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A Review on the Relationship Between Political Freedom and Economic Development

Mohamed Abdulkarim

mam181984@gmail.com

Kahramanmaras Sutcu Imam University

orcid.org/0000-0001-9364-2595

Ahmet Yilmaz Ata

yilmazata75@gmail.com

Kahramanmaras Sutcu Imam University

orcid.org/0000-0001-5928-8801

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Abstract

The Arab Spring has urged reviewing the political and economic variables` association. There is no consensus in the literature about this relationship. This article reviews the related literature and highlights some guidelines for forming a suitable model to study this relationship accounting for criticisms of various models. Thus, this study recommends that (1), empirically, democracy should be decomposed into its determinants, (2) economic development should include GDP per capita and the development quality indexes, (3) using the V-dem dataset could improve future studies' credibility because it avoids most pitfalls of rival datasets, (4) causality study aids in designing policies to improve economic stability, and (5) using a cross-sectional sample to emphasize the countries specifications` differences when studying the aforementioned relationship.

Keywords: *Democracy, Economic Development, Political Freedom*

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1. Introduction

The economic development of any nation in the world mostly results in its society's stability (Paldam, 1998). A substantial number of social scientists have theorized and empirically tested the association between various political variables and economic development. Nevertheless, a clear consensus has yet to emerge on the significance of the political variables and economic development relationship, Drury et al. (2006). The context of Arab spring events has necessitated reassessing the abovementioned relationship. Although some countries are growing very fast whether political freedom is present in their political system, the Arabs, automatically and randomly, believe that their inability to exploit their resources, the low standards of education systems, and all other problems are caused by the political system and the ruling elite. The system prevalent in most Arab countries, for example, is not a participatory system; instead, it is totalitarian and authoritarian. This belief led the pro-change youth to the conviction that the solution's beginning is to change the existing political system and transform it into a system that avails everyone to participate in decision making. According to these individuals, this initiative will help eliminate the deteriorating situation in all the life domains in their countries.

However, scientific evidence may exist in the literature, which may support or contradict the Arabs` thoughts about the causes of their countries' bad economic and social performance. For instance, Bashir and Xu (2014) found that economic freedom and political stability positively impact economic development even if there is no political freedom in a country. Their findings entirely oppose the belief prevailing amongst most Arabs, where Arabs think that their main problem lies in zero political freedom. On the other hand, Acemoglu and Robinson (2013) explain why Egyptians protested their political regime in 2011. According to Acemoglu and Robinson, Egyptians have protested injustice, low standards of education, low standards of services provided by the state, corruption, and inequality. They quoted the tweet of Mohamed ElBaradei, a famous politician in Egypt, which is Tunisia: lack of oppression + lack of social justice + ignoring the channels of peaceful change = a time bomb. This statement may describe what motivated Arabs to protest their regimes. Also, Acemoglu and Robinson (2013) mentioned that Egyptians and Tunisians think that the lack of political rights is the leading cause of economic problems. Therefore, it was evident that protesters thoroughly think that political reasons lie at the root of these problems. All the economic obstacles they faced are belonged to the monopolization of political power by a small elite group. That is the first thing that needs to change. Egyptian citizens are convinced that change, improving the current economic and social situation, start by increasing political rights and allowing young people to participate in the state's decision-making process.

Moreover, for any nation to become more prosperous and more vital, the political system must be transformed into a more democratic and representative system with a fair distribution of power and political rights within the society. However, some countries that achieved high growth rates without any transformational political systems, such as China, suggest that growth can be realized through several exploitative political institutions. Elites can redistribute high-production activities that control temporary resources (e.g., from agriculture to industry). However, the problem is that this kind of growth is not sustainable in the long run because when the economic resources run out, this will reflect on rapid growth and lead to an economic crisis. When the state experiences an economic crisis, it will certainly have a political crisis after the economic crisis. Soviet Russia's rapid growth is an example that occurred in the Soviet Union. Since development is only strictly under state control, the alternatives were not found available when the functioning institutions changed, which led to an economic crisis that culminated in a massive political crisis. Based on the similarities of the state's monopolizing practices, the same scenario is highly likely to happen in China sometime in the future (see Acemoglu and Robinson, 2013; Yilmaz, 2018).

