



## *The Relationship Between Economic Growth and Democracy: A Conceptual Approach*

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### **Abstract**

The focus of this study is to reveal the relationship between economic growth and democracy conceptually. All countries want to increase their per capita income and the welfare of society through economic growth. In this context, another critical issue for countries is to ensure stable and sustainable economic growth. Numerous factors such as technology, human and physical capital, total factor productivity, domestic investment, saving, international trade and foreign direct investment affect economic growth. Democracy which is considered as an indicator of corporate governance, good governance and political stability is among the factors affecting economic growth. There is an opinion in this process that economic growth and democracy are closely related and that they will affect each other positively in terms of the relationship between them. In this context, the idea arises that democracy will develop in countries with a certain level of development and that democracy will positively affect economic growth by ensuring institutional control and strong institutional structures and by guaranteeing civil and property rights.

**Keywords:** Economic Growth, Democracy, Conflict Approach, Compatibility Approach, Skeptical Approach.

**Article Type:** *Research*

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## ***Ekonomik Büyüme ve Demokrasi Arasındaki İlişki: Kavramsal Bir Yaklaşım***

### **Özet**

Bu çalışmanın odak noktası ekonomik büyüme ve demokrasi arasındaki ilişkiyi kavramsal olarak ortaya koymaktır. Tüm ülkeler ekonomik büyüme yoluyla kişi başına gelir düzeylerini ve toplumun refah düzeyini artırmak isterler. Bu bağlamda, ülkeler açısından önemli olan diğer bir husus ise istikrarlı ve sürdürülebilir bir ekonomik büyümeyi sağlamaktır. Ekonomik büyüme üzerinde etkili olan birçok faktör bulunmaktadır. Ekonomik büyümeyi etkileyen bu faktörlerin arasında kurumsal yönetim, iyi idare ve siyasi istikrarın bir göstergesi olarak kabul edilen demokrasi yerini almıştır. Yaşanan süreçte ekonomik büyüme ve demokrasinin yakından ilişkili olduğu ve aralarındaki ilişki açısından birbirlerini olumlu yönde etkileyecekleri yönünde bir görüş bulunmaktadır. Bu bağlamda, belli bir gelişme düzeyine gelen ülkelerde demokrasinin gelişeceği ve demokrasinin de kurumsal denetimin ve güçlü kurumsal yapıların oluşmasını sağlayarak ve sivil haklar ve mülkiyet haklarını güvence altına alarak ekonomik büyümeyi olumlu etkileyeceği görüşü ortaya çıkmaktadır.

**Anahtar Kelimeler:** Ekonomik Büyüme, Demokrasi, Çatışma Yaklaşımı, Bağdaşma Yaklaşımı, Şüpheli Yaklaşım.

**Makale Türü:** *Araştırma*



## 1. INTRODUCTION

Many studies ([Kormendi and Meguire, 1985](#); [Barro, 1991](#); [Fischer, 1993](#); [Chen and Feng, 2000](#); [Chirwa and Odhiambo, 2016](#)) consider economic growths through exploring economic factors. However, non-economic factors can also affect economic growth and the literature related to these factors are scarce. For this reason, this research aims at adopting democracy as a non-economic factor that affects economic growth to provide evidence to demonstrate the role of non-economic factors for growth. Democracy can be considered amongst the critical factors that affect economic growth. Economists and political scientists are intensely examining the relationship between economic growth and democracy ([Lipset, 1959](#); [Heliwell, 1994](#); [Barro, 1996](#); [Rodrik, 2000](#); [Djezou, 2014](#)). With the increasing wave of liberalism in the 1980s, democracy was defined as one of the institutions of the free market economy. In this period, democracy, which became more popular with the concepts of corporate quality and good governance, was put forward as a prerequisite for a stable economic growth. Moreover, with the effect of the transformation of global democracy in the liberalization process in the 1980s, contrary to the idea that democracy is a result of economic growth, the idea that democracy is a prerequisite for economic growth was started to be accepted ([Adejumobi, 2000, p. 3-4](#)). At this point, a new debate has begun on whether democracy is the cause of economic growth and whether it is a factor affecting economic growth. Accordingly, there has been a growing interest in researching the relationship between economic growth and democracy has increased particularly since the 1980s. Therefore, the aim of this study is to reveal the approaches to explain this close relationship between economic growth and democracy.

