

WHY DEMOCRACY IS CENTRAL TO PROSPERITY AND PEACE¹

By Joseph Siegle

We live in an extraordinary time. Over the course of most readers' lifetimes a majority of the world's citizens have come to live under some form of democracy. As recently as 1988, two-thirds of the global population lived in countries with autocratic governments. This transformation in global governance transcends any one country or region. More than 90 countries have made progress toward democracy since the late 1970s. And while there are instances of backsliding, the overall trajectory remains upward – reflected by the recent democratic advances in Ukraine, Lebanon, Georgia, and Kyrgyzstan.

Despite this major transformation, we face something of a paradox. There remains deep ambivalence within leading democracies and international organizations over the wisdom of promoting democracy in the 45 or so countries that retain authoritarian governments, primarily in the Arab world, Central Asia, and Africa.

AUTHORITARIAN ADVANTAGES

Such reservations are not new. Variants of these concerns have dominated conventional thinking about democracy for the past 50 years. Initially promulgated during the Cold War, notions of an “authoritarian advantage” have shown remarkable resilience in the years since. There are three main tenets to this thesis:

First, poor countries can grow their economies more rapidly with authoritarian governments. That is, in societies with sparse financial, human, and institutional capacity, authoritarian governments can better marshal these limited resources towards clear, definable objectives. Spared the distractions of periodic elections, autocratic governments can steadily pursue a coherent, long-term development vision. Priorities can be set, investments made, and infrastructure built. No need for endless rounds of participatory dialogue and buy-in. Wages can be kept down, savings generated, and an attractive investment climate created.

The second tenet is that economic growth facilitates democratic transitions. Specifically, the improved literacy, educational attainment, health, urbanization, and expanded middle class that accompany economic development create the social requisites to democracy, as famously argued by Seymour Lipset. The rationale is that a more prosperous and better educated society will inevitably demand more say over their governance – and do so effectively. The relative affluence and capacity of a middle-income society will, furthermore, create strong incentives for a stable transition. The comparative availability of resources in an expanding economy makes compromises between competing groups easier, further enabling political inclusion.

Third, autocracies can better ensure stability in what are often volatile environments. Developing countries are typically highly fractious. Only the iron fist of an authoritarian government can hold the disparate camps together. Democratic transitions initiated in such contexts are likely to be polarizing – sharpening ethnic, economic, geographic, or religious tensions – and increasing

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the risk of conflict and radicalization. While democracy may be a desirable long-term goal, it is the process of getting there that is problematic. From a geo-strategic perspective, authoritarian governments have been considered more stable partners in combating the great security challenges of the post-WWII era – communism and international terrorism.

The policy implication flowing from these assumptions is that deferring democracy until countries reach some middle-income status is justified. Attempts to promote democracy in the developing world prematurely are fraught with risk. This article reviews the empirical bases to these claims and the policy guidance that flows from them.

Before proceeding, let's be clear about some of the assumptions made. The debate over democracy promotion pertains to poor countries. There is widespread acknowledgement that among well-off countries, democracies do far better than other governance systems at generating prosperity and stability over extended periods. Establishing a world of prosperous democracies is the agreed-upon goal. The debate is over how poor countries can best reach this threshold.

Unfortunately, much of this debate tends to rely on anecdotes. This approach is inevitably unsatisfying since social science is rarely easily compartmentalized. There are always at least a few exceptions. Rather, we are looking for consistent patterns of experience that characterize the relationship between governance type and development. Doing so requires drawing from as comprehensive a sample as possible. For this analysis, the experiences of all developing countries (i.e. those with per capita incomes below \$2,000) since 1960 are considered using the World Bank's World Development Indicators dataset.

Categorizing regime types presents its own set of challenges. For our purposes, democracy is defined as a political system that employs mechanisms of shared power as evidenced by checks on the chief executive, established institutions for the popular selection of a country's leaders, and protected channels for public participation in the political process. The well-known Polity IV governance index assigns an annual democracy score (0-10) for every state in the world (with populations over 500,000) based on these criteria, dating back to 1800. Countries scoring in the top tier (8-10) of the Polity index are considered democracies. Those in the bottom tier (0-2) are categorized as autocracies. Accordingly, basic political rights and civil liberties are a requisite to a country being classified as a democracy. Political systems that hold elections but don't allow opposition parties to organize or that bar independent media coverage of competing views are not democracies. The notion of an "illiberal democracy" is an oxymoron.