This belief and arguments lead us to investigate to establish whether the starting point of reaching sustainable development is correlated with having a system that espouses political freedom. However, previous studies that examined the relationship between democracy and economic development suggest that this relationship is unclear and needs further investigation. Nevertheless, many researchers believe that the ambiguity is due to the models used. Therefore, the purpose of this paper is to review the existing studies and endeavors to suggest an improved approach to study the relationship between political variables and economic development. This study will review empirical studies that investigated the relationship between political variables and economic development. It will assess the previous studies` selection of variables and methodology, i.e. dataset sources, method of analysis, and selection of the countries' group, to obtain robust results on the relationship between the abovementioned variables. After that, it evaluates different arguments on political variables and economic development relationship before surveying empirical studies. This paper also reviews various methodological challenges and presents suggestions for constructing valid models for empirical research on the topic.

In this context, the first part of this paper will review the literature on the models and methodologies employed in studying the relationship, as mentioned earlier. After that, a new approach will be devised to study the relationship between political rights and economic development by incorporating any dimensions that previous studies lost sight of. Such reach of a robust approach will help to get a deep understanding of this relationship. Finally, the last section concludes.

2. Literature Review

2.1 Theory

Several practical research papers have been written on the importance of institutions in determining economic development. Acemoglu et al. (2001), for example, found that colonial corporate legacies account for the current income of many countries in Africa per capita. Rodrik et al. (2004) support this argument with their findings showing that institutions are more important than geography and trade in determining the level of sophistication in a country. Moreover, Chris and Ulubasoglu (2004) emphasized that five types of institutions influence the markets. These types are property rights, regulatory agencies, institutions for macroeconomic stability, social insurance institutions, and conflict management agencies. These institutions operate in a wide range of economic and social activities, such as protecting and promoting asset accumulation, preventing fraudulent and uncompetitive behavior, managing financial and monetary organizations, providing people with economic security and trust for life, building bridges, and coordinating them.

Specifically, political institutions' effect on economic development and welfare has been widely discussed in the literature. Acemoglu and Robinson (2013) identified Nogales's city on the U.S.-Mexico border as a case study to describe the political institutions' effect on economic development. The city is divided into two parts, one on each side. The welfare of children in this example set a stark comparison where on one side, some of them are close to extreme poverty and get low services, and in many cases, they have to leave school due to low income. On the other side of Nogales, the children receive a high-quality education, health care, and other services. These reasonable standards of living, on one side, is due to the political freedom from their perspective whereby citizens are entitled to govern their life issues and justice and the rule of law. The authors used this example to showcase that Nogales is a city with the same geography and people, however, people in the city's fatty part (of the same origin) have better levels of services, simply because of the level of political freedom applied, than their fellows. Although rapid growth is possible under authoritarian regimes, the authors argue that these regimes cannot resist for long until they turn into economic and political crises. The Soviet Union, Congo, and Spain in the 18th century are outstanding examples of proving this theory. The regimes in these states had the same characteristics in common that eventually caused them to fail. The three states had no sense of democracy in their political institutions. Although they achieved rapid and short-term growth, that growth was temporary and unstable.

Further, North (1986) says that weak institutions in low-income countries result in high processing costs rather than promoting economic development. Keefer and Khemani (2004) claim that the low functioning of democratic institutions can explain inadequate levels of public services in many countries. When voters lack knowledge, they can't coordinate effectively or have credible political parties to coordinate their interests, politicians have less incentive to provide public goods, and they rely more on direct political exchanges, such as buying votes or favoritism.