The debates on the impact of democracy on economic growth date back to the 17th century ([Hobbes, 1967](#), [Harrington, 1656/1992](#)). Some scholars have argued that democracy contributes to economic growth, while the other have argued that democracy prevents economic growth. Lipset ([1959](#)) argued that democracy is effective on the economic growth of countries and is related to the level of economic growth, thus, it is possible to establish democracy in that society only after reaching a certain level of economic growth. Economic growth increases income, education and social communication, brings high and low income groups closer together, and expands the middle class, which increase the possibility of stable democratic governance ([Lipset, 1959, p. 73](#)). Lipset ([1959](#)) examined the relationship between economic growth and democracy and found that the relationship between economic growth and democracy was positive. This study leads many social scientists to examine the relationship between democracy and economic growth theoretically and empirically. In addition, the "third wave" in the democratization process stimulated the interest in the relationship between economic growth and democracy. Today, one of the main objectives of all countries is to improve the level of economic growth and democracy. It is therefore important to explain whether democracy affects economic growth, the nature of the relationship between economic growth and democracy, and whether democracy is necessary for economic growth. However, it is not possible to say that a full consensus has been reached in terms of the relationship between democracy and economic growth. While some studies have claim that the relationship between



economic growth and democracy, other studies claim a negative relationship or no relationship. For this reason, this study demonstrates three main approaches that discuss the relationship between democracy and economic growth. In this context, some economists ([Lipset, 1959](#); [Needler, 1967](#)) state that economic growth will lead to a social mobilization, which, they argued, would lead to a regime change in the direction of political mobilization and democracy. New ideas that emerge as a result of economic growth and / or industrialization lead to the formation of new social classes and strata that guide social transformation. Therefore, the transformation triggered by economic growth may affect democracy positively or adversely. On the other hand, other scholars have argued that the democratization process develops the economy in a short time ([Olson, 1983](#); [Przeworski and Limongi, 1993](#); [Leblang, 1996, 1997](#)) However, in democratic societies where individuals have legal rights and liberties, civil rights and liberties are secured, individuals can express themselves freely in the legal order and their different views freely. individuals are safe about their possessions, indicating that democracy promotes or prevents economic growth. However, some scholars claim that there is no systematic relationship between democracy and economic growth, so that democracy and economic growth are unrelated. Because of the two reasons: First, the democratization process being under the influence of many factors (civil rights and liberties, political stability, political rights, education, etc.), economic growth is not sufficient to ensure a more advanced democracy. Second, economic growth is also influenced by many factors (technology, human and physical capital, total factor productivity, domestic investment, foreign direct investment, international trade.), so that a democratic government can only affect economic growth to a limited extent ([Heo and Tan, 2001, p. 463](#); [Baum and Lake, 2003](#)). Due to many factors (human and physical capital, domestic investment, foreign direct investment, technology, civil right and liberties, political rights, education, etc.) affecting economic growth and democracy, it is claimed that democracy cannot be achieved only with economic growth or the existence of democracy alone is not sufficient for economic growth.

## **2. APPROACHES TO DEMOCRACY AND ECONOMIC GROWTH**

There are three main approaches that explain the relationship between democracy and economic growth. These are “Conflict approach”, “Compatibility approach” and “Skeptical approach” ([Sirowy and Inkless, 1990](#)).

