The economic development as factor of democracy.

The literature on the relationship between economic development and democracy is varied and complex. The most influential article is the Seymour Martin Lipset's thesis first proposed in 1959, which posited a causal relationship between economic development and democracy ("Some social requisites of democracy: economic development and political legitimacy" American Political Science Review, vol 53, march 1959, 69-105). We will see:

1. The Lipset's thesis: democracy is related to the state of economic development.
2. The impact of Lipset's article.
3. The limits to the relationship between economic development and democracy
4. The economic development of China without democracy
5. Institutions as factors of economic development.
6. Emerging countries, economic development, and institutions

1. **The Lipset's thesis**: democracy is related to the state of economic development. Concretely, this means that the more well-to-do a nation, the greater the chances that it will sustain democracy.

   In his article, Lipset hypothesized a number of historical and sociological processes by which economic development generated a greater likelihood of democracy. Economic development produces or facilitates democracy only insofar as it alters favorably four important intervening variables: political culture, class structure, state-society relations, and civil society.

   **Political culture.** Lipset cited a number of studies suggesting that economic development gives rise to a more democratic political culture, due in part to increased education.

   **Class structure.** Lipset suggested that the changes in the class structure (the growth of the middle class; the enlargement, unionization, and improved incomes of the working class; and the migration of the rural poor to cities and consequent disruption of clientelistic and feudalistic relations in the countryside), are interrelated in time and that their active effect was important in stimulating democracy. The moderation of the class conflict is also advanced as accompanying economic development. Lipset argued that increased wealth reduces the overall level of objective inequality, weakening status distinctions and, most important, increasing the size of the middle class. For the lower class, economic development means increased income, greater economic security and higher education. Economic development also tempers the tendency of the lower classes to political extremism by exposing them to cross-pressure in a more complex society. Increased wealth also affects the political role of the middle class. A large middle class plays a positive role since it is able to reward moderate and democratic parties and penalize extremist parties.

   **State and society.** Lipset argued that economic development changes the relationship between state and society to favor the emergence and maintenance of democracy.
Civil society. Lipset maintained, as Tocqueville, that economic development would also contribute to democracy by giving rise to a large number of voluntary organizations. Tocqueville was perhaps the first to note the mutually reinforcing relationship between participation in civil society and participation in political life. For Lipset also, a vibrant associational life checks and balances the power of the state.

2. The impact of Lipset's article.
The Lipset's article is one of the most influential political essays of the past half-century.

First, Lipset's effort to understand the social bases of stable democracy encompassed one of the most powerful and enduring themes in comparative politics.

Second, although his key thesis was remarkable simple and concise, « the more well-to-do a nation, the greater the chances it will sustain democracy », his essay was theoretically rich in identifying a nexus of causal factors leading from level of economic development to prospects to stable democracy. The key intervening variables have endured exceptionally well as explanations. To this day, these remain the key socio-economic determinants of democracy.

Third, Lipset's thesis was embedded in the larger body of modernization theory, which would mobilize evidence demonstrating that rising levels of income and education have diffuse impacts on attitudes and values, and through them on political systems.

Fourth, Lipset's hypothesis about economic development and democracy had since been supported by a vast literature of statistical studies (Adam Przeworski, Michael Alvarez, José Antonio Cheibub and Fernando Limongi, Democracy and Development: Political Institutions and Well-being in the World, 1950-1990, New York, Cambridge University Press, 2000.). Virtually every multivariate analysis of the determinants of democracy identifies economic development as a powerful factor.

Finally, most studies of the impact of economic development on political change suggest a strong relation between rising levels of economic development and the openness of the political success, and between changing social structures and the emergence of political competition. Lipset's theory has held up remarkably: all but one (Singapore) of the most developed states are democracies, and democracy have never broken down once established in a relative rich country (Adam Przeworski, Michael Alvarez, José Antonio Cheibub and Fernando Limongi, Democracy and Development: Political Institutions and Well-being in the World, 1950-1990, New York, Cambridge University Press, 2000). It is obvious that democracy and the conditions related to stable democracy are essentially located in the countries of northwest Europe and their English-speaking offspring in North America, Australia and New Zealand. It has been argued by Max Weber among others that the factors making for democracy in this area are a historically unique concatenation of elements, part of the complex which also produced capitalism in this area.