Nevertheless, the question that arises here is whether the type of political institutions' governance, i.e. participatory or non-participatory, plays a role in determining economic development. Çukurçayır and Tezcan (2011) underlined that the institutional structure is a factor in both social and economic structure. They also stressed that the provision of individual rights and freedoms in economic, social, and political areas of political rights, civil and economic freedoms also demonstrate the importance of these factors. Thus, regardless of whether the political institutions' structures are free or not, these structures will differ, and therefore there will be differences in their societies and economic performance. Besides, Chris and Ulubasoglu (2004) mentioned that Good institutions are obtained by reinforcing people's rights in the constitutions along with public awareness. Democratic behavior can facilitate the processing and gathering of public knowledge that result in the best possible combination of institutions for society. In a similar vein, Çukurçayır and Tezcan (2011) mentioned that democracy, which ensures that the people govern the country and that the people are influential in governance, can make significant societal changes. Besides, Tunçsiper And Biçen (2014) indicated that many studies concluded that the political institutions and the governance of these institutions play a huge role in economic performance. They also pointed out that there is a strong trend towards believing that the countries at the high level of growth and prosperity cannot be judged only by capital accumulation, qualified workforce, and technological development but also the difference in the institutional structure is an essential determinant of the level of economic development and prosperity.

Consequently, reviewing the role of democracy in determining the economic development in the literature reveals four trends to describe this association. The first trend argued that democracy is fundamental to reach economic development. The second one sees that economic development is essential to reach democracy, or there is a minimum level of development that paves the way to make a democratic change. The third one presents a negative association between democracy and economic development while the final one suggests that there is no evidence proving that democracy plays a significant role in economic development.

Firstly, Ken Farr et al. (1998) suggest that granting people rights is essential and necessary for increasing economic prosperity. Feng (2001) found that political freedom affects the individual's decision to invest in the asset market and that a strong link between political institutions and private investment applies to developing countries. He also found that the change towards democracy will alleviate the adverse effects of the political system's change, while moving away from democracy will intensify its adverse effects. He thinks that for countries where political change has become urgent, a gradual process toward openness and comprehensive democracy will help creating stability and support for the market, leading to better political conditions for economic development. Moreover, Abdul Fatah et al. (2012) examined the effect of democracy on economic development. They studied this relation for China, Indonesia, and Malaysia, where they used political rights once and civil rights another time as a proxy to democracy. They found that political rights in that region are more important than civil rights in affecting economic development. While only Malaysia records notable growth associated with political rights, China and Indonesia have shown insignificant growth and displayed a weak relationship between those variables.

Furthermore, Anwar and Cooray (2012) found that the advances in political rights and civil liberties have significantly impacted South Asia's economic development through their interactions with financial development. Guseh and Oritsejafor (2007) suggested that political freedom seems to be a key predictor of Nigeria's economic development. However, political freedom promotes economic development, reduces the government's negative impact on the economy, and increases international economic exchange benefits. Therefore, developing a politically independent institutional framework that protects economic freedom is essential for promoting economic development.

Additionally, Mbaku and Kimenyi (1997) pointed out that societies who choose more politically open government systems provide their economies with a much more favorable environment for growth. Their results support the argument that political freedom would expand the scope of opportunities offered to the individuals and provide them with the resources necessary to be more effectively involved in the development and poverty reduction process. Nevertheless, Barro (2002) argued that the Aristotle-Lipset hypothesis seems correct from a political and institutional perspectives because economic development tends to be accompanied by expansions of democracy. Dawson (2003) studied the effect of political freedom and economic freedom and found that political and individual freedoms are ahead of the level of economic freedom and many of its core constituents.

Interestingly, Tavarez and Wacziarg (2001) found that democracy increased human capital accumulation but lowered the physical investment rates in 65 industrial and developing countries. They concluded that democratic institutions strike a balance between measurable economic costs and social benefits. This conclusion may go in line with the findings of Chris and Ulubasoglu (2004), who found that political freedom had a positive and significant effect on the total factor productivity and human capital accumulation. However, this effect was negative and significant on physical capital accumulation and labor growth. They also found that the total impact of political and economic freedom on growth (direct and indirect) is positive. On the other hand, Nalley and Barkley (2005) suggested that both political rights and civil liberties have a positive and statistically significant relation with GDP per capita. They concluded that more democratic societies tend to have higher levels of GDP per capita.