### **3. CONFLICT APPROACH**

Conflict approach is based on the idea that democratic government hinders economic growth. Democracy and economic growth are incompatible. The presence of an authoritarian regime is necessary for achieving a successful and rapid economic growth. Authoritarian regimes can better achieve economic growth thanks to their high central powers. In addition, autocratic regimes can accelerate economic growth as they can easily limit consumption and pressure to increase savings, generate more income through taxes, dictators are more independent in policy making and can invest more productively ([Karakayali and Yanikkaya, 2006, p. 140](#); [Bhagwati,](#)



2002, p. 152). The supporters of this view assert three factors: First, it is argued that the dysfunctional consequences of a timeless democracy will slow economic growth. Second, democratic regimes cannot generally ensure the effective implementation of policies that will enable rapid economic growth. Considering the developments in the historical process, it turns out that state intervention is a necessity in the economic growth process (Sirowy and Inkeles, 1990, p. 129-130). One of the reasons that economic growth and democracy are incompatible with each other is that their success in the election prevents the elected ones from making sound decisions for the future (Comeau, 2003; Narayan, Narayan and Smyth, 2011), which makes them willing to fulfill the wishes of interest groups pursuing rent. For example, trade unions want employers to reduce their profits and, thus, economic growth slows down. Hence, democracy has a negative impact economic growth (Barro, 1996; Tavares and Wacziarg, 2001; Collier and Hoeffler, 2009; Aisen and Veiga, 2013; Rachdi and Saidi, 2015). On the other hand, Because autocratic regimes are more stable, isolated from redistributive politics, which allows them to enact policies conducive to long-term growth, do not carry out lobbying actions, autocratic regimes can lose their legitimacy in front of the public in the worsening of the economy and remain when the economy is good, and dictators have an interest in increasing economic growth (Comeau, 2003; Karakayalı and Yanıkkaya, 2006; Bardhan, 2004; McGuire and Olson; 1996), the conflict approach suggests that authoritarian regimes enable the implementation of policies suitable for long-term growth (Narayan, Narayan and Smyth, 2011, p. 901).

Hobbes (1967) is the first known advocate of this approach. Hobbes (1967) argued that authoritarian regimes are more likely to increase public welfare because that is the only way for authoritarian regimes to protect their interests. Huntington (1968) also argued that democracies have weak and sensitive political institutions and would allow fulfillment of the demands that would please the public at the expense of profitable investments (Doucouliagos and Ulubaşoğlu, 2008, p. 63). Democracies create pressure for more consumption, which reduce investment and adversely affect economic growth (Przeworski & Limongi, 1993, p. 51). In contrast, in autocracies, current consumption can easily be reduced, and thus savings can be increased more easily (Şanlısoy, 2010, p. 195). According to this approach, democracy is a less effective aid in ensuring a long-term stable economic growth. Because in democracies, the presence of unions and lobbying activities and the desire to maximize the success of the elected make them vulnerable to the wishes of those seeking rent and special interest groups such as unions (Krueger, 1974; Olson, 1982). This situation prevents the elected ones from making sound decisions for the future and slows down the economic growth (Narayan, Narayan and Smyth, 2011, p.901). Social and political stability indirectly provided by the authoritarian regime accelerates economic growth due to the separation of external influences and focusing on purpose (Sirowy and Inkeles, 1990, p. 130). Therefore, according to the conflict approach, what is initially necessary for the development of the country is discipline rather than democracy. Democracy leads to undisciplined and disorganized behavior that hinders economic growth. At this point, there is a “cruel dilemma” between democracy and economic growth.



Economic growth can only be achieved by waiving democracy (Bhagwati, 2002). Therefore, the existence of autocracy is necessary for countries to reach a certain level of economic growth. Democratic institutions should be established and developed after the economic growth reaches a certain level.