Let's now turn to each of the arguments underpinning the authoritarian advantage thesis.

Authoritarian Governments Oversee More Rapid Growth in the Developing World

A review of the economic growth performances of all developing countries since 1960 finds democracies have, on average, attained rates of per capita GDP growth equivalent to their autocratic counterparts. This holds for each decade as well as in aggregate. In short, despite popular perceptions, there is no empirical evidence of an authoritarian growth advantage.

This is so even though 25% of the data points for autocracies have not been reported. So, growth rates for the likes of Afghanistan, Cambodia, Cuba, Iraq, North Korea, and Somalia have largely been omitted from these comparisons – simply because we don't have reliable data. As these countries are widely believed to have underperformed economically, the reported average autocratic growth rates are likely overstated. Consequently, a defining characteristic of authoritarian systems – their lack of transparency – severely constrains our ability to undertake precise analysis of how regime type affects development performance.

The absence of any systematic evidence of an authoritarian growth advantage is perhaps even more noteworthy in that it includes 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 a per capita growth rate that is 50% higher than autocracies, on average. In other words, developing country democracies like Botswana, Costa Rica, Dominican Republic, Ghana, Latvia, Lithuania, Mauritius, and Senegal have tended to grow 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.

We have focused, thus far, on economic growth rates. However, many development practitioners prefer to look at anthropometric indicators to gauge well-being as they capture distributional issues, are based on household surveys, and are generally more complete. On these human development measures, developing country democracies truly excel relative to their authoritarian counterparts. On nearly every social welfare measure available, democracies exhibit development outcomes that are 15-40% superior than that of autocracies, controlling for income. For example, 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, and cereal yields 25% greater, on average, than those in autocracies at comparable income levels. The latter is particularly relevant in that rural inhabitants comprise 70% of the population in most developing countries. Greater agricultural productivity, therefore, means not only more food but jobs, assets, and capital for investment.

These superior outcomes are obtained without massive social spending. Contrary to common expectations of fiscal profligacy in the face of populist pressures, low-income democracies do not spend relatively more on their education and health sectors, as a share of GDP, than do low-income autocracies. Nor do these democracies exhibit comparatively higher levels of fiscal deficit or accumulated debt. Perhaps most surprisingly, developing country democracies do not receive higher levels of development assistance. In fact, low-income autocracies get just as much foreign assistance, as a share of GDP, as low-income democracies. In other words, the strong showing by democracies cannot be attributed to greater resource availability. 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.

The volatile nature of autocratic economies sheds insight into certain seemingly spectacular autocratic growth experiences. Chile is a good case in point. In the 17 years of rule by General Augusto Pinochet, Chile realized 14 years of positive economic growth – branding it as a model of autocratic efficiency. What is less well recognized, however, is that Chile experienced two sharp contractions during Pinochet’s tenure. The recession of 1975 saw a contraction of 13% of GDP and in 1982-1983, the economy tanked again to the tune of 17%. Thus, despite the many years of positive growth under Pinochet, it was not until the last years of his rule that Chile sustained a level of GDP per capita above that when he seized power in 1973.

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.

Economic Growth Leads to Democracy

A second common rationale for deferring democracy is that economic growth leads to democracy. Once countries reach a middle-income threshold and the reduction of poverty, expanded middle-class, literacy, urbanization, and cosmopolitan attitudes this entails, they will naturally begin transitioning to democracy. South Korea, Taiwan, Portugal, and Spain are held up as examples of the inevitability of this sequence.

