Coopting Workers under Dictatorship

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What explains the variance in how authoritarian regimes treat labor? We advance a theory of why and how some dictatorships coopt workers using nominally democratic institutions, such as legislatures and political parties. When dictatorships need cooperation from society and face a potentially strong opposition, they attempt to coopt workers to reinforce their bases of support. As instruments of cooptation, legislatures and parties are useful in facilitating a political exchange between regimes and labor: dictatorships provide material benefits to workers in exchange for labor’s quiescence. As a result, institutionalized dictatorships provide more benefits to workers and experience lower levels of labor protest than their noninstitutionalized counterparts. We find empirical support for these hypotheses from a sample of all dictatorships from the 1946–96 period.

Nondemocratic regimes repress civil society, and they often save their most intensive attacks for workers. In the name of eliminating subversive leftist threats, authoritarian regimes have closed unions and leftist parties, persecuted their leaders, and restricted the freedom of ordinary workers to strike or organize otherwise. Authoritarian governments have acted against labor in less dramatic, but no less deleterious, ways: compulsory membership in state-led unions, mandatory arbitration procedures that favor business, and the steady erosion of real wages.

Yet there is significant variation in the degree to which authoritarian regimes repress workers as well as provide material benefits and social protection to them. Under dictatorship, real earnings of workers in Taiwan increased only twofold while in South Korea they increased by six times, the best of any country during the 1966–90 period (Fields 1994). In turn, the amount of conflict between authoritarian regimes and workers varies. During the 1970s and 1980s, for example, Haiti experienced on average over 2,000 strikes yearly while the average number of labor protests in Singapore under Lee Kwan Yew was eight. These examples point to the fact that workers under authoritarian regimes have tremendously different experiences in terms of how much they are compensated and how much violence they encounter—variation that cannot be explained by region or type of dictatorship. Motivated by these empirical patterns, we seek to address the following question: what accounts for differences in the treatment of labor in nondemocracies?

For dictators, addressing the issue of how to handle workers is of paramount significance given their numbers and their importance in economic production. To manage labor relations, autocrats frequently establish corporatist arrangements—formalized systems of interest representation among business, labor, and the state—to make concessions in the form of spoils and on occasion limited policy influence in exchange for labor peace. If workers can be coopted through the extension of material benefits, they may acquiesce if not actively lend support, to the regime. The exchange of material benefits for peaceful relations, however, requires an institutional framework in which union leaders and public officials can announce their preferences, forge compromises, and ensure compliance. Recent studies of hybrid regimes (Diamond 2002) and dictatorships more generally, claim that institutions such as legislatures (Gandhi 2008, Lust-Okar 2005, Wright 2008) and political parties (Smith 2005) may serve as just such a forum. If these institutions provide a framework for corporatism, then dictatorships with assemblies and parties should provide more material benefits and social protection to workers. In exchange for these benefits, in these regimes, organized labor should agree to make their demands through these institutional channels rather than on the street. Institutionalized
dictatorships, then, should experience lower levels of conflict with workers than noninstitutionalized or more exclusive regimes. We test these hypotheses about worker compensation and labor peace on a sample of all nondemocratic regimes from 1946 to 1996 and find support for our arguments even after taking into account the endogeneity of these institutions.

Our work serves as a bridge between two areas of research. The first is the scholarship on workers under authoritarian regimes that elucidates first, the ways in which governments control workers and second, the strategies labor utilizes to push for economic gains and even political change within the confines of a restricted political sphere (Bellin 2002; Collier 1999; Collier and Collier 2002; Hicks 1999; Katzenelson and Zolberg 1986; Kim 2007; Rueschmeyer, Stephens, and Stephens 1992; Therborn 1977; Tilly 2004; Valenzuela 1989). We draw heavily on this work in that it emphasizes the sticks and carrots that authoritarian regimes use to manage workers, resulting in different responses from labor. The second relevant body of literature from which we draw is the recent work on authoritarian institutions. While some scholarship emphasizes the use of authoritarian institutions, such as dominant parties, to contain elite conflict, other works highlight the use of legislative, partisan, and electoral institutions to incorporate larger groups within society (Gandhi 2008; Lust-Okar 2005; Smith 2005; Wright 2008). In attempting to understand the variation in the treatment of labor under dictatorship, then, we use the latter portrait of institutions to understand how state-labor relations are managed in authoritarian regimes.

