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**Democracy in crisis, or: Just how
development-friendly is democracy?**

By Dr. Jörg Faust,
German Development Institute /
Deutsches Institut für
Entwicklungspolitik (DIE)



Democracy in crisis, or: Just how development-friendly is democracy?

Bonn, 30 March 2009. Among the collateral damage caused by the ongoing global financial crisis, which has its roots in Western industrialised countries, is the growing criticism of democratic models of society voiced in the developing countries. In a parallel development, a growing number of politicians in Africa, Asia, or Latin America have been looking with admiration to a number of more or less authoritarian countries like China, Singapore, or Venezuela. These, they believe, hold out promise of a constant and reliable course of development, one keyed in particular to boosting overall economic performance – in contrast to democratic procedures, which seem too slow and sluggish, too prone to conflict, too intransparent, and overly complex.

But is autocracy really better suited than democracy for the economic development of poorer countries, as has been assumed, e.g. by Harvard economist Andrei Shleifer? Is the blueprint for breaking through economic barriers to development defined today by China, Singapore, and Venezuela – and no longer by European democracies or the US? But what, then, are we to say when we look at countries like Zimbabwe, North Korea, or Egypt? These countries also have rulers that could use their considerable political manoeuvring room to the benefit of their own societies. However, their economic performance has proved modest at best and disastrous at worst.

Against the background of this debate, a cross-country statistical comparison based on a large sample reveals a robust correlation. Societies in which free and fair elections are held and freedom of the press and of association are respected tend on average to have a higher level of economic development, regardless of whether the indicator used is per capita income, life expectancy, or educational levels. But correlation does not necessarily mean causality. Thus, another possible conclusion could be that economic development is conducive to the emergence of democratic structures. Indeed, statistical studies provide at least some support for this supposition. For example, a society's level of education has been found to have a positive effect on its level of democracy, with higher levels of education fostering more democratic attitudes among the population, making it more immune to populist promises made by autocrats and encouraging the development of an autonomous civil society.

Does this serve to disprove the assertion that democracy entails an economic dividend? Not at all. For the direction of causality is not merely unilateral. A comparison of Latin American countries e.g. shows that government educational and social expenditures have risen disproportionately in the region's more democratic countries. Moreover, the US political scientist David Lake has demonstrated that more democratic countries are superior to autocratic countries when it comes to the provision of public goods in the education and health sectors. More democratic countries tend, for instance, to invest more than autocratic countries in primary school education, that is, in that educational sector from which, in poorer countries, the broad mass of the population stands to benefit disproportionately.

There is a simple reason why democratic structures have positive effects on indicators for broad-based economic development. To ensure their political survival, governments - be they of a democratic or an autocratic stripe – are invariably in need of the support of groups from society. In view of the fact that authoritarian governments tend to exclude broad segments of the population from political participation, they are for the most part dependent on a small number of powerful interest groups, like economic oligarchs or the military. Authoritarian



governments are forced to buy the backing of these powerful actors by furnishing them with economic privileges. However, when it comes to economic and social policy, autocratic governments tend to give far less heed to the needs of the excluded population majority. Over the long term a policy of this kind that privileges powerful interest groups not only neglects broad segments of the population; at the same time it inhibits economic innovation and efficiency.

The incentive systems of democracy tend to operate in exactly the opposite way. While in democracies well-organised interest groups – big industry, trade unions, and numerous associations – seek to gain influence on government policy, in its economic policy a government is nonetheless forced pay due heed to the economic welfare of broad segments of the population. For if they are to survive, democratic governments need the consent of encompassing majorities. And it is precisely for this reason that they are more interested than authoritarian governments in positive overall economic development. To this extent, the combination of freedom of the press and of association and free and fair elections is conducive to open democratic competition that forces even egoistic politicians to seek an orientation keyed more to the collective interests of society.

In other words, while there may be a few exceptions, there are good reasons to believe that democracy entails a welfare dividend and very few reasons that indicate any need to sacrifice democratic processes on the altar of overall economic objectives. Indeed, if we look more closely, we find that we can even trace back the current financial crisis, at least in part, to democracy deficits. With international financial markets being shaped in recent years with an eye to bypassing transparent, democratic procedures, the influence of powerful lobbyists has grown apace, along with the huge privileges they have managed to extract from the system. The costs, though, will now have to be borne by the public at large. A strong argument in favour of taking steps to ensure that financial market regulation will once again be integrated into a transparent and democratic process.

But one question that remains to be answered is why, since the second half of the twentieth century, a handful of autocracies have proved to be successful in economic terms– and indeed still are in the case of China. The next democracy *Column*, set to appear on 4 May, will explain why it is that this is due less to cultural factors than to specific organisational and incentive structures that have developed in a small number of autocracies.



Dr. Jörg Faust
German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE).