

Report on

“The democracy and economic growth nexus: Do FDI and government spending matter? Evidence from the Arab world” submitted for publication in *Economics*

The paper studies the relation between democracy and growth in 16 Arab countries. It reports findings suggesting that the total effect of democracy is insignificant, because its positive effect on FDI is muted by its effect on government spendings.

Despite the relevance of the question, I have reservations about the empirical results of the paper, and, to a lesser extent, about the way it is written. I substantiate those reservations below.

1. Major comments

1.1. The period of study is 2002-2013. That means that it only contains two years after the 2011 Arab spring, making it very difficult to identify its effect.

One may argue that the method that the authors use does not focus on a single event but assesses the relationship between democracy indices and growth, and the other dependent variables.

However, what the variations of those indices captured over the period is unclear. Specifically, one may wonder whether there were enough meaningful variations in democracy to identify any effect.

In that respect, there is a debate in the literature about how to identify democratic transitions. Papaioannou and Siourounis (2008) argue that only transitions that have survived at least five years should be taken into account, while Acemoglu et al. (forthcoming) impose no such constraint. The authors may want to refer to those papers to interpret their own results. They should try to determine if there were meaningful moves towards or away from democracy in their sample.

Acemoglu, D., Naidu, S., Restrepo, P., and Robinson, J.A. (forthcoming). “Democracy does cause growth.” *Journal of Political Economy*.

Papaioannou, E., and Siourounis, G. (2008). “Democratisation and growth.” *Economic Journal*, 118(532), 1520–1551.

1.2. To answer the above question, one should know what the 16 countries of the study are, but they are not specified in the paper.

1.3. The authors motivate their focus on Arab countries by “the specificities of the region”, but do not describe those specificities. They ought to.

This is important, because focussing on a sample that is too homogeneous would prevent identifying the effect of democracy on growth.

1.4. The review of the literature is patchy, as important references are missing. An easy way to survey the literature until a decade of years ago is to refer to Doucouliagos and Ulubaşoğlu (2008). The recent paper by Acemoglu et al. (forthcoming) would allow complementing the list of references.

Doucouliagos, H., & Ulubaşoğlu, M. A. (2008). « Democracy and economic growth: a meta-analysis.” *American Journal of Political Science*, 52(1), 61-83.

1.5. Unless I am mistaken, the empirical model uses yearly observations. That mixes short- and long-run phenomena. More to the point, a specification based on the neoclassical growth model cannot be used, especially if no lag is allowed between the explained and explanatory variables.

The authors should therefore choose a specification that matches their dataset or vice versa.

2. Specific comments

2.1. The authors ought to have their paper language edited. Some sentences are awkward.

2.2. The authors should check their list of references. Several papers have now been published or accepted for publication (e.g. Acemoglu et al. 2014).

2.3. “we suppose that democracy affects economic growth through its impact on FDI inflows and public consumption expenditure.” (p. 7). The statement is inaccurate, because the level of democracy appears as an explanatory variable in Equation 1. The authors therefore explicitly assume a direct effect of democracy.

2.4. “The regressions suggest that democracy has a positive and insignificant effect on economic growth [...]” (p.9). If a coefficient is statistically insignificant, then it is not distinguishable from zero and has not sign.

2.5. Equations 1 to 4 are likely estimated as a system. They should therefore be reported in a single table. The opposite is misleading.