In finding that assemblies and parties affect the compensation and strike activity of workers, we contribute to the literature on labor under authoritarianism by showing that corporatist relations require an institutional framework. We contribute to the literature on nondemocratic institutions by moving beyond general statements about how these institutions co-opt “elites” or the “masses” to show their effects on a specific and important group, workers (Robertson 2007). Finally, hypotheses regarding institutional effects on labor lend themselves to systematic quantitative tests due to the availability of valid and reliable indicators of these legislatures and parties.

The paper proceeds as follows. The following two sections describe the structure of the problem from the perspective of authoritarian incumbents: the reasons for why workers need to be managed and the strategies available to dictators to do so. Drawing on scholarship on the organization of authoritarian regimes, we go on to discuss why legislatures and parties may be useful devices in coopting labor. The fourth section is devoted to empirically testing the implications derived from our story about the strategic use of legislatures and parties to incorporate workers in authoritarian states. The statistical results show that institutionalized dictatorships provide greater compensation to workers and experience greater labor peace. We conclude with a summary of the results, their contribution to our knowledge of labor relations with the state, and directions for future research.

The Problem of Workers for Authoritarian Regimes

Labor constitutes a particularly acute threat to governments due to its size and its potential to disrupt economic activity. Several studies in labor economics provide systematic evidence that strikes have a negative impact on productivity (McHugh 1991), product quality (Krueger and Mas 2004), industry value (Becker and Olson 1986, DeFusco and Fuess 1991; Neumann 1980), and stock valuations (Dinardo and Hallock (2002). Labor unrest scares investors, and ultimately, hurts output. While these findings are from democracies only, they suggest the magnitude of disruptions and losses due to strikes that economies within authoritarian states can suffer as well.

Certainly the organization of workers faces a number of challenges. The formation of any collective organization must overcome individuals’ incentives to free ride. In addition, workers’ interests are heterogeneous, depending on their industries of employment, their labor skills, and their unemployment risks (Kim 2006). Finally, the pursuit of material interests may preclude the expression of political demands (Bellin 2002). Yet the predominant theory of the welfare state—the power resources theory—recognizes that the strength of the working class movement was a fundamental driving force behind the emergence of the welfare state (e.g., Korpi 1983, Stephens 1979). In addition, labor has played a critical role in spearheading movements for political change, whether enabling the emergence of social democratic parties (Przeworski and Sprague 1986) or hastening the demise of authoritarian regimes (Collier 1999; Collier and Collier 2002; Rueschmeyer, Stephens, and Stephens 1992; Therborn 1977).
The cooptation of labor, then, is especially important for dictatorships when workers constitute a large segment of the population and an important input to production. Labor’s size is an indication of potential brute power: even if currently unorganized, a greater working population indicates a greater potential threat should mobilization occur. How much the economic life of a country requires the use of domestic labor indicates not only the extent to which workers constitute a potential threat, but also the degree to which regimes must solicit cooperation to govern. The ability of workers to slow down production and drive away investment by strikes, work slowdowns, and other forms of mobilization against the regime, indicate their threat power. The extent to which production relies on workers also indicates how much dictators must solicit their cooperation in order for economic activity to proceed smoothly and generate income and rents.

**Strategies of Authoritarian Regimes for Managing Labor**

The question, then, is: given labor’s importance for economic and political stability, how can autocrats manage their relations with workers? One notion is that the relationship between dictatorships and workers relies heavily on the ideological stance of these regimes. In those regimes that come to power explicitly promising benefits to labor, rulers can attempt to draw on shared ideologies to maintain support among workers. Yet ideology appears to be a poor indicator for how dictatorships treat workers. Even among characteristically rightist regimes, some dictatorships exclude labor, as in the bureaucratic-authoritarian model (O’Donnell 1979), while others make concessions to workers, as Bismarck did in extending social insurance to the working class (Esping-Andersen 1990; Hicks 1999; Pierson 1998). This practice continues today. Huber (1996, 154–55) observes that while Chile introduced an unemployment insurance scheme in 1937 under democracy, in Argentina and Brazil, dictatorships first used these schemes to respond to labor militancy and to control the labor movement. Conversely, leftist dictatorships do not necessarily treat workers as kindly as their stated aims profess. The Bolsheviks led a revolution on behalf of workers, only to coerce them from the beginning of communist rule (Remington 1985). That ideology fails to account for the treatment of labor by nondemocratic regimes may be due to the fact that all dictatorships, of whatever ideological persuasion, face similar problems of governance.