There is a practical problem with this assertion that makes it difficult to even test, however. *Namely, few autocracies have managed to reach middle-income status*. Specifically, only 16 autocracies have ever attained a per capita income above \$2,000. Those that have done so have, by and large, shown no greater likelihood of transitioning to democracy than autocracies at lower income levels. Indeed, only the four mentioned above and arguably Mexico fit this pattern. Moreover, the rate of successful democratization for countries that start this transition from middle-income status is no higher than those that attempt to democratize at lower income levels.

While the adage that growth leads to democracy is repeated so often that it is accepted as truth, the fact is that this assumption lacks empirical grounding. On the contrary, research shows that

economic decline, rather than growth, is a more powerful impetus for democratic transition. This is intuitive. Citizens everywhere grow more restless for change when living conditions worsen. Economic contraction, furthermore, strips away a major claim on legitimacy that autocracies make – their economic competency. Growth under authoritarian systems, on the other hand, is more likely to bolster the financial, military, and bureaucratic standing of these institutions than hasten the onset of democracy. Furthermore, political systems tend to be path dependent. Once established, attitudes, incentives, and power relationships are perpetuated. Democratic transitions at later stages of development may well be more difficult than those initiated earlier as they must overcome a more entrenched authoritarian infrastructure and political culture.

Another problem with the economic growth to democracy scenario is that most of its proponents don't specify the middle-income threshold countries must reach in order to be considered ready for democracy. To his credit, one prominent proponent who does is Fareed Zakaria. He sets \$6,000 as the per capita income target that should be attained before democracy is promoted. Given that 80% of the countries in the world have per capita incomes below \$6,000, Zakaria is implying that democracy is something only relatively wealthy countries can handle. Of the 87 contemporary democratizers in the world today, only four would be deemed "ready for democracy" under this standard. Poland, Brazil, Chile, South Africa, India, and the Baltic states would all be among those disqualified.

A strategy that calls for waiting for developing country autocracies to reach middle-income status before promoting democracy is a never-ending Catch 22. Given the sub-par and volatile development performance of most authoritarian governments, the practical effect would be to perpetuate the poverty trap in which many countries find themselves. The dysfunctional governance and incentive structures that are retarding these countries' development would be reinforced indefinitely. In turn, they would be perpetually judged as ill-prepared for democracy.

Democratization is Destabilizing

The third tenet of the authoritarian advantage thesis is that while democracy may be a desirable long-term goal, the process of democratization in poor, fractious societies is inherently destabilizing. The risks of premature democratization, therefore, outweigh the potential benefits.

The concern that political competition can accentuate fissures in a society leading to civil strife is reasonable. 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 – as it is for all conflict-related analysis. 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, while there is a popular perception that the world has grown more volatile

since the end of the Cold War and its “stabilizing” effects, this is not so. 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 greatest expansion of democracy in history 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.

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.

AUTOCRATIC EXCEPTIONS

To be clear, this analysis does not imply that all developing country democracies grow more effectively than all developing country autocracies. There are exceptions. However, *that is exactly the point*. As we think about models of development, we must necessarily focus on the broad patterns of experience to guide us. Cases of autocratic growth should be recognized as the exceptions they are – rather than held up as a governance prototype for other developing countries to emulate.

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. So, if we are interested in understanding the role of autocratic governance on growth, we must compare the experiences of the nine with the 85 or so other authoritarian governments over this same 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.) Doing so forces us to reject any assertion of a development advantage enjoyed by autocratic governments.

China is the contemporary poster child for the autocratic growth argument and therefore it merits special attention. China has certainly experienced spectacular growth over the past two 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. 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, or environmental catastrophe are reminders of the fragility of China’s growth. Paraphrasing Nobel laureate, Amartya Sen, there is nothing

whatsoever in China's recent economic expansion that can be attributed to the indispensability of its authoritarian system.

In earlier eras, the Soviet Union during the 1950s and 1960s, Romania and Yugoslavia in the 1970s, and Indonesia in the 1980s and 1990s were also held up as models for authoritarian growth. Like its predecessors, the challenge for China will be to sustain its economic expansion through improvements in productivity, incentives for innovation, property rights protections, the rule of law, control of corruption, and the free flow of information. The relevant question on China, then, is will it follow the development trajectory of Soeharto's Indonesia or that of South Korea, which through its pragmatic political liberalization built the institutions needed to sustain its economic dynamism?