However, Santhirasegaram (2007) points out that democratic and economic freedom are sources of social and economic capital and contribute to developed nations' long-term economic development. Having empirically studied 70 developing countries between 2000 and 2004, he found no positive relationship between democracy and economic development. He suggests that there are necessary conditions to reach a significant level of development. These conditions are a minimum level of control for democracy and some restrictions on economic freedom. Moreover, he adds that most developing countries seeking democracy had copied the democracy restrictions and rules from the West without proper sociopolitical institutions. This note may suggest that there is a need to build good institutions when adopting democracy.

Put differently, Rodrik (2000) studied the effect of democracy on the economy's long-term performance and found that living under an authoritarian is a more dangerous gamble than living under a democratic one. However, in the short-term, he suggested that democracy strongly reduces the volatility in economic performance. He also found that the countries most affected by economic shocks tend to have little political freedom, while countries with open political regimes have done much better. Additionally, Lajili and Gilles (2018) pointed out that democracy has an indirect positive effect on financial and human capital development by supporting international trade.

Secondly, the second trend suggests that economic development plays a significant role in achieving political freedom. It is an inverse relationship which assumes that a certain level of economic development is necessary to transition from full government control to democracy. For example, Ken Farr et al. (1998) found evidence that economic prosperity leads to political freedom, but there is no mutual evidence that political freedom implies a single-variable line of causality to the level of economic prosperity. Barro (1999) also showed that countries with low economic development levels typically do not maintain democracy. He found that a positive trend in GDP and schooling rates per capita will mean an upward trend in democracy.

On the other hand, Polterovich and Popov (2007) studied the relationship from a different angle. They considered that introducing democracy overnight may not be the best way to transform authoritarian regimes. They stated that the construction of democracy, like market-type reforms, should be gradual rather than shock therapy. It should also be associated with strengthening the law and order where democracy, participation in decision-making and civil society are valuable development goals, and harmful practices should not be compromised. These findings are consistent with demanding a minimum level of economic performance, which leads to economic development and, therefore, democracy.

Furthermore, Stroup (2007) found that economic freedom has more impact on the quality of life than democracy. Vega-Gordillo and Alvarez-Arce (2003) also found that economic prosperity facilitates democratization. In a similar vein, Haan and Siermann (1996) found that disappointing growth performance may lead to political instability.

Thirdly, Tavarez, and Wacziarg (2001) highlighted that the overall impact of democracy on growth is negative and moderate. Gasiorowski (2000) also found that democracy in underdeveloped countries produces higher inflation and slower economic development.

Finally, many studies discovered that the relationship between democracy and economic development is insignificant, affecting economic development. For instance, Burkhart and Lewis-Beck (1994) concluded that there is a one-way relationship between democracy and economic development such that economic development enhances political rights, not the other way around. Butkiewicz and Yanikkaya (2005) found no simple and straightforward relationship between sociopolitical instability and growth and that this relationship is relatively weak. However, they presented that sociopolitical instability has more significant negative effects in the middle- and high-income countries with acceptable democracy levels than in low-income countries with weak democracy levels. Their conclusion supports Rodrik's (2000) results, who claimed that living under an authoritarian regime is a riskier gamble than living under a democracy.

Interestingly, Bashir and Xu (2014) found that economic freedom and political stability positively impact economic development even if there is no political freedom in a country. This finding suggests that economic freedom with political stability is likely to happen without political freedom. Bahmani et al. (2006) found an insignificant relationship between democracy and economic development.

Reviewing the related literature, especially the empirical studies, suggests that the relationship between democracy in general, including political rights and civil liberties, and economic development is unclear and needs further investigation. Many researchers believe that the ambiguity is due to the models used where these models play a significant role in drawing different inferences (Vega-Gordillo and Alvarez-Arce, 2003). Thus, building a model to study the abovementioned relationship is still an open research subject and needs more review to get into certainty.