Another approach entails the complete evisceration of labor as a political or economic agent, resulting from pure repression or from market-based mechanisms. The latter involves a strategy to “weaken unions as bargaining agents to a maximum extent” by decentralizing collective bargaining, siding with industry through the use of lockouts and replacement workers, and fostering competition among unions (Valenzuela 1989: 448). Immediately after imposing martial law in South Korea, for example, General Park instituted a complete ban on strikes and union activity while arresting many labor activists (Deyo 1989, 185). Labor was not alone in experiencing heavy state intervention; Park also attempted to control the activities of Korea’s chaebols. Yet any disputes between labor and capital were resolved firmly in favor of the latter. By refusing workers protection from market forces and promoting their disarray, authoritarian regimes can neutralize potential challenges from organized labor.

In contrast to destroying labor, another strategy involves co-opting it. Corporatist arrangements usually fulfill this goal.2 For workers, corporatism under authoritarianism entails state-controlled unions whose leaders are vetted if not directly appointed by the regime and whose powers for collective bargaining are fairly limited in scope. In addition, union membership is often compulsory for workers. Yet corporatist arrangements allow for the state, labor, and business to express their interests and arrive at outcomes that are first and foremost, satisfactory to the regime.

In a similar vein, nondemocratic legislative and partisan institutions are another place where such interactions can take place. Legislatures are ideal because they allow for bargaining but through a process still controlled by the regime (Gandhi 2008; Schmitter’s often utilized definition of corporatism is of “a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically organized and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports” (1979, 13).

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1Murillo (2001) argues that populist democratic leaders in Argentina, Mexico, and Venezuela in the 1990s were able to employ this strategy with varying degrees of success in making postelectoral policy switches to implement neoliberal reforms.

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Lust-Okar 2005). The dictator selects the groups to be granted access, and demands by workers or other groups can be revealed within a closed forum rather than on the street. Within the halls of an assembly, demands do not appear to be acts of resistance and concessions do not seem like capitulations. The party caucus of a regime party can serve the same functions as a legislature. Smith (2005), for example, demonstrates how autocratic leaders built regime parties in Indonesia and Tanzania to provide an institutionalized mechanism through which concessions were exchanged for political support. In some cases, however, a regime party is not enough. Groups, such as labor, may demand the right to form semi-autonomous parties which also may provide political stability (Huntington 1968).

Legislatures and parties, in turn, hold benefits for labor as well. Legislatures and parties serve as a forum for negotiations through which labor can obtain benefits, pursuing a “quiet” strategy of interelite bargaining rather than a “noisy” one consisting of public protest (Robertson 2007, 787). In addition, these institutions offer labor leaders a vehicle for receiving perks and advancing their careers. Yet the enrichment of labor leaders does not guarantee their subservience to the dictatorship. As Valenzuela notes, labor leaders “must try to avoid the buildup of worker discontent that could contribute to the development of alternative opposition leadership groups among the rank and file, which means that they cannot simply accept—or be perceived as accepting—state policies that may have a visibly negative impact on the rank and file’s working or living conditions” (1992, 86). The result should include material benefits for ordinary workers.

Exchanges of material benefits for political support certainly can occur outside of institutions on an ad hoc basis. Yet for labor, in particular, there are a number of advantages to conducting negotiations with the regime through legislatures and parties. First, these institutions allow for outside interests, such as labor, to learn the regime’s intentions and voice its own demands without precipitating punishment (Lust-Okar 2005). Authoritarian regimes tolerate debate within the hallways of buildings much more than demonstrations and strikes at factories. Second, participation within these institutions somewhat reduces uncertainty over whether labor will be included in future bargaining with the regime for the simple reason that overriding or closing such institutions can be costly for the regime (Gandhi 2008). The alternative is for labor unions to negotiate with the regime through opaque secretive channels. Should the regime decide to end relations, who would even know in order to protest? The closing of assemblies and parties, however, is a conspicuous event—one that draws censure not only from domestic groups, but also from international organizations and states. As a result, legislative and partisan institutions may make intetemporal exchange between the regime and labor more credible: governments can credibly offer to workers in the present some distribution of goods to be provided in the future since that fact that such agreements were hammered out in institutions raises the costs of reneging them.