WHY DEMOCRACIES EXCEL

What explains democracies' impressive track record of steady, broad-based development? Obviously, there are a variety of interrelated reasons. Conceptually, these fall into three categories: accountability, 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. Concurrently, periodic elections provide a strong incentive for democratic leaders to be responsive to the interests of the general public lest they be voted out of office.

Accountability, then, is what drives democracies' developmental superiority. Democracies tend to produce stronger systems of checks and balances, independent media, and rule of law than other governance systems. And these institutions yield the consistently positive results seen in democracies. 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.

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 for the government to take urgent action helps mitigate against catastrophe. In societies that lack this feedback mechanism, crises can develop without citizens 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 difficult, foster distrust. As a result, investment is withheld. The greater transparency of open societies, furthermore, is an indispensable factor in curbing corruption – a major impediment to development. Corruption may still occur but it is more difficult to conceal and the likelihood that it will be exposed is much greater.

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 that will bring a new 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. Aspiring leaders realize they must come into office through specified procedures if they are to be deemed legitimate. This constrains coercive impulses for gaining power. Instead, competing interests are channeled into the political arena. The uncertainty, disruptions, and conflict that bedevil succession processes in authoritarian systems, severely setting back development, are avoided.

POLICY IMPLICATIONS

Democracies at all income levels have performed consistently better than other governance regimes over a wide range of development measures across an extended period of time. Development models that call for “deferring democracy,” are inadvertently propagating higher levels of underdevelopment, financial and humanitarian crisis, and conflict.

Since democracy is so central to development and conflict mitigation, it should be systematically taken into consideration when development policy is designed and implemented. After all, what is government but a system by which societal priorities are identified and resources allocated? The means through which leaders attain power has a direct bearing on the policy priorities they will pursue – and who will benefit. Donor countries interested in improving development effectiveness, therefore, are obliged to ask hard questions about the legitimacy and accountability of a government. Strategically, their aim should be to get as great a share of development resources into the hands of accountable, democratic societies as possible. This, in turn, will create additional meaningful incentives for democratic reform among both democratizers and authoritarian governments. Some suggestions include:

Democratic Selectivity. Developing countries that have “self-selected” their commitment to more transparent and accountable government should receive greater levels of aid. Currently this is

not the case. Official development assistance allocated to developing country autocracies, as a share of GDP, is identical to that disbursed to democracies. This is not just a reflection of Cold War dynamics whereby the West felt the need to support certain friendly authoritarian regimes. The pattern holds even if looking at the post 1990 era. Neither does this merely capture the greater levels of emergency assistance flowing to autocracies, given their higher propensity to crisis. Even among lower-middle income countries, democracies don't receive an edge in aid.

This should change. This will require bilateral donors to explicitly and systematically make democracy a criterion in their funding decisions. Some development initiatives have started down this path, including the U.S.'s Millennium Challenge Corporation. This model should be expanded. The goal should be a system where aid is progressively scaled up commensurate with a country's commitment to accountable, democratic governance. Countries that have started down the democratic path would then have ongoing incentives to deepen and consolidate their democratic practices. This approach would also provide scope to recognize and distinguish autocracies that have created openings for democratic space from those that have not.

Some donors have given increased emphasis to "good governance" in recent years. However, this generic term is often interpreted to mean economic governance, rule of law, or corruption. All of these are important. But they fall short of the central organizing framework that a *democratic* political system provides. Democracies have built-in mechanisms by which leaders are made responsive to the priorities of the general public – and incentives to act on those preferences. Civil society oversight is an integral element of this framework, helping shift the burden of regulating aid flows from international organizations to local communities who are the intended beneficiaries of these resources. Similarly, while often presented as a parallel concept to democracy, rule of law is ultimately contingent on the legitimacy and legal authority of those who will be enforcing the law. How reliable can "rule of law" be if it is contingent on the discretion of leaders who are above the law?