All these studies offer some impressive support for Lipset's thesis of a direct relationship between economic development and democracy, but there are also some strong indications of the limits to this relationship.
3. The limits to the relationship between economic development and democracy

First, there are now, with the « third wave » of democratization, many more democracies in the world today. This democratic expansion was followed by a « reverse wave » of democratic breakdowns in the 1990s and 2000s that was seen by a number of political scientists to negate Lipset's thesis.


Third, in a historical approach to the study of democracy, Dankwart A. Rustow, (« Transitions to democracy », Comparative Politics, 1970, 337-363) issued one of the earlier and more influential challenges to the Lipset thesis. He suggested that democracies had existed at low levels of economic development historically (eg, the US in 1820, France in 1870 and Sweden in 1890). He argued that the only true prerequisites of democracy were a sense of national unity and some kind of elite commitment to a democratic transition. But this is the working class, particularly in western Europe, which wanted for the expansion of the suffrage and the rights for parties (Dietrich Rueschmeyer, Evelyne Huber Stephens, John D. Stephens, Capitalism and democracy, Cambridge: Polity Press, 1992). According to this important book, the capitalist development is associated with the rise of democracy, in part because it is associated with a transformation of the class structure reinforcing the working class.

Fourth, contrary to Lipset's expectation, about two in every five poor countries are democracies today (India, for example)..

Fifth, the claim that oil and democracy do not mix is often used to explain why the high-income and oil-rich states of the Middle East, Central Asia, Nigeria, Venezuela... have not become democratic.

Seventh, the Lipset's thesis on the relationship between socio-economic development and democracy was called into question by the Chinese example.

4. The economic development without democracy in China.
Thirty years of economic reform in China have produced one of the economic miracles in history. But a movement toward democratic transition has failed to materialize in China. Perhaps the most intriguing question regarding political development in the post-Mao era is why China has not taken significant steps toward democratization despite more than three decades of unprecedented economic development.

First, for the Chinese leadership, democratization has not been a priority. Instead, in the face of the multiple challenges of economic development, the most important concern for China's leaders has been the maintenance of political order. In contrast, since the mid-1990s, when economic reform became irreversible and its impact had raised the standard of living, the regime has adopted a more conservative political stance toward democratization, permitting no public discussion on political reform and maintaining a policy of zero-tolerance toward dissent. The CCP's experience with the Tiananmen events and the impact of the collapse of the communist regimes in the former Soviet bloc seemed to have hardened the leadership's stance against political reform. But there are deeper causes behind the CCP's resistance to democracy.

Second, Chinese leaders have emphasized the increasing fragmentation of Chinese society. They have invoked the increased social tensions between the new rich people and those at the bottom to justify measures aimed to more top-down control. They have launched a policy of « social harmony » in order to reduce strikes and social movements. In this context, it is no surprise that Chinese sociologists have devoted much effort to the search for China's newly emerging middle class. They think that a larger middle class would be more conductive to social stability. But various Chinese studies have concluded that the Chinese middle class, though growing, is still very small. China remains far from being a society of the middle class. While the emerging middle class remains small, scholars seeking agents of political change have turned their attention to the various types of entrepreneurs. Despite more than thirty years of economic reforms, the entrepreneurial class in China is weaker than expected. A major reason for this weakness is the government's policy toward foreign direct investment (FDI) and private business. In their eagerness to attract foreign investment, China's leaders have adopted preferential policies for foreign investors but discriminate against private and domestic business (Yasheng Huang, Selling China. Cambridge University Press, 2003). The huge influx of foreign capital has helped the Chinese economy move toward capitalism, but politically its impact has been more ambiguous. The CCP's dominant strategy of co-opting emergent socio-economic elites has heightened, rather than reduced, existing tensions between the political and economic elite and a powerless, atomized mass society. The result is what Pei calls a “trapped transition” (Minxin Pei, China's Trapped Transition. The limits of developmental autocracy, Cambridge, Mass., Harvard University Press, 2006).

