

## **DEMOCRACY AND PROSPERITY**

**By Joseph Siegle**

We live in a historic time. Since the early 1990s, for the first time in history, a majority of countries in the world had adopted some form of democracy. This reverses the long dominant norm of autocratic governance. As recently as 1988, two-thirds of the world's governments were autocratic. This shift towards democracy is global in scope. Some 100 countries encompassing all regions of the world have made progress toward democracy since the late 1970s. And while there are instances of backsliding, the overall trend remains upward.

The advance of democracy raises hopes for a commensurate expansion in prosperity. After all, industrialized democracies are recognized as having the most dynamic, innovative, and productive economies in the world. The stability of this growth, the integrity of the financial institutions that support it, and the protection of property rights in these democracies has enabled them to accumulate and sustain improvements in their citizens' quality of life for generations.

A distinguishing feature of the contemporary shift toward self-governance is that 80 percent of today's democratizers are in the developing world. The emergence of large numbers of developing country democratizers contravenes long-held conventional wisdom that poor countries are incapable of successfully democratizing. Accordingly, this phenomenon is shaded by concerns that countries democratizing "before they are ready" are more likely to suffer economic stagnation and civil strife. Perceptions that living conditions in Latin America and Africa have not improved despite their move towards democracy reinforces these fears. This places a premium on understanding how political governance influences development and the challenges that poverty poses to democratization.

We thus face something of a paradox. Humanity has made momentous strides toward more participatory and representative governance over the past generation. Yet there remains deep ambivalence over the implications this portends for global prosperity and security.

### **THE TRACK RECORD**

A review of the track record shows that many of these reservations are misplaced. Globally, economic growth among democracies has been more than 25% as rapid as growth in autocracies, on average, for each of the past four decades (based on independent indices of democracy). Even among low-income countries, democracies have on average attained rates of per capita GDP growth equivalent to their autocratic counterparts. This is so even though 25% of the data points for autocracies have not been reported. So, growth rates for the likes of Burma, Cambodia, Cuba, North Korea, and Somalia are largely omitted from these comparisons. Since these countries are widely believed to have underperformed economically, democracies' relative growth advantage is likely even larger.

This is especially noteworthy since these figures include the exceptional autocratic growth experiences of the East Asian dynamos – such as China, Singapore, Indonesia, South Korea, and Taiwan. Outside of East Asia, developing country democracies have an average per capita growth rate that is 50% higher than autocracies. In other words, developing country democracies

like Botswana, Costa Rica, Dominican Republic, Ghana, Latvia, Lithuania, Mauritius, and Senegal tend to grow much more rapidly than those with authoritarian governments such as Belarus, Cameroon, Congo, Cuba, Syria, Togo, Uzbekistan, and Zimbabwe. Since 1990 and the end of the superpower rivalry that propped up many authoritarian economies, the average difference in growth rates has widened further.

When we consider the measures of social well-being, the performance of developing country democracies is distinguished still further. Citizens in developing country democracies have life expectancies that are nine years longer, infant mortality rates that are 20% lower, secondary school attainment levels that are 40% higher, fertility rates that are 30% lower, and cereal yields 25% greater, on average, than those in autocracies at comparable income levels.

The strong showing by democracies cannot be attributed to greater resource availability. Democracies do not run-up higher fiscal deficits nor do they receive higher levels of aid. Rather, processes internal to democratic systems appear to be responsible for their performance.

One such characteristic is democracies' ability to mitigate against catastrophe. Democracies rarely let the bottom drop out of their economies. If we consider the 80 worst annual economic performances on record since 1960, only five have occurred under democracies. Stated differently, developing country democracies have been 70% less likely to experience a sharp contraction in their annual economic output (i.e. a drop of 10% of GDP) as have developing country autocracies. Of those democracies that did experience such an economic disaster, two-thirds were countries that had just transitioned from communist economies in the 1990s.

Autocratic propensity to catastrophe is even more evident in the humanitarian arena. The source of nearly all of the world's refugees and displaced persons are autocratic governments. Ranking the world's worst refugee crises since 1980 by volume, one must go up to #88 to find one in which the country of origin was other than an autocratic government – Sierra Leone in 1997. The close link between disaster and autocratic government is consistent with an observation made by Nobel laureate Amartya Sen that there has never been a major famine in a country with a democracy and a free press.