This is not to say that no international assistance should be provided to developing country autocracies. Allocations for humanitarian assistance and transnational threats such as HIV/AIDS, avian flu, or polio should still be made. However, additional oversight should be attached to ensure that these resources are used for the purposes intended and not to further prop up a regime's hold on power. Analysis shows that autocracies receiving substantial levels of aid are more likely to experience higher levels of underdevelopment, conflict, and extended repressive rule – even 15 years after the aid is provided. In other words, we cannot simply assume that aid will have positive benefits. ZANU-PF's use of food assistance to reward supporters and penalize opponents in Zimbabwe is an all too real recent case in point.

Some argue that exceptions should be made for autocracies that have overseen laudable development gains and therefore have demonstrated they can use aid resources effectively. Uganda and Vietnam are commonly cited in this category. This argument overlooks how accountability structures are built and maintained, however. There are few institutional safeguards in authoritarian systems that create checks and balances on the use of these resources. Rather, ongoing compliance and cooperation is reliant on the good will of the respective leaders. The record of escalating corruption in both Uganda and Vietnam suggests that even in these "good" autocratic performers, sustained progress is tenuous. Donors must, therefore, ask

themselves whether they are contributing to the solution or feeding a larger problem that will blow-up sometime down the line. Soeharto's Indonesia provides a telling example. Donors rushed to commit resources to what seemed to be a case of astonishing success and unmitigated future growth – only to have this bubble burst. The Indonesian miracle was actually rotten on the inside, corroded by pervasive corruption in a system that lacked checks and balances.

Amend IFI Charters. The international financial institutions (IFIs) – the World Bank, IMF, and regional development banks – face particular challenges in making democracy a feature of their lending. Their charters explicitly prohibit considering the nature of a country's political system when making funding decisions. This prohibition was adopted in an ultimately unsuccessful attempt to entice Soviet participation at the end of WWII. Despite the end of the Cold War, the massive shift in global governance towards democracy over the past 15 years, and a growing recognition of the importance of governance to development, the prohibition clause remains in place. Consequently, the IFIs are hamstrung from directly addressing one of the fundamental factors undercutting the development effectiveness they seek.

The IFIs should amend their charters in favor of an explicit affirmation of democratic governance. Countries that have adopted transparent, participatory political systems that are accountable to the priorities of the general public should be given preference in funding decisions. Moreover, the IFIs should afford greater flexibility to democratically elected governments in the setting of priorities and development strategies. The IFIs would not relinquish their commitment to fiscal and monetary prudence. They would, however, recognize that there are multiple potential development pathways possible within the myriad of challenges a society faces. By so doing, they would also acknowledge that there are social costs to certain policies. Sustained economic reform is a matter of negotiating among complex competing interests so that the broader social good is advanced. This is an inherently political process. Democratic leaders, the elected representatives of the general public, are the logical focal point to balance these trade-offs that are at the heart of much economic policymaking. This is not to say that the IFIs should become engaged in domestic politics. Rather, that they consider the nature of the political institutions in a society and how these may affect development prospects.

One regional development bank is already following such an approach. The European Bank of Reconstruction and Development (EBRD), cites democratic governance as one of its two overarching objectives (along with the expansion of market economies). Democracy is seen as a desirable objective in its own right as well as an indispensable means to institutionalize mechanisms of transparency, rule of law, and protections for investors that are mainstays of a vibrant market economy. While the EBRD works with a wide range of political regimes, democracy is a constant and explicit element of this dialogue. Funding is purposively provided to strengthen the independence of the private sector, small and medium sized entrepreneurs, business associations, and a free press – vital for both vibrant economic development as well as democratization. It is hardly a coincidence that the EBRD is the one regional development bank that was established in the post-Cold War era. Given all of the changes of the past 60 years, it is time for the other IFIs to follow suit.

Diversify Channels of Aid. Development, like other policy objectives, responds to incentives. The incentives created by current development financing practices, however, are highly

ambiguous. Ninety-three percent of all development assistance, including nearly all multilateral resources, goes through national governments. In cases where national governments *are part of the problem*, however, funneling nearly all development resources targeted for these countries through them is not a solution. In cases where unelected, clientelistic governments are in place, such a practice serves mainly to perpetuate their hold on power. The potential for vicious circles is great. Worsening poverty creates an impetus for increased aid inflows, which when passed through unaccountable governments, ends up largely strengthening the patronage-based power structures on which such government rely. Economic growth remains stagnant and poverty worsens...

