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July 19, 2016 10:19 pm

Coups becoming rarer, but exact a high price

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Successful coups bad for growth in democracies; unsuccessful ones worst in autocracies



Istanbul citizens seize a tank during the abortive coup in Turkey

Turkey's abortive coup d'état has served to remind the world that political risk remains higher in emerging markets than developed ones, despite the UK's honourable attempt to level the playing field with its vote to exit the EU.

But how much should investors and populations at large worry about such events? The answer is both not much and quite a lot.

First of all, despite fevered claims that we are living in an increasingly dangerous world, the evidence, at least when it comes to coups, is that we are not. Indeed, coups have never been rarer in modern times.

Jonathan Powell and Clayton Thyne of the University of Kentucky identified 457 attempted coups in 94 countries between 1950 and 2010, with Africa (37 per cent) and the Americas (32 per cent) bearing the brunt. Around half of these attempts were successful in overthrowing the target government.

Their data show such episodes peaked in the mid-1960s, with two later peaks in the mid-1970s and early 1990s, at the end of the cold war.

Since then attempted coups have steadily declined to the lowest level since at least 1950, as the first chart shows. Although the data only run to 2010, relatively few coup attempts have been made since then, with those in the Maldives and Mali in 2012, Egypt in 2013 and Thailand in 2014, alongside the failed military putsch in Turkey, being the most obvious.

However, the analysis does suggest coup plotters have become far more proficient, with more than 60 per cent of attempted coups succeeding in recent years. That's the highest rate on record and well above the 20 per cent success rates seen at the start of the millennium.

Fewer coups, but more are successful



Source: Powell and Thyne

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Unsurprisingly, this high success rate is important. Separate research by Erik Meyersson, assistant professor at the Stockholm Institute for Transition Economics, part of the Stockholm School of Economics, suggests the consequences of coups are particularly dire when democracies are successfully overthrown.

Mr Meyersson examined the impact on economic growth of the attempted coups identified by Messrs Powell and Thyne up to 2001. He found that successful coups in democracies typically lowered growth in income per capita by 1 to 1.3 percentage points a year over the subsequent decade.

This runs counter to the view in some quarters that military coups can sometimes be necessary to enact tough, but necessary, reform.

Some have argued that Chile's "economic miracle" since the mid-1980s would not have been

possible without the 1973 military coup that overthrew Salvador Allende, the elected president, and paved the way for a programme of economic liberalisation, privatisation and restrictions on workers' rights.

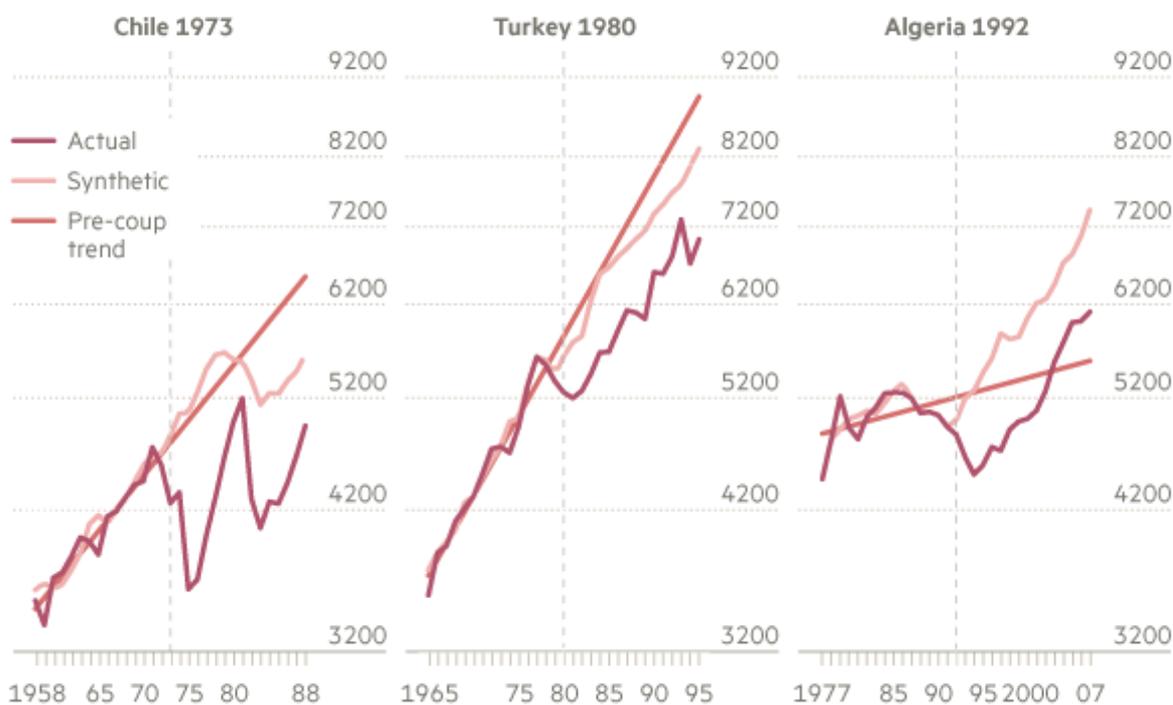
Likewise, Turkey's economic boom in the 1980s is traced by some to its 1980 coup, which ushered in economic liberalisation.