A key "secret" of democracies' developmental success, therefore, is their relative *ability to avoid catastrophe*. Given the tenuous existence facing most communities living in poverty, a system that reduces volatility is a major benefit. Moreover, by not having to constantly dig out of the holes caused by sharp contractions, democracies are better able to accumulate assets from year to year. As with a savings account, it is the sustained gains that, when compounded, create prosperity.

Another often heard concern is that democratic competition can accentuate fissures in a society leading to civil strife and undercutting economic development. This is intuitively compelling. One need not think too hard to envision opportunistic politicians playing up ethnic cleavages for short-term political gain, only to have the situation spiral out of control. While these risks are real, historical experience shows that democratizers are no more conflict prone than other developing countries. Controlling for income is key. Poverty is the single most powerful factor predicting conflict, (which today nearly always means civil conflict). Since 1980, countries with

per capita incomes below \$2,000 have been in armed conflict one year out of five. Countries with per capita incomes above \$4,000, in contrast, have experienced conflict only one year out of 33. After controlling for income, democratizers have actually been slightly less conflict prone than other developing countries.

Since the end of the Cold War, the conflict gap between democratizers and autocracies has been widening. That is, there is a popular perception that the world has grown more volatile since the end of the Cold War. This is not so. According to researchers Monty Marshall and Ted Gurr, the numbers and magnitude of armed conflicts around the world have declined by 60% since the mid-1980s, to 18 conflicts today, of which eight are considered major. The period of historic expansion of democracy has coincided with a dramatic decline in incidences of armed conflict.

Democratizers' relative propensity to avoid conflict has direct implications for regional instability. Thirty percent of civil conflicts spill over to neighboring countries. Moreover, once initiated, civil conflicts are very difficult to bring to closure. Nearly half of all cases where an end to hostilities is achieved lapse back into civil conflict within five years. In an age of transnational terrorism, the lawlessness of large tracts of territory that typifies much contemporary civil conflict thus has major implications for international security.

In short, democratization is not risk-free. However, this risk must be weighed against the relatively greater danger of conflict associated with governments that resist political reforms and which rely on repression to stay in power.

#### **DISCONNECT BETWEEN DEMOCRACY AND PROSPERITY IN LATIN AMERICA AND AFRICA?**

Despite popular perceptions to the contrary, the pattern of democratic expansion and improved well-being holds for Latin America and Sub-Saharan Africa. In Latin America and the Caribbean, all but three of the region's 33 countries have expanded their economies since 1990 (Venezuela, Haiti, and Paraguay being the exceptions. Data on Cuba is unavailable). On average, this growth reflects a 25 percent increase in per capita incomes. These countries have achieved such gains despite the fiscal and debt crisis of 2001-2002, which, though centered in Argentina, caused overall regional growth from 1998-2003 to be flat. Similarly, the region has made demonstrable progress in living conditions. Region-wide infant mortality rates have declined by 15 percent, access to safe water in rural areas has increased from 61 to 77 percent, and secondary school enrollment has expanded by 20 percent, to 65 percent, since 1990. Therefore, while progress in Latin America may be more gradual than hoped for – and income disparities may persist – real gains have been made and sustained under the region's democratic leaders.

Democracies' capacity to mitigate volatility is also evident in Latin America. Economic volatility, of course, has long been a major impediment to Latin America's development. Instances of hyperinflation have diminished considerably under the region's democratic leaders. Latin America suffered through thirty-six episodes of annual inflation surpassing 100 percent in the 1980s. Since 1992, there have only been five such experiences, all in Suriname and Brazil. Likewise, incidences of acute recession resulting in a 10 percent decline in per capita income from year-to-year dropped from fifteen in the 1980s to two since 1990. By avoiding economic

crises and volatility so characteristic of Latin America's economic history, democratizers are better able to build on the development gains they have realized.