In exchange for concessions given via institutions, workers have incentives to cooperate, or at least, acquiescence to the political status quo (Bellin 2002; Lust-Okar 2005). The result should be labor peace. Studies of industrial relations in democracies find that the likelihood of a strike declines with increases in wage rates, suggesting an exchange of compensation for labor peace (Ashenfelter and John- son 1969; Card 1990; Gunderson, Kervin, and Reid1986; Vroman 1989). It is possible that under nondemocratic rule, workers are unwilling to trade their silence for material gains; they may strike because they value and demand other, nonmaterial things such as political freedoms or civil liberties. Yet the strength of the relationship between earnings and strikes in democracies suggests that it is not unreasonable to think that workers in general—no matter under which type of regime—may view the relation between labor compensation and peace similarly. In this case, labor’s participation in these institutions absorbs its activities into the institutional framework of the dictatorship, according to the rules established by the dictator.

In summary, we expect that when authoritarian regimes need to manage labor, they can co-opt workers by making concessions through legislatures and parties which provide workers with more material benefits and social protection. Incorporated within these structures through which they can receive benefits and express their demands, workers, in turn, should be less likely to protest against the regime outside of institutional channels. The key testable implications, then, are as follows:

H1: Dictatorships with legislatures and political parties should be associated with more material benefits to workers.

H2: Dictatorships with nominally democratic institutions should experience more peaceful labor relations.
The Effect of Institutions on Worker Compensation and Labor Peace

Methods of Estimation

In this section, we test the implications of our theory. The two components of the research explanandum are workers’ wages and labor share as measures of material benefits (compensation model) and strikes as an indicator of protest against the regime (labor peace model). Our sample includes all dictatorships from 1946 to 1996 for which the necessary data are available. Appendix A provides a list of countries included in the analysis. Nondemocratic states, as defined and identified by Przeworski et al. (2000), are those in which the executive or the legislature is not elected, only one party exists, or there is no alternation in office.

To examine the effect of institutions on outcomes, it is necessary to take into account the endogeneity of such institutions—particularly in authoritarian states where leaders can open and close institutions on the basis of strategic considerations. The consequence for our investigation is that we must model material benefits and labor peace as a function of institutions while taking into account that dictatorships decide to institutionalize to achieve some level of expected workers’ welfare. In other words, because institutions are strategically chosen, they are potentially endogenous to performance. As a result, models that combine the institutions and possible political variables of interest together as independent variables in an additive fashion or as a multiplicative term of these two sets of covariates in a single regression equation would yield biased estimates. Therefore, we rely on a different estimation strategy, employing a two-stage treatment-effects model that, in fact, does take into account this deficiency of our measure and accordingly draw our inferences with caution until better indicators of the partisan composition of nondemocratic legislatures can be found.

A Model of Institutions

The dependent variable is INSTITUTIONS, a dichotomous variable coded 1 if the dictatorship allows for a legislature and at least one political party, 0 otherwise and constructed from Gandhi and Przeworski’s (2006) indicator.3

To model the choice of institutions, we follow previous studies that have done so, such as Gandhi and Przeworski (2006) and Wright (2008). These works provide evidence that the institutionalization of dictatorships is systematically determined by regimes’ need for cooperation and the strength of potential opposition. To capture these concepts, they include a variety of independent variables. We include some of the same ones, but also different ones which, we believe, are more relevant for the situation regarding labor. We review these factors in brief.

Whether dictators govern with legislatures and parties depends in part on the existence of ready-made institutions capable of organizing rule. Gandhi and Przeworski (2006) distinguish three types of dictatorships—monarchs, military, and civilians—because monarchies and military dictatorships have by their nature a ready-made institution to organize their rule. Monarchs have the royal family or, more broadly, the court while military dictators have the armed forces. Civilian dictator, however, do not have preexisting organizations on which to rely and so should be more likely to create legislative and partisan institutions. We include two dichotomous variables, CIVILIAN and MILITARY, leaving monarchs as the omitted category (Gandhi and Przeworski 2006).

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\[ \text{Material benefits}_{it} = X_{it}\beta + I_{it}\delta + e_{it} \]

where \( X_{it} \) is a vector of observed factors, \( e \) is the error term, and \( I_{it} \) is the instrument (i.e., the propensity score) from the first stage. The model jointly esti-
Autocratic leaders have less need to solicit the active cooperation of workers and offer them institutional avenues when income in their countries is derived mostly from economic activities in which labor force participation is low and linkages to other economic activity are few (Gandhi and Przeworski 2006; Wright 2008). In such enclave economies, exemplified by economies dominated by oil and mineral exports, rulers can maximize state revenue without the cooperation of broad sectors of society and share rents in exchange for political acquiescence (Jensen and Wantchekon 2004; Ross 2001). We use a dummy variable, RESOURCE, coded 1 if the average ratio of mineral exports to total exports exceeds 50% (constructed from IMF 1999).4

Dictators should opt to govern with legislative and partisan institutions when potential opposition to the regime is high. This, in turn, depends both on the organization of the opposition and on the ability of the dictator to repress dissent. Clearly, workers pose a greater potential threat to the regime if they can be organized for action. Yet creating a comparable measure of de facto working-class power in dictatorships, however, is extremely difficult because of data constraints and more significantly, because of the difficulties in distinguishing between the de jure and the de facto working class movement. As Rudra (2002) points out, the common indicator of unionization rates (used to measure working class formation in democracies) is problematic, since many authoritarian states compel workers to join corporatist unions and impose legal restrictions on the basic freedom of labor association.

We focus on the potential threat posed by manufacturing workers. Manufacturing workers historically have been politically active (e.g., Solidarity in Poland; on metal workers and miners in Spain, see Maravall 1997), and as part of the urban working class, they sometimes have played a critical role in transitions to democracy (Collier and Collier 2002; Rueschemeyer, Stephens, and Stephens 1992). In developing world nondemocracies, manufacturing workers directly affect the very functioning of the capitalist economic system on which the existence of the political regime is based. More workers involved in manufacturing constitute a greater threat of potential opposition to authoritarian regimes, resulting in greater institutional concessions. POTENTIAL WORKING CLASS, then, is measured by the proportion of manufacturing workers out of the total labor force (constructed from UNIDO 2002 and World Bank 2008).5

Past turnover among rulers in dictatorships also is important as an indicator of regime stability. Gandhi and Przeworski (2006) argue that the fewer the past changes of leaders, the more stable is the dictatorship, resulting in a society much of which may already have been co-opted. In this case, opposition strength by workers and other segments of society is likely to be low, resulting in fewer institutional concessions. Conversely, from the standpoint of the dictator, Wright (2008) argues that if there has been much past instability of leadership, current dictators, anticipating high levels of turnover, may develop shorter time horizons, reducing their incentive to establish institutions. In this case, the fewer the past changes in dictators, the more likely institutions will be established. To capture such instability and determine the direction of its effect, we include a variable called LEADER CHANGES which indicates the accumulated number of leaders within a nondemocratic spell of years (Gandhi and Przeworski 2006).

Repression affects workers by determining how well it can mount a challenge. A direct indicator of dictators’ propensity and ability to repress is the number of purges (PURGES) they carry out (Banks 2005). Higher numbers of purges indicates higher capacity and propensity to repress, diminishing the strength of the potential opposition posed by workers and resulting in fewer concessions from the dictator.

Finally, the external pressure for countries to liberalize may help the opposition mount a challenge and create obstacles for regimes trying to answer with repression. This pressure increases when more other countries are democratic, so that the remaining authoritarian states are isolated. We include OTHER DEMOCRACIES, the number of other democracies as a percentage of all independent states (Przeworski et al. 2000).

Compensation Model

Here we seek to determine whether institutions under authoritarian regimes, in fact, lead to higher compensation for workers. To do so, we use two types of dependent variables: average level of wages per worker (WAGES) and labor share in manufacturing sectors (LABOR SHARE). WAGES is calculated as the

4While this measurement of oil and mineral resources is crude, we use it because it allows us to include more nondemocracies in our sample since alternative measures of resources typically begin no earlier than 1960.

5We also used Rudra’s (2002) measure of potential labor power and found that the results are qualitatively similar.
total wage bill to employees\(^6\) (constant U.S. dollars) divided by the number of employees (constructed from UNIDO 2002). This variable captures the level of labor compensation, or how much workers earn. Yet it does not measure compensation to labor in comparison to its productivity. In other words, a measure of labor-exploitation is needed, or how much workers take home from their amount of work and how much in actual profits capital makes from total revenue. To capture the distributional element between labor and capital, we use LABOR SHARE, the factor share of labor in value added in manufacturing, constructed as the ratio of wages to manufacturing value added (MVA)\(^7\) per worker (constructed from UNIDO 2002).

About the dependent variables, two caveats are in order. First, both variables reflect compensation in the manufacturing sector only. While this variable allows us to directly investigate how dictators deal with industrial workers as a potential threat to the regime, it also means that our inferences about labor as a whole must be tentative. Dictatorships may use a divide and conquer strategy, building a coalition with some sectors of labor against others. Second, wages usually are determined not by the state directly, but by private firms. But since the state under dictatorship usually takes such a strong hand in business-labor relations, we believe it is not implausible to think of the state as the guarantor of labor compensation.