Third, there are main differences in China’s process of liberalization according to the other experiences both of other reforming socialist economies and other East Asian developmental states. It is important to understand why it has occurred in the absence of political change. Contrary to the assumption that high economic growth
can create more favourable conditions for democracy, rising prosperity can remove the pressure for democracy. Such appears to be the case with the Chinese experience. In all former communist countries, transition toward democracy has occurred only after a sudden breakdown of the old regime. Historically, no communist regime has ever completed an evolutionary process of democratic transition. This suggests that transition from communist regimes to democracy gradually managed by the old regime itself may be infeasible because the overwhelming advantages possessed by the regime over potential opposition groups would give the ruling elites no incentives to exit power, even through a negotiated process. Democratic transition can occur most likely as a result of regime collapse because when the ruling elites are eventually forced to undertake even limited political reform, the regime may have become so enfeebled by misrule and politically delegitimized that it is no longer possess the capacity to manage a gradual opening. In various other Asian societies, notably South Korea and Taiwan, economic development during the authoritarian regimes led to the growth of a domestic business class whose growing autonomy provided pressures for political change.

5. Institutions as factors of economic development.


However, there was a strong tendency to equate “good government” with democratic government. The contrast between the reform process in China and Russia illustrates the inadequacy of such a perspective. China’s government under Deng was widely thought to be bad. Gorbachev’s government was widely thought to be good.
This view was wrong. China’s communist dictatorship was vastly “better” at governing China than the Gorbachev and Yeltsin governments were at governing the USSR and the Russian Federation respectively. The reforming China government was vastly superior to its Russian counterpart in selecting and implementing “good” policies (Nolan Peter, China's rise, Russia's fall: politics, economics and planning in the transition from Stalinism. Basingstoke: Macmillan, 1995).

To analyse the relation between performance of institutions and successful economic development, some scholars or international organizations have revisited some measures of “institutions” used in the current economic growth literature. The growing recognition of the relation between good performance of institutions and successful economic development has stimulated efforts to monitor the performance of governments and other public institutions by multilateral development institutions and nongovernmental agencies. The World Bank has also several programs and indicators that are used in monitoring governance.

To measure institutions, the literature has focused on several sets of variables:

The first set of variables was used recently by Acemoglu, Johnson and Robinson. It is the survey of institutional quality from the International Country Risk Guide (ICRG). The data include subjective assessments of risk for international investors. The aim of this political risk rating is to provide a means of assessing the political stability of countries on a comparable basis. This rating gives risk points to a group of factors, termed political risk components: government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability and bureaucracy quality.

The second set of variables is the Kaufmann, Kraay, and Zoido-Labaton (2002) “government effectiveness” variable (Daniel Kaufmann, Aart Kraay and Pablo Zoido-Labaton, Governance matters II: Updated governance indicators for 2000-01. Working paper no 2772, World Bank Policy Research Department, February 2002). Starting in 1996, these authors have aggregated a large number of subjective assessments on institutional quality into broad indices of government effectiveness. In government effectiveness, they combine perceptions of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies. These are clear outcomes, highly correlated with the level of economic development.

Worldwide Governance Indicators are the most comprehensive publicly available governance indicators and among the most widely used by the media, academia and international organizations for assessing governance. Compiled since 1996, these data measured the quality of six dimensions of governance for 213 countries. The underlying data are based on hundred of variables and reflect the perceptions and views of experts, firm survey respondents and citizens worldwide on various dimensions of governance. The measures are also known as Kaufmann-Kraay.

The Worldwide Governance Indicators measure the quality of 6 dimensions of governance:

-voice and accountability, the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media.
-political stability and absence of violence, perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including political violence and terrorism.

-government effectiveness, about the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.

-regulatory quality, about the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development;

-rule of law, about the extent to which agents have confidence in the rules of society, and in particular the quality of contract enforcement, the police and the courts, as well as the likelihood of crime and violence.

-control of corruption, about the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

The Worldwide Governance Indicators highlight some key findings and insights. The most powerful economies are not always the best governed. The evidence on country-level governance indicates that the more powerful economies in the world do not necessarily exhibit the best governance. The Nordic countries, as well as New Zealand, have very high levels of governance. Singapore is another example of high quality governance in many dimensions, with the exception of Voice and Accountability, where it ranks nowadays in the bottom half of the world, following a significant deterioration over the past decade. Good governance is also found in countries that are not wealthy. Being wealthy does not ensure high quality governance, just as being an emerging or developing economy does not automatically translate to poor governance. In fact, one emerging economy (Chile) has higher governance scores than countries such as Italy or Greece.