In Africa, the move towards democracy has varied greatly. Roughly a quarter of Africa's 48 states can now be considered consolidating democracies. Another quarter are demonstrably on a democratic path. However, the other half of African states remain somewhere on the autocratic side of the governance spectrum. Africa's economic and social progress of the past decade closely mirrors this divergence in political liberalization. Since the mid-1990s, Africa's democracies and democratizers have realized median aggregate increases in per capita income of 15 percent. Autocratic and semi-autocratic governments, in comparison, have experienced an average seven percent expansion in incomes during this time. This includes the largely oil-driven growth gains of countries such as Sudan, Cameroon, Gabon, Angola, and Equatorial Guinea, (which has experienced a five-fold economic expansion since 1995).

In total, nine of the ten consolidating democracies in Africa have realized sustained economic expansion since the mid 1990s (with Sao Tome being the exception). Democracies and democratizers comprise two-thirds of the 18 African economies that have seen real per capita incomes grow by more than 20 percent over the past 10 years. Meanwhile, pluralist systems make up only a quarter of those that have had stagnant or negative growth during this period. In contrast, half of Africa's 24 autocracies and semi-autocracies have had negative or stagnant growth since 1995.

The steady economic growth in Africa's democracies translates into improved living conditions for their citizens. Infant mortality rates, a proxy for many other measures of well-being, have declined by 18 percent among consolidating democracies since 1990, on average. Democratizers have also seen a commendable 14 percent average improvement in infant deaths during the past 15 years. Infant mortality rates under Africa's semi-autocratic and autocratic governments, in contrast, have been mostly stagnant, posting median changes of only 2.4 percent and nil, respectively, since 1990. In other words, the vast majority of citizens in autocratically-governed countries such as Gabon, Cameroon, Congo, Swaziland, Zimbabwe, and Angola have seen little or no improvement in their standards of living.

African democracies are also much more likely to avoid other forms of instability – famine, conflict, and refugee crises. Illustratively, democratizers are the source of less than 12 percent of Africa's refugees; consolidating democracies comprise a fraction of a percent. Perhaps most importantly and contrary to popular perceptions, the numbers and magnitude of conflict in Africa have declined by 40% since 1990 – from 13 to 8. Where conflicts in the region persist, they are disproportionately represented by countries in the autocratic or semi-authoritarian categories.

## **WHY DEMOCRACIES EXCEL**

What explains democracies' noteworthy track record of steady, broad-based development? Obviously, there are a variety of interrelated reasons. Conceptually, three overarching features deserve attention: shared power, openness, and adaptability.

A critical distinguishing trait of democracies is their commitment to structures of shared power. A president or head of state must gain the support of key members of his or her party, cabinet, legislature, and at times judiciary before a favored policy can be pursued. In addition to these formal checks and balances, input from civil society also influences the outcome. Together, these mechanisms of horizontal accountability moderate decision-making in democracies. They also curb patronage, thereby improving the probability that funding allocations and hiring are based on merit rather than allegiances. Periodic elections, meanwhile, provide a clear incentive for democratic leaders to be responsive to the interests of the general public lest they be voted out of office.

Openness is another defining characteristic of democracies that has major implications for development. The greater access to information in open societies fosters more informed policy debate and analysis before decisions are taken. Leaders are compelled to respond to information and opinions they might otherwise prefer to ignore. At the least, such a process helps weed out the most egregious aspects of a policy before it is implemented – avoiding some of the disasters that insulated decision-making processes produce. The process of debate also serves an educational purpose. Citizens gain a better appreciation for the trade-offs involved and will tend to be more supportive of a policy once it has been adopted. During implementation, a policy's effects are closely scrutinized by opposition parties, the media, think tanks, and independent observers. Should the policy prove ineffectual, citizens will hear of it – and leaders will be obliged to take corrective measures. In times of crisis, such as an impending famine, the ability of the press to report on the deteriorating situation serves as an indispensable early warning system. The resulting pressure on the government to take urgent action helps mitigate against catastrophe. In societies that lack this feedback mechanism, crises can develop without citizens outside of the affected area even knowing about it, leaving leaders little imperative to act.

Democracies' openness also has direct benefits for economic efficiency. Markets in which buyers have access to independent sources of information generate greater confidence and competitive prices. Markets in which objective analysis is constrained are distrusted and investment withheld. The greater transparency of open societies, furthermore, is an indispensable factor in curbing corruption – a major impediment to development.