The specification of the compensation model follows the benchmark regression suggested by Rodrik (1998) and used by Vreeland (2003) and Przeworski et al. (2000) and includes:

- GDP per capita (INCOME; Penn World Tables 6.2): the wealthier is the economy, the higher should be workers’ wages and their share of income.
- average labor productivity in manufacturing (PRODUCTIVITY; constructed from UNIDO 2002): the more productive are workers, the more they are compensated. PRODUCTIVITY is measured by manufacturing value added (MVA) per employee.
- average price level of consumption (PC; Penn World Tables 6.2): cost-of-living differences not captured by exchange rate conversions are summarized in the price level of consumption.

Table 1 presents maximum-likelihood estimates of the effects of authoritarian institutions on the average level of wages per worker (Column 1) and labor share (Column 2), using the treatment-effects model.\(^8\) The results from the first stage of the model are shown in the bottom half of the table. The coefficients are statistically significant, in directions that are consistent with our theoretical predictions, of magnitudes that are similar across both specifications (i.e., using different dependent variables). The magnitude of the coefficient on CIVILIAN is greater than that of MILITARY, indicating that civilian dictators, more than military rulers and monarchs (the omitted category), are in need of nominally democratic institutions to co-opt groups within society. Internal pressure from a larger potential working-class population and external pressure from more democracies also leads to greater institutionalization. More leadership turnover, indicating instability of the regime, also leads dictators to reach out to outside groups via institutions. Finally, some factors do inhibit the development of institutions; the significant negative coefficients on RESOURCE and PURGES indicate the importance of access to resource rents and repressive capability in staving off the need for institutions.

The results from the second stage in the top half of Table 1 show that all the coefficients in the wage equation in the first column are consistent with expectations and are highly significant at the 1% level. Of primary interest, however, is the effect of institutions on wages. The propensity score of INSTITUTIONS from the treatment effects model indicates a quantitatively large, positive impact (0.323) on the log of wages, even after controlling for labor productivity and other economic determinants.

In this specification, the correlation parameter of the two error terms from the first and second stage equations, \(\rho\), is negative and significant, indicating

\(^6\)In most countries, the statistics on wages and salaries refers to “all payments in cash or in kind made to "employees” during the reference year in relation to work done for the establishment” (UNIDO 2002). In principle, “wages and salaries” cover: (1) direct wages and salaries, (2) remuneration for time not worked, (3) bonuses and gratuities, (4) housing allowances and family allowances paid directly by the employer, and (5) payments in kind.

\(^7\)MVA measures the value which the firm has added to the bought-in materials and components by its processes of production. It is considered as roughly equivalent to net output.

\(^8\)We also employed a fixed effects model correcting for country specific traits by including country dummy variables and using the Huber-White robust-cluster estimator. To take into account possible time trends, we tested for trends leading up to the institutionalization of dictatorships by using “count” variables. The results remain intact, qualitatively similar to the ones reported here. These results are available upon request.
that the estimated effect of INSTITUTIONS from a single equation estimation without correcting for endogeneity will be biased toward zero. The significance of endogeneity is further confirmed by the likelihood-ratio tests over the null hypothesis that the error terms from the two equations in the treatment effects model are uncorrelated. The test statistic (chi-squared statistic is 13.28) allows for rejection of this hypothesis at the 1% level, suggesting that endogenizing institutions is necessary.

What is the effect of nondemocratic legislatures and parties on workers’ share of total profits? We employ the same estimation models, but now with labor share as the dependent variable. The second column in Table 1 shows that the coefficients of most of the economic variables are significant and consistent with our expectations in both models. As the coefficient on INSTITUTIONS suggests, under institutionalized authoritarian regimes, workers take home 9.6% more income than in noninstitutionalized dictatorships. The selectivity parameter, ρ, is highly significant at the 1% level, indicating that institutions matter for labor share as they did for the average level of wages. Labor share as well as the average level of wages, thus, is a function of authoritarian institutions that are, in turn, chosen by dictators’ strategic calculation given the need for cooperation and the strength of opposition in a society.

Could it be that legislative and partisan institutions are serving as proxies for corporatist links between labor and the state? The difficulty of measuring traditional understandings of corporatist arrangements (Kenworthy 2003) does not allow us to control for corporatism to isolate the independent effect of institutions. Yet for our inferences, the presence of corporatist arrangements should be a problem only to the extent to which they are correlated with these institutions. And from the case study literature (Collier and Collier 2002; Deyo 1989; Haggard and Kaufman 2008), this appears not to be the case: state-controlled unions may be incorporated into labor courts and executive branch agencies, all of which bypass legislative and partisan structures.