2.2 Empirical

Elff and Ziaja (2018) emphasized renewed interest in measuring democracy and explained why it failed in some places. Therefore, this section will assess the model specification (selection of models` variables, sources of data, methodologies, and sampling methods) used in previous studies. It will then suggest a better fit recommendation to researchers that would help designing an empirical model to study the economic development and democracy relationship.

As an attempt to explain the ambiguity resulting from model specification, there have been many attempts to uncover the factors contributing to that vagueness. For instance, Bollen (1990) pointed out that for more than two decades, quantitative cross-national research has presented conflicting evidence on the impact of political democracy on growth. Moreover, Helliwell (1992) highlighted that the differences in results are due to differences in the time frame, country coverage, and unequal match-up of political and economic measures. Additionally, Vega-Gordillo and Alvarez-Arce (2003) pointed out that an empirical study depends on the choice of methodology, size of the sample, several control variables, and a wide range of variables needed for many countries over a long period. Nevertheless, they suggested that this task should not be underestimated by complexity.

2.2.1 The Model`s Variables

The impact of democracy on growth is open to deep thinking and research. To recommend an empirical model to examine the role of democracy in economic development, this section will review the relevant literature to suggest a definition to democracy, taking into account criticisms of previous studies.

Przeworski and Limongi (1993) claim that although politics is essential, differences between regimes are not easy to capture. Political institutions such as parliaments, parties, trade unions, and countries with competitive elections could be governed by military dictatorships or democratic management. They concluded that it does not seem like democracy or authoritarianism alone that makes the difference; it is something else. Further, Nalley and Barkley (2005) described that political freedom has two dimensions; the first one is the political rights, which is described as a situation where citizens are entirely free to participate in the political process, where elections are fair, competitive, and without corruption. The other dimension is civil liberties, including press freedom, freedom of organization, freedom of religion, and freedom of expression. In a similar vein, Freedom house (2019) suggested that political rights consist of three components: the electoral process, political pluralism and participation, and government functioning. Freedom House (2019) also suggested that civil liberties include associational and organizational rights, the rule of law, and personal autonomy and individual rights. Conceptually, BenYishay, and Betancourt (2014) pointed out that the critical factor distinguishing between the two aspects of democracy is that civil liberties provide immediate satisfaction to citizens while political rights can only do so indirectly. Empirically, these fundamental differences and other associated differences between civil liberties and political rights create an environment in which these two aspects of unparsed democracy change in many ways.

Moreover, José Aixalá and Fabro (2009) highlighted that to examine the relationship between political and economic development, researchers who were most interested in growth over the past decade accounted for two main dimensions, i.e. economic freedom, political freedom. They pointed out that a lack of theoretical consensus on the relationship between political freedom and growth can be solved empirically by splitting political freedom into political rights and civil liberties. They proposed that political rights generate civil liberties. BenYishay and Betancourt (2014) also found that splitting the democracy into two components, i.e. political rights and civil liberties provides a comprehensive framework for analyzing democracy. They think that a secondary contribution at the practical level provides evidence of relative persistence sizes in both dimensions. While civil liberties have more excellent permanence than political rights, it does not result in permanent effects for political rights. Their empirical results suggest that promoting existing civil liberties to create a sustainable electoral democracy in the future will probably be more effective than promoting existing political rights. Furthermore, while the population of Arab countries is unaware of the difference between the two dimensions, distinguishing between political rights and civil liberties leads us to examine the impact of democracy on different aspects of economic development.

In light of the economic development variable, economic development refers to the overall increase and improvement in living standards and quality of life. Economic development measures the qualitative aspect of a nation's progress through various models such as life-expectancy, human development, and literacy levels (Liu, 2016). Reviewing a sample of the previous studies that examined the relationship between economic development and the political variables reveals that the majority of these studies considered the growth of real GDP per capita as an independent variable to study economic development (Butkiewicz and Yanikkaya, 2005; Haan and Siermann, 1996; Feng, 2001; Anwar And Cooray, 2012; Dawson, 2003; Farr And Wolfenbarger, 1998; Rodrik, 2000; Gasiorowski, 2000; Helliwell, 1