

Democratic Institutions at Local and National Levels: Drivers for Economic Development?



World Bank/Dominic Chavez

KEY FINDINGS

- V-Dem data suggest that the electoral component of democracy correlates with economic development at the national level, but the liberal, egalitarian or participatory aspects of democracy do not.
- Economic development might help to prevent democratic backsliding.
- Local democratic institutions are the linchpin between decentralization and democracy.
- Both the ability to identify the right policies and the incentives to pursue policies in areas such as infrastructure, education and business regulation are needed for economic growth.

Democratic societies tend to be more prosperous than autocratic regimes. However, not every aspect of democracy has a positive effect on economic growth. The Varieties of Democracy Institute's (V-Dem) 350+ indicators on democracy allow more nuanced insights into the relationship between democracy and economic development than ever before. This policy brief presents the key findings of two V-Dem working papers on this topic. Working Paper 16 (WP 16) investigates the connection between electoral democracy and economic development at national level. Working Paper 39 (WP 39) sheds light on how local democracy influences economic growth.

Overview

Scholars disagree about the relationship between economic development and democracy. Przeworski et al. (2000) argue that richer countries are more likely to sustain democratic rule, whereas Acemoglu et al. (2009) claim there is no relationship at all. This disagreement might be due to the broad notion of democracy underlying these studies. The authors of WP 16 therefore propose a differentiated view on the subject and look at specific elements of democracy at a national level. The authors of WP 39 drill further down into the relationship between democracy at local level and economic growth. They argue that democratic institutions at a local level are the linchpin between decentralization and democracy.

Economic Development and Democracy: An Electoral Connection

The authors of WP 39 find a robust relationship between the electoral principle of democracy and economic development. Other democratic principles such as liberal, deliberative, participatory and egalitarian are only weakly or not related to economic development. The V-Dem Electoral Democracy Index captures the quality of the electoral process, containing five components: suffrage, freedom of expression, clean elections, freedom of association and elected executive (WP16: 9). In addition to the overall index, all of its component indicators seem to be strongly related to economic development (WP16: 18).

The authors argue that economic development increases the power resources of citizens. As elections are a focal point for citizen action, governments are less likely to manipulate elections than to restrict other components of democracy when faced with a wealthier citizenry. Therefore, economic development correlates with the electoral component of democracy, but not with other aspects of democracy (WP16: 8).

Additionally, the authors argue that once elections are in place, economic development serves as a safeguard against the deterioration of electoral democracy. In prosperous societies, the opportunity costs of leaving office are lower because career options outside of public office are easier to achieve (WP16: 25). Therefore, the incentives for political

LOCAL DEMOCRACY INDEX

Local government
elected

Free and Fair subnational
elections

Local offices'
relative power

Figure 1: Components of the Local Democracy Index (based on WP39: 11)

leaders to manipulate elections are lower. Consequently, rich countries with free and fair elections are less likely to experience vote buying or electoral violence (WP16: 4).

Local Democracy and Economic Growth

When explaining economic growth, decentralization and democracy have often been the main focus of discussion. The authors of WP 36 argue that decentralization and democracy both depend on the democratization of local institutions. On the one hand, decentralization empowers local actors to choose the most suitable policy for their region. On the other hand, free and fair elections guarantee that these actors have an incentive to act appropriately. Both the ability to identify the right policies and the incentives to pursue policies in areas such as infrastructure, education and business regulation are needed for economic growth (WP39: 4).

To operationalize the concept of local democracy, the authors have developed the Local Democracy Index, composed of three V-Dem indica-

tors: whether local governments are elected, the extent to which sub-national elections are free and fair, and the power of elected local offices relative to non-elected local offices (Figure 1). The indicators are rescaled 0-1 and then multiplied to reflect their complementary nature (WP39: 11).

Covering over 150 countries from 1900 to the present, the authors find robust evidence that local democracy predicts GDP per capita growth. Looking at specific regions in the world, the relationship is especially strong in the early twentieth century for Western countries and post-1960 Sub-Saharan countries. Sub-Saharan African states are often comparatively weak. In the absence of stable national institutions, local institutions can take a key role for policy making. The authors show that local democracy seems to improve economic growth in particular in such contexts (WP39: 27).

POLICY IMPLICATIONS

- Fostering economic development might help to improve the electoral aspects of democracy.
- Strong local institutions may foster economic growth because they incentivize local politicians to select policies that benefit development and local public goods.
- Particularly in weak states, support for democratic, local institutions should be considered a priority.

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ABOUT V-DEM INSTITUTE

V-Dem is a new approach to conceptualizing and measuring democracy. The project's multidimensional, nuanced and disaggregated approach acknowledges the complexity of the concept of democracy. With four Principal Investigators, two Project Coordinators, fifteen Project Managers, more than thirty Regional Managers, almost 200 Country Coordinators, several Assistant Researchers, and approximately 2,600 Country Experts, the V-Dem project is one of the largest-ever social science data collection projects with a database of over 15 million data points.



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