V-Dem INSTITUTE

POLICY BRIEF

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Democracy, Autocracy and Economic Development

Urban Poverty. Photo: Nikkul at English Wikipedia

KEY FINDINGS

- Democratization in low-capacity states does ***not*** affect economic development negatively.
- Democracies have more stable and predictable economic growth. Autocracies display much higher, but also much ***lower*** growth rates.
- Democracies are ***less*** likely to experience economic crises than autocracies.

Can democracy go together with rapid economic development, or do autocracies have clear advantages in bringing countries out of poverty? Rapidly growing autocracies such as China seem to suggest the latter. However, there is little systematic evidence to indicate that democracy slows down economic development, according to two recent V-Dem Working Papers. One study (V-Dem WP 72) finds that democracy does not deter growth even in countries with weak state institutions. Building democracy before state capacity does not hurt long-term development. The other study (V-Dem WP 80) highlights the vast variation in economic development outcomes in autocracies, suggesting that democracy acts like an economic safety-net. Democracies have *lower* variation in economic growth and are less likely to experience economic crises.

The relationship between democracy and economic development has long been of interest to both scholars and policy makers. Especially in light of China's recent development many now ask: should one prioritize freedom or bread? But is there such a trade-off? If not, the case for promoting democracy becomes much clearer.

Several early studies on the link between democracy and growth found a negative relationship (see Przeworski and Limongi 1993). Yet, more recent studies, using new historical data with longer time series and more careful statistical analysis, have found a positive, although not robust, relationship (see Knutsen 2012). That is, there seems to be an overall positive relationship between democracy and development, but there are several exceptions to the rule.

Against this backdrop, two important questions are:

1. *Are there particular contexts in which democratization hurts growth?* V-Dem WP 72 (Gjerløw, Knutsen, Wig and Wilson) responds to this question.
2. *What factors explain the vast variation in development outcomes that we observe among regimes of similar type?* V-Dem WP 80 (Knutsen) responds to this second question.

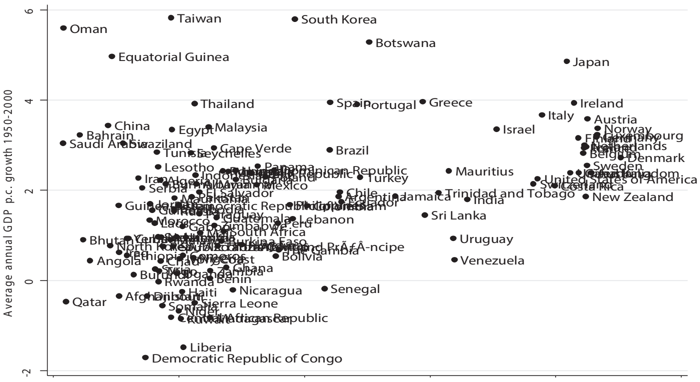
Gjerløw et al. discuss the widely held belief that the historical sequence of democratization and state building matters for economic development. One concern is that so-called "premature" democratization in weak states leads to increased clientelism, corruption and other issues that, in turn, hamper development. Simply put, many people believe that democratization before state building leads to worse development outcomes than first building state capacity under autocracy and then possibly democratizing.

The authors scrutinize this argument and then run several statistical tests using data from V- Dem going back to 1789. They fail to find ***any*** evidence that democratization in low-capacity states is bad for growth, ***or*** that the democratization-before-state-building sequence is worse for growth than the opposite sequence.

One key implication is that international actors should ***not*** support autocratic strongmen in weak-capacity states, thinking that this helps economic development. Rather, this study provides support for those actors who promote democracy in countries with weak state capacity.

Knutsen (in WP 80) shows that there is another important reason to support democratization, even if one is mainly interested in avoiding bad economic outcomes. There is some evidence that, on average, democracies perform better than autocracies on economic growth. There is ***strong*** evidence that democracies provide stability and predictability in growth and other development outcomes relative to autocracies. Autocracies vary widely between stellar economic growth over

FIGURE 1. FIG 1. ELECTORAL DEMOCRACY SCORE (POLYARCHY) AND ECONOMIC GROWTH PERFORMANCE ACROSS 1950-2000. TAKEN FROM KNUTSEN (2018).



POLICY RECOMMENDATIONS

- Support actors who promote democratization in low-capacity states, knowing that such support is unlikely to come at the cost of reduced long-term economic development.
- Avoid efforts to postpone democratization in low-capacity states in order to first build state institutions, as this is not an effective strategy for economic development.
- Promote democratization in relatively poor countries that are prone to economic crises, as removing autocratic regimes is likely to mitigate the very worst possible economic policies and outcomes.

some years and drastic economic decline. The latter is something that very seldom happens in democracies.

Knutsen also conducts a new analysis on V-Dem data going back to 1789. Using this extensive data, he finds ***clear*** evidence that autocracies have much higher variation in growth than democracies. He also finds that autocracies are ***more likely*** to experience economic crises.

Thereafter, Knutsen assesses several factors that might affect variation in growth in autocracies and fails to find support for several widely held hypotheses, including that stronger legislative constraints on autocrats enhance economic development. However, he does find clear support for the notion that institutionalized parties in autocracies relate positively to growth (see also Bizzarro et al. 2018).

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ABOUT V-DEM INSTITUTE

V-Dem is a new approach to conceptualization and measurement of democracy. The headquarters – the V-Dem Institute – is based at the University of Gothenburg with 17 staff, and a project team across the world with 6 Principal Investigators, 14 Project Managers, 30 Regional Managers, 170 Country Coordinators, Research Assistants, and 3,000 Country Experts, the V-Dem project is one of the largest ever social science research-oriented data collection programs.

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