Mr Meyersson's analysis suggests these arguments are wrong. In both cases, he suggests that post-coup economic growth per capita was lower than pre-coup trend growth. Moreover, in both cases growth was below that expected for the country, using a synthetic growth forecast based on the performance of a basket of similar countries.

This is depicted in the second chart, alongside the example of Algeria after its 1992 military coup, which prevented a likely victory by an Islamist party in a general election. In Algeria's case, post-coup growth was better than the pre-coup trend, but still worse than the synthetic comparator.

Impact of successful coups

GDP per capita (\$, purchasing power parity)



Source: Erik Meyersson

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“A commonly held view is that coups overthrowing democratically elected leaders often provide the opportunity for engaging in unpopular but much needed economic reforms,” says Mr Meyersson.

“Not only do I show that coups fail at this but they also tend to reverse important economic reforms, especially in the financial sector. Furthermore, coups systematically lead to increased indebtedness, an overall deterioration in the net external financial position, and an increased propensity to suffer severe economic crises.”

In addition, “a documented reduction in social spending suggests a shift in economic priorities away from the masses to the benefit of political and economic elites,” Mr Meyersson argues, with a

knock-on effect on education and health.

“The imposition of martial law and the associated human rights abuses that follow are testament to the human suffering of the interventions,” he concludes.

In contrast, successful coups that overthrow autocratic leaders are more often than not economically beneficial, raising growth in the decade following the coup by an average of 0.7 percentage points a year.

“In autocracies, coups are mostly about leader turnover, and what matters most then is the relative differences in leader quality,” Mr Meyersson says.

Failed coups in authoritarian states do seem to lead to significantly weaker growth, with the most egregious examples being in African dictatorships such as Liberia (after its 1985 attempted coup), Sierra Leone (1987) and Cameroon (1984). However, this effect is not found in democracies.

Given that Turkey’s coup failed, the likely impact may depend on whether one considers it to be a democracy or an autocracy.

At first glance it would appear to be the former. Recep Tayyip Erdogan, the president whom the plotters failed to depose, was democratically elected and clearly has the support of large swathes of the population.

However, Mr Erdogan has been behaving in an increasingly authoritarian manner.

In the wake of protests and corruption probes into his inner circle in 2013, hundreds of prosecutors and thousands of policemen were transferred, some fired and others jailed. A crackdown on mainstream and social media was intensified, with some 300 journalists losing their jobs and around 200 people charged with defaming the president for disobliging tweets.

Since then, Mr Erdogan has relentlessly centralised power, both to make and interpret the law, and give Turkey’s intelligence services power unaccountable to anyone but him.

As the last chart shows, Freedom House, a US think-tank, clearly ranked Turkey as a democracy in 2005 in terms of both political rights and freedom of expression and beliefs.

Turkey slides towards autocracy

Freedom House scores

- Autocracy - - - Median values for autocracies
- Democracy - - - Median values for democracies



Source: Freedom House

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By 2015, however, Turkey's ranking for the latter measure had deteriorated to a level more in common with that of autocracies, with Bangladesh and Pakistan the only democracies to have weaker freedom of expression.

In terms of press freedom (not shown in the chart), Turkey's score has fallen to the median level of autocracies, and below that of any other democracy.

Yet in terms of political rights, Turkey does still look like a democracy, Freedom House concludes. Amid widespread predictions that Mr Erdogan may look to further centralise power in the wake of the abortive coup, a belief strengthened by the fact that more than 6,000 soldiers, judges, police officers and prosecutors have already been arrested, investors may be watching this measure like hawks.

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