All the emerging countries have not significantly improved in the quality of governance over the past dozen years. Despite the progress noted for some emerging countries, others have experienced major deteriorations since 1998 in several governance dimensions, including Argentina, Thailand, and Venezuela. Scores of other emerging countries have not experienced significant changes in either direction in recent years. Furthermore, several countries have remained in a governance crisis throughout the period, such as Venezuela.

The third set of variables is Polity IV. Polity IV data make the greatest attempt at measuring the political environment. Polity IV contains coded annual information on regime and authority characteristics for all independent states in the global state system and covers the years 1800-2010. Widely used in the academic and policy communities, the Polity data series was originally designed by Ted Robert Gurr. Constraints on the executive refer to «the extent of institutionalized constraints on the decision-making powers of chief executives, whether individuals or collectivities». The highest score for this variable is 7, the lowest is 1. The rich democracies, but also countries like India and South Africa, tend to get the perfect score of 7. Dictatorships get the worst score of 1. The concern of this variable is with the checks and balances between the various parties in the decision making process. It is an outcome measure, which reflects what happened in the last election. When countries have inconsistent electoral experiences, their scores fluctuate widely. The measure of «democracy» in Polity IV reflects the extent to which «the three essential interdependent elements» are actually adhered to. These include «the presence of institutions and procedures through which citizens can express effective
preference about alternative policies and leaders, the existence of institutional constraints of the exercise of power by the executive, and the guarantee of civil liberties to all citizens in their daily lives and in acts of political participation ».

There is also another source of data for monitoring governance:
- Freedom House, a private non-profit advocacy organization founded in 1941, was among the earliest to systematically measure and publish governance ratings. Freedom House has published Freedom in the World since 1972. It now includes ratings of political rights and civil liberties in almost two hundreds of countries. On January 2013, Freedom House has published the latest edition of Freedom in the World, the annual survey of global political rights and civil liberties. The ratings process is based on a checklist of 10 political rights questions and 15 civil liberties questions. The political rights questions are grouped into 3 sub-categories: electoral process (3 questions), political pluralism and participation (4) and functioning of government (3). The civil liberties questions are grouped into 4 sub-categories: freedom of expression and belief (4 questions), associational and organizational rights (3 questions), rule of law (4 questions) and personal autonomy and individual rights (4 questions). Raw points are awarded to each of these questions on a scale of 0 to 4, where 0 represents the smallest degree and 4 the greatest degree of rights or liberties present.

6. Emerging countries, economic development and institutions

I have used this “institutionalist” approach in one of my articles about a comparative analysis of emerging countries “Des économies émergentes ou des marchés émergents; le développement économique avec ou sans la démocratie”, Revue Internationale de Politique Comparée, vol 18, no 1, 2011, 9-52). The success of the process of transition toward democracy in emerging countries has been explained by their strong economic growth. Most studies of the impact of economic development on political change suggest a robust link between rising levels of economic development and the openness of the political success.

But the success of the democratic process is almost all the result of the impact of institutions in a large sense:
- the colonial factor and the legacy of colonisation
- the practice of free and fair elections
- the end of conflicts and the negotiation of agreements by consensus
- the alternation of democratic forces in power
- the end of military coups
- the transformation of party systems
- the decline of populism
- the fight against corruption

Some emerging countries, called semi-authoritarian regimes or illiberal democracies, fulfilled some economic performance, but the slowdown or the calling into question of the process of transition toward democracy is the result of many political factors;
- the unfair and often fraudulent conditions of elections
- the maintenance of a dominant party
- the excess of the personalisation of leadership
- the too great influence of political, social or economic elites
- the influence of the military and the intelligence
- the pressure of religious fundamentalism
- the weakness of rule of law

But there are also emerging countries which argue that democracy is not useful for economic development and market economy. They share some political factors that presents all the characteristics of authoritarian regimes:
- a one-party system.
- state or party bureaucracy
- no elections
- clientelist networks
- no rule of law, but also the presence of a strong state, with repression and censure
- the increase of social movements
- the refusal of political reform