME INEQUALITY, NON-OECD COUNTRIES, 1990–2006



DATA APPENDIX

TABLE 1. OLS REGRESSIONS OF GDP PER CAPITA, 2006

Independent Variables	Whole world 1	Whole world 2	Whole world 3	Non- OECD 4	Non- OECD 5
Legislative Strength, 2006	2642.204**** (593.850)				
Legislative Strength, 1990		334.039* (177.360)	425.484** (204.989)	414.29** (183.648)	520.028** (199.337)
GDP per capita, 1990		1.389**** (0.035)	1.406**** (0.041)	1.485*** (0.041)	1.500**** (0.043)
Latitude			-2114.75 (2370.84)		-3079.182 (2308.781)
Constant	4803.077** (2141.825)	-781.396 (604.644)	-630.753 (628.284)	-1420.793** (596.936)	-1119.641* (635.919)
R^2	0.141	0.939	0.939	0.934	0.935
Number of Observations	123	123	123	97	97
Notes: *significant at 10%, **significant at 5%, ***significant at 1%, ****significant at .10%. Dependent variable: GDP per capita in 2006 (from the Penn World Tables). Standard errors are in parentheses.					

TABLE 2. OLS REGRESSIONS OF ECONOMIC FREEDOM

Independent Variables	Whole world 10	Whole world 11	Non-OECD 12	Non-OECD 13
Legislative Strength, 1990	2.526**** (0.427)	1.823**** (0.461)	1.398*** (0.517)	1.687*** (0.538)
GDP per capita, 1990		0.0005**** (0.00009)		0.0004**** (0.0001)
Latitude		-4.162 (5.220)		-8.606 (6.039)
Constant	52.721**** (1.540)	51.075**** (1.406)	54.002**** (1.560)	52.724**** (1.700)
R^2	0.235	0.444	0.077	0.199
Number of Observations	116	116	90	90

Notes: *significant at 10%, **significant at 5%, ***significant at 1%, ****significant at .10%. Dependent variable: Economic Freedom, 1995-2006. Standard errors are in parentheses.

TABLE 3. OLS REGRESSIONS OF GDP PER CAPITA, 2006

Independent Variables	Whole world 6	Whole world 7	Non- OECD 8	Non- OECD 9
Economic Freedom	926.780**** (102.600)	156.995**** (40.8522)	605.435**** (137.527)	172.867**** (39.2136)
GDP per capita, 1990		1.327**** (0.046)		1.4317**** (0.044)
Latitude		-933.716 (2069.35)		-887.21 (2098.767)
Constant	-42618.08**** (6288.674)	-8389.655**** (2262.993)	-25906.18*** (7995.606)	-9810.52**** (2245.12)
R^2	0.417	0.942	0.181	0.942
Number of Observations	116	116	90	90

Notes: *significant at 10%, **significant at 5%, ***significant at 1%, ****significant at .10%. Dependent variable: GDP per capita in 2006 (from the Penn World Tables). Standard errors are in parentheses.

TABLE 4. OLS REGRESSIONS OF HUMAN DEVELOPMENT AND INEQUALITY

Independent Variables	Human Development Whole world 14	Human Development Non-OECD 15	Inequality Whole world 16	Inequality Non-OECD 17
Legislative Strength, 1990	0.0244**** (0.006)	0.026**** (0.008)	-1.139** (0.481)	-1.073* (0.607)
GDP per capita, 1990	0.00001**** (1.16e-06)	0.00001**** (1.70e-06)	-0.0004**** (0.0001)	-0.0002 (0.0002)
Constant	0.540**** (0.020)	0.525**** (0.025)	48.955**** (1.475)	47.893**** (1.857)
R^2	0.624	0.470	0.301	0.055
Number of Observations	121	95	112	86

Notes: *significant at 10%, **significant at 5%, ***significant at 1%, ****significant at .10%. Dependent variable: Human Development Index, 2007, models 15 and 16; Gini Coefficient, models 16 and 17. Standard errors are in parentheses.

TABLE 5. OLS REGRESSIONS OF ANNUAL ECONOMIC GROWTH RATES, 1990–2006

Independent Variables	Whole world 1	Whole world 2	Non- OECD 4	Non- OECD 5
Legislative Strength, 1990	0.252**** (0.071)	0.154** (0.074)	0.298**** (0.092)	0.188** (0.092)
Population		4.83e-06**** (1.03e-06)		4.96e-06**** (1.13e-06)
Investment		-0.006** (0.003)		-0.005* (0.003)
Productivity		0.0158** (6.77e-03)		0.0257*** (9.70e-03)
Openness		0.013*** (0.003)		0.010*** (0.004)
Constant	1.258**** (0.249)	0.374 (0.399)	1.183**** (0.283)	0.319 (0.448)
R^2	0.005	0.024	0.005	0.023
Number of Observations	2,493	2,484	2,083	2,074

Notes: *significant at 10%, **significant at 5%, ***significant at 1%, ****significant at .10%. Dependent variable: Annual Economic Growth Rates, 1990-2006 (from the Penn World Tables). Standard errors are in parentheses.

FIGURE 6. RELATIONSHIP BETWEEN LEGISLATIVE STRENGTH AND ECONOMIC DEVELOPMENT, 2006, EXCLUDING OPEC COUNTRIES