Even among relatively accountable national governments, funneling nearly all development resources through one channel constrains innovation. Better to diversify this funding through a variety of actors with alternate approaches. Provincial governments, the private sector, and NGOs should also be channels through which significant resources are targeted. This accomplishes several aims. Donors gain the flexibility to direct more resources to organizations that are making significant progress in addressing poverty. In turn, incentives for national governments to improve their development efforts are constantly reinforced. Multiple development actors with varying approaches also provide a patina of experimental methods that accelerate innovation. Ineffectual approaches need not be promulgated for decades before they are discarded. New ideas or organizing models can be brought on-line expeditiously. Those that are particularly promising can be scaled-up to the national level. Meanwhile, the customization of development strategies to the unique realities of the provincial or local level is encouraged.

Diversification is not intended to undermine the capacity or authority of national governments. To be sure, committed national governments are vital for coordinating all development efforts so as to minimize duplication and ensure coverage in isolated locales. Policy, national standards, data collection, research, and dissemination of lessons learned are all functions at which national governments have clear comparative advantages. Yet, too often the desirable rationale of building national government capacity is put forward to explain extended lackluster development performance. Meanwhile, *control* rather than coordination of resources and independent organizations is the focus of too many national governments where power is already highly centralized.

Encouraging Democratic Space. We often point to domestic factors when explaining democratic breakthroughs. Leadership, political history, economic crises, and coherence of the opposition among other factors all directly affect the timing and success of democratic transitions. Overlooked in this process is the critical role that international influences play in creating openings for democratic change. The end of the Cold War, prospects of East European countries joining the European Union, the modeling effect of Latin generals stepping down from power and African societies holding constitutional conventions, the strong prompting of the United States in South Korea and Taiwan, and international sanctions on the apartheid regime in South Africa are all examples of how international expectations helped shape democratic openings.

Accordingly, international actors should be mindful of the vital role that the international expectations play in democratic development. Even autocratic governments place a value on being perceived as meeting international norms. Clear signals from established democracies that

legitimacy is valued will have a magnetizing effect on encouraging greater space for independent voices. In other words, international actors should ensure there are some tangible economic and diplomatic carrots for undertaking democratic reforms. With the resulting space to maneuver, domestic reformers can undertake the heavy lifting of democratic institution building.

Advocating for independent media, the rights of trade associations, and the public accounting of all aid going into a country will simultaneously enhance development while creating democratic space. Working closely with regional bodies to institutionalize norms of democratic governance can help reinforce standards of legitimacy. The Organization of American States' democratic charter that explicitly states that democracy is the only form of legitimate governance that will be recognized in the region is a case in point. The existence of such standards also helps build support for collective action among neighboring states when such norms are violated.

Democracy Response Accounts. The initial months and years following a democratic opening are critical for changing the political rules of the game that have historically favored a privileged few. However, it typically takes donors considerable time to adjust to the new circumstances. As a result, the international community is not as influential in ensuring a democracy dividend is realized. Accordingly, international actors should create "democracy response accounts" along the lines of those used for humanitarian crises. This will be a ready source of funding to commit to economic development and political institution-building during the early stages of democratic transitions, when there is a great opportunity to build momentum for reform. Such responsiveness will similarly signal to all domestic political actors the tangible benefits for pursuing transparent, accountable, and democratic political norms.

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. However, this outcome is far from assured. If this historic opportunity is to be seized, it is incumbent on development policymakers and practitioners alike to recognize the central role that accountable, democratic government plays in a stable, prosperous world and to adapt their efforts accordingly. We treat democracy as a secondary objective at our own peril.

Joseph Siegle is the Senior Advisor for Democratic Governance at Development Alternatives, Inc. He is co-author of The Democracy Advantage: How Democracies Promote Prosperity and Peace (Routledge).