#### 4. COMPATIBILITY APPROACH

The Compatibility approach offers an opposing view to the Conflict approach in terms of the relationship between democracy and economic growth. This approach emphasizes the necessity of political pluralism, institutional controls and balances in order to protect against predatory behavior or systematic violations associated with authoritarian management (Narayan, Narayan and Smyth, 2011, p. 901). Freedom of expression and association, the existence of multi-party elections, the rule of law, the protection of human rights and separation of powers, which emerge as a result of democracies, constitute the necessary institutional conditions and processes for economic growth. However, democracies positively affect economic growth by creating an environment that provides more innovation and facilitates the venture process, by facilitating the transfer of economic authority, and ensuring a stable investment environment and efficient use of resources (Adejumobi, 2000, p. 4-5; Bhagwati, 2002). According to North (1993), well-regulated and compulsory property rights are necessary conditions for economic growth, and they become stable when political and civil rights are secured. Otherwise, there is always a threat of arbitrary violation. In addition, contrary to the confrontational approach, this approach claims that rent-seeking may be limited due to the existence of audits and balances that occur with democratization (Narayan, Narayan and Smyth, 2011, p. 901). Mancur Olson (1983), one of the important representatives of this approach, suggested in his study "Rise and Fall of Nations" that the institutional structure of the political system has a definitive effect on economic growth. Democracy is better suited for economic growth than preventive autocracies (Olson, 1993). Olson (*ibid*: p. 573) "While experience has shown that relatively poor countries will grow at an extraordinary rate under the direction of a strong dictator, such growth only occurs during the management of one or two dictators. It is not a coincidence that all countries that have reached the highest growth level and have performed successfully throughout generations are managed with a stable democracy". Olson (1993) claims that the reason for the superior economic performance of democracies is based on their commitment to protect property rights (Heo and Tan, 2001). Based on the Compatibility approach, democracy and economic growth work in a very harmonious way, supporting each other. Authoritarian rules may produce economic growth more rapidly in the short term in some cases, but democratic rule provide further opportunities to achieve sustainable, sector-balanced and fair growth in the long term (Sirowy and Inkeles, 1990, p. 134).

#### 5. SKEPTICAL APPROACH

Finally, the skeptical approach suggests that there is not a systematic relationship between democracy and economic growth. The main reason is to ensure stability and effective



implementation of policies rather than the type of regime (Comeau, 2003, p. 2). This approach emphasizes the variability in the level of economic performance in more autocratic and more democratic regimes (Clague et al., 1996; Adejumbi, 2000; Friedman, 2014). As a result of this variability, rather than the existing institutional arrangements and the determined government strategies, the focus should be how such factors as political party system that can change independently of the democratic feature of a system (single or multi-party system), the level of state intervention in the economy, the way of industrialization (labor or capital intensive), and cultural environment can be harmonized with the development goals such as economic growth and democracy. In this context, the direct relationship between democracy and economic growth is disrupted by the effects of these factors (Sirowy and Inkeles, 1990, p. 134). In other words, according to the skeptical approach, since the democratization process is under the influence of many factors, economic growth is not sufficient to ensure a more advanced democracy. Likewise, since economic growth is under the influence of many factors, a democratic administration can have a limited impact on economic growth.

From the well-known article of Lipset in 1959 onwards many researchers (Banks, 1970; Barro, 1996; Rodrik, 2000; Piatek, Szarzec and Pilc, 2013) have started to examine the relationship between economic growth and democracy. Since the 1980s, research on the relationship between economic growth and democracy has developed both theoretically and empirically. In some of the studies conducted to reveal the relationship between democracy and economic growth, a positive relationship between these two variables was displayed (Lipset, 1959; Cutright, 1963; Adelman and Morris, 1967; Cutright and Wiley, 1969; Banks, 1970; Dasgupta, 1990; London and Williams, 1990; Chatterji et al., 1993; Bhalla, 1994; Leblang, 1996, 1997; Feng, 1997; Nelson and Singh, 1998; Przeworski et al., 2000; Rodrik, 2000; Heo and Tan, 2001; Yay, 2002; Dollar and Kraay, 2003; Fidrmuc, 2003; Arslan and Doğan, 2004; Kriekhaus, 2006; Narayan and Smyth, 2006; Papaioannou and Siourounis, 2008; Başar, Güllüce and Yıldız, 2009; Rock, 2009; Başar and Yıldız, 2012; Benhabib, Corvalan and Spiegel, 2013; Jaunky, 2013; Knutsen, 2013; Piatek, Szarzec and Pilc, 2013; Djezou, 2014; Saatcioglu and Karaca, 2015; Şahin, 2017). While some of the studies on this subject put forward a negative or weak relationship between economic growth and democracy (Cohen, 1985; Landau, 1986; Grier and Tullock, 1989; Persson and Tabellini, 1994; Barro, 1996; Tavares and Wacziarg, 2001; Kurzman, Regina and Burkhart, 2002; Tang and Yung, 2008; Yang, 2008; Collier and Hoeffler, 2009; Narayan, Narayan and Smyth, 2011; You, 2011; Aisen and Veiga, 2013; Rachdi and Saidi, 2015), the other studies display no relation between these two variables (Marsh, 1988; Levine and Renelt, 1992; Barro and Lee, 1993; Heliwell, 1994; De Haan and Siermann, 1995; Alesina et al., 1996; Heo and Tan, 2001; Yay, 2002; Butkiewicz and Yanikkaya, 2006; Doucouliagos and Ulubasoglu, 2008).