Democracies are made to be adaptable. Political competition gives leaders ongoing incentives to identify new ideas that will address public priorities. As circumstances change, policies are adapted accordingly. Democracies, thus, are in a perpetual process of realignment. If a given set of leaders fails to fathom an appropriate course forward, the self-correcting nature of democracies prompts their replacement with others who will bring a fresh set of assumptions and strategies. In short, democracies are not guaranteed of getting it right. They do, however, guarantee the right to keep changing until they do. Ineffectual leaders need not drag down the entire country indefinitely. Indeed, the ability of democracies to systematically change leaders may be the single greatest reason for their stability.

In short, democracies tend to attain economic progress because, on the whole, they do a far better job of creating mechanisms of accountability than other governance systems. It is democracy's recognition of protected private space that underlines its greater support for property rights and expropriation protections. It is democracy's premise that all citizens, including the head of state,

are subject to the law that gives a foundation to the rule of law. It is democracy's openness that provides the vehicle for policy debate, puts pressure on political leaders to reverse ineffective policies, exposes deviations from the law, and shines the light of transparency on corruption.

It is for this reason that emphasis should be given to *democratic governance* and not solely the politically correct "good governance." Strengthening governance institutions is about changing incentives, not just a technocratic exercise in building capacity.

## **AUTOCRATIC EXCEPTIONS**

To be sure, the relationship between democracy and prosperity is not universal. There is considerable variance in the economic performance of democratizers. Democratizers that do a better job of creating checks on the executive branch, an autonomous private sector, property rights protections, reliable contract enforcement, and civil liberties, particularly a free press, have tended to grow more rapidly and consistently. Growth in countries without these "institutions of accountability" tends to be more anemic, volatile, and skewed. Specifically, low-income democracies with stronger systems of accountability realize annual economic growth rates that are 60% greater than democracies with lower levels of accountability. Likewise, autocracies that have stronger accountability institutions relative to other autocracies tend to grow 30% more rapidly. Rehabilitating the dysfunctional, personalistic political structures that most new democratizers inherit, more than solely holding elections, is indispensable to expanding prosperity.

Similarly, not all developing country democracies grow more effectively than all developing country autocracies. There are exceptions. To be more precise, there are nine authoritarian governments that have sustained economic growth for at least a decade since 1980 – Bhutan, China, Egypt, Indonesia, Singapore, South Korea, Taiwan, Tunisia, and Vietnam. Of these, only the East Asians have also realized commensurate gains in their levels of social development. The East Asians, moreover, have accountability rankings double the norm for autocratic governments. So, sustained economic growth is possible under autocratic government. It is simply very rare. From a policy perspective, the remarkable development success of the East Asian autocrats must be juxtaposed with the 85 or so other authoritarian governments over this time period that realized lackluster, and in many cases abysmal growth. (Indeed, 45 autocracies have suffered at least one economic crisis – i.e. a 10% decline in annual GDP output – since 1990.) The real lesson to be taken from the East Asian exceptions, therefore, is recognizing how much they differ from most autocratic governments.

China is the contemporary poster child for the autocratic growth argument. China has certainly experienced spectacular growth over the past three decades. This has caused many to look past its exceptionality and generalize that it is China's authoritarianism that has allowed it to grow at the rate it has. This conclusion, however, overlooks China's three decades of economic stagnation prior to adopting market-oriented economic policies in the late 1970s. During this time, China endured the trauma of the Great Leap Forward, the Cultural Revolution, and the great famine of 1959-1961 that cost the lives of an estimated 38 million people. Meanwhile, China's propensity for crisis, be it insolvent banks, SARS, peasant uprisings, conflict with

neighbors, avian flu, and environmental catastrophes are reminders of the fragility of China's growth.

## **CONCLUSION**

We live in a historic and hopeful time. The global expansion of democracy has potentially far-reaching implications for development and security throughout the world. Democracies at all income levels tend to do a consistently better job of generating and sustaining prosperity than other governance regimes. The relationship is not direct but is contingent on the robustness of institutions of shared power, openness, and self-correction. Accordingly, democracy does not guarantee economic success – or even clean government. It does provide the rights and tools, however, to take corrective action when policies are taking a society in the wrong direction.

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