**Labor Peace Model**

We now turn to an empirical test to determine whether institutionalized dictatorships experience more labor peace than their noninstitutionalized counterparts. The dependent variable is the number of strikes (STRIKES). A strike is defined as any significant strike of 1,000 or more industrial or service workers that involves more than one employer and that is aimed at national government policies or authority. These strike activities are viewed as labor disputes between workers and employers (Banks 2005).
For controls, we draw on the wide quantitative literature on the determinants of aggregate strike activity over time and across countries and include:

- the overall level of the economy is captured by GDP per capita (INCOME) and labor share (LABOR SHARE); as income and labor’s share of it increases, agitation for higher wages among other demands is likely to decline (Franzosi 1989).
- the rate at which prices increase (INFLATION; World Bank 2008) in comparison to workers’ wages affects their standard of living. Since workers’ real wages are eroded by the rise in prices, workers are likely to use strike activities to demand that wage increases keep pace with or catch up with inflation.
- as unemployment (UNEMPLOYMENT; constructed from World Bank 2008) rises, workers are more vulnerable to the actions of employers and unions are less able to mobilize these vulnerable workers in defense of wages and salaries.10 As a result, the frequency of strikes goes down even as employers are emboldened to attack labor (Ashenfelter and Johnson 1969; Cramt on and Tracy 1992).
- the costs of strikes for both workers and employers increase the longer the duration of the strikes (DURATION). Constructed using data from Mitchell (2003) and the ILO (various years), DURATION is based on the standard equation: DAYSLOST = STRIKES*SIZE*DURATION where DAYSLOST is the number of days not worked as the result of strike activity, STRIKES is the number of strikes, and SIZE is the number of workers involved in strike activity (Hirsch and Addison 1986). As the duration of strikes increase, the number of strikes should decline.

The first column in Table 2 presents the maximum-likelihood estimates of the treatment effects model. The number of observations is quite low (e.g., less than half the sample used in the preceding analysis) due to the paucity of data on strikes. As a result, some of the coefficients on the variables in the first stage of the model, determining institutionalization, differ significantly from those in Table 1.11 Among all dictatorial types, civilian dictators still need to govern with institutions the most, but now, military dictators are indistinguishable from monarchs since the coefficient on MILITARY is statistically insignificant. The variable LEADER CHANGES also has become insignificant. In contrast, not only do the variables POTENTIAL WORKING CLASS and RESOURCE retain high statistical significance, but their magnitudes increase quite considerably.

The coefficients in the second-stage equation are consistent with expectations. INCOME, LABOR SHARE, and INFLATION are strong determinants of the frequency of strikes, confirming the procyclical effect of strikes. The coefficients of UNEMPLOYMENT and DURATION are not statistically significant.

Just as legislatures and parties affected wages and labor share in the compensation model, the results from the labor peace model show a clear institutional effect on workers’ strike activities. The estimated effect of INSTITUTIONS is significantly different from zero at the 1% level. The negative coefficient, \(-0.529\), indicates that in the presence of actual legislatures and parties, workers are significantly less likely to strike. In other words, in exchange for compensation received through institutions, workers agree to channel those demands through officially sanctioned mechanisms.

Because STRIKES defined here is a count variable, the estimates of the treatment-effects model based on the ordinary least-squares estimator in the second stage may be inefficient and biased (Cameron and Trivedi 1998). As a robustness check of the main findings, we use a negative binomial model in the second stage with the same model specification to deal with the problem of overdispersion underlying the data.12 Specifically, we use the hazard-rate instrument based on the inverse Mills ratio from the first-stage probit model as a proxy for INSTITUTIONS in

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9For comprehensive reviews on this topic, see Booth (1996), Franzosi (1989), and Hirsch and Addison (1986).

10Time-series cross-national measures of unemployment are not reliable due to differences in the sources and methods of data collection within each country and in the criteria used to identify the unemployed. In addition, the data on unemployment in dictatorships are extremely rare. Given these problems, we created a proxy by subtracting the percentage of employment of the total labor force from 100, since the labor force is made up of the employed and the unemployed. Although the obvious disadvantage of this measure is that it does not capture the number of discouraged workers who are considered out of the labor force, we expect that UNEMPLOYMENT still captures the overall trend.