The idea that economic growth was the main target for countries (especially third world countries) and that democracy would be ensured after the economic growth was prevalent in the 1960s and 1970s. In the 1980s, in many countries, the transition to democracy began with the transition to a free market economy. Experience in this transition period showed that



economic growth should be supported not only by transitioning to a liberal economy but also by supporting it with democracy. As a result of these developments, contrary to the previous idea that democracy was the result of economic growth, the idea that democracy is necessary for economic growth started to prevail. In this context, although there are different approaches to explain the relationship between economic growth and democracy, it is possible to gather these approaches in three groups as the Conflicting approach, the Adaptation approach and the Skeptical approach (Sirowy and Inkeles, 1990). According to the Conflicting approach, economic growth and democracy are incompatible; when one increases, the other decreases; that is, economic growth and democracy cannot happen at the same time. According to the Adaptation approach, which claims the opposite of this approach, economic growth and democracy cannot be considered separately; they are compatible and support each other. There is a positive relationship between economic growth and democracy. Finally, the Skeptical approach suggests that the relationship between economic growth and democracy is not clear and there is no relationship between these two variables.

The existence of an accountability mechanism, the rule of law, the participation of society in management and the change of administrators who cannot manage well, corporate quality and good management, freedom of expression and association, guaranteeing property rights, civil rights and freedoms, protection of human rights, separation of powers and competitive political policies are in question in democracies. Today, it can be said that societies are increasingly demanding these elements, which are the result of democracy. As a result of these factors, democracy has caused the efficient use of resources and increased productivity in production, increased investments, political stability, increased education level of individuals, individuals leading a peaceful life and increased income per capita and, thus, it can be said that there is a direct or indirect positive interaction between economic growth and democracy.

## 6. CONCLUSION

Economic growth is the main economic goal of countries to achieve better living standards. Economic growth increases the welfare level of societies in many ways by providing more employment opportunities, increasing per capita income and stimulating the economy, etc. It is important that sustainable and stable growth should be achieved as well as ensuring economic growth. At this point, besides the economic factors (Technology, human and physical capital, investments, industrialization, etc.) affecting economic growth in order to ensure stability in economic growth, Democracy, which is necessary for the formation of corporate good management, civil and political rights, strong institutional structures, property rights, social satisfaction and political stability, comes to the fore, as well. Therefore, it can be said that there is a strong and close link between economic growth and democracy.

There are many theoretical and empirical studies expressing the positive relationship between economic growth and democracy (Lipset 1959; Cutright 1963; Adelman and Morris, 1967; Banks, 1970; Dasgupta, 1990; London and Williams, 1990; Chatterji et al. 1993; Bhalla, 1994;

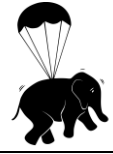




Rodrik, 2000; Papaioannou and Siourounis, 2008; Jaunky, 2013; Saatcioğlu and Karaca, 2015). On the one hand, it can be said that democracy will be established when countries reach a certain level of economic growth; on the other hand, democracy will have a positive impact on economic growth by ensuring political pluralism, institutional control and balance, property rights along with political and civil rights, by establishing stronger institutions in managing economic crises, of democracy, and. It is revealed that it will have a positive impact on economic growth, and by providing a stable investment environment. In addition, democracy is necessary to achieve long-term and sustainable economic growth. Therefore, it can be said that economic growth and democracy supply each other positively. As a matter of fact, economic growth and democracy are widely believed to have a positive effect on each other.

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