11Because of the limited number of observations, the sample might be weighted towards wealthier dictatorships with only a few low-income dictatorships. As the list of countries in Appendix A shows, however, the results are not driven by sample selection; out of 32 countries in the sample, 13 countries are from Africa and most of them are poor in terms of income per capita.

12The likelihood-ratio test for overdispersion using the dispersion parameter \(\alpha\) (\(H_0: \alpha = 0\)) indicates that there is significant evidence of overdispersion (the p-values are close to zero). This suggests that the negative binomial model is preferred to the Poisson model.
the second-stage negative binomial model. The second column of Table 2 reports the estimates of the negative binomial model. The direction and the level of statistical significance of all of the variables remain similar to the ones in the treatment-effects model. In particular, the coefficient of \textit{INSTITUTIONS} is still negative and significant at the 5% level.

Fewer strikes and work stoppages may indicate that authoritarian regimes with legislative and partisan institutions have managed a way to keep the peace with workers, but they do not necessarily signify labor’s weakness. As Korpi (1983), Hicks and Swank (1984), and others found regarding welfare state expansion in advanced capitalist countries, fewer strikes may indicate that workers need not actually protest in order to obtain what they want. The threat, rather than the actual manifestation, of protest is what provokes the extension of benefits to labor. Similarly, in the case of authoritarian regimes, the strength of the potential opposition that workers pose is enough to lead rulers to make concessions through institutions so that labor does not have to resort to means outside of these institutions to obtain benefits. Finally, while our emphasis is on workers as one segment of the “masses,” our findings are not incompatible with a focus on elite behavior. Analyzing the strike behavior of workers under Russia’s hybrid regime, Robertson (2007) finds that elites use institutional mechanisms to affect labor protest. That legislative and partisan bodies are not correlated with strikes simply may indicate that these institutions do not provide elites with the means through which they can mobilize worker protest for their own ends.

\textbf{Conclusion}

Certainly we do not contend that dictatorships are good for labor. We make no claims as to whether labor would have been better off under democracy or dictatorship, and certainly one can imagine many reasons—other than material ones—why workers would choose democracy. Instead, in our analysis, we have attempted to assess whether workers are treated better under some forms of authoritarian rule than others.

Our research attempts to move beyond the focus on democracies or the distinction between democracy and dictatorship, by examining systematic patterns in the treatment of labor among nondemocratic regimes. In addition, while not denying the
importance of intangibles such as ideology and intentions of dictatorial rulers, we attempt to shift focus to measuring the impact of observable institutions. We have analyzed how nondemocratic institutions affect the compensation and mobilization of labor while taking into account the endogeneity of these institutions. The results are generally robust, surviving different methods of estimation and the inclusion of various control variables.

The results suggest that when authoritarian regimes use legislatures and political parties as instruments of cooptation, they attempt to co-opt labor. Through these nominally democratic institutions, dictatorships provide material benefits to workers, and in exchange, workers either mitigate their demands or voice them within the halls of assemblies and party caucuses rather than on the street. As a result, labor receives more compensation, but is also less militant under institutionalized dictatorships.

Our findings point to some clear future areas of research. First, our conclusions speak mostly about the relations between nondemocratic governments and workers in the manufacturing sector since many of our indicators (e.g., potential working-class strength, labor compensation) relate to this segment of the labor force. Yet workers in the public sector or in the export sector in resource-rich states may be equally important constituencies. Better data on these sectors of the labor force would provide stronger support for the theory. In addition, a more refined empirical test of the theory offered here would include information on the types of political parties within nondemocratic legislatures to determine whether workers’ interests are actually advanced within these institutions and to explore whether the number and ideological configuration of legislative parties matters for outcomes of interest. For this, however, more detailed information about the partisan composition of assemblies in dictatorships must be assembled.

Second, besides empirical improvements, the study of workers under dictatorships would benefit from a greater understanding of how authoritarian regimes might use heterogeneity among workers’ interests to co-opt some while repressing others. In addition, how labor’s participation in authoritarian legislatures and parties affects its role in demanding (or not demanding) more significant political change remains unanswered. On the one hand, the exchange of concessions for labor peace suggests that workers and their leaders have no incentives to demand change which may derail their flow of benefits. On the other hand, labor, incorporated within these institutions, has the opportunity to work towards expanding the political arena from within.

Acknowledgments

We thank Despina Alexiadou, Bill A. Clark, Mark Gasiorowski, Dan Reiter, and four anonymous reviewers for their helpful suggestions. All remaining mistakes are our own.

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WONIK KIM AND JENNIFER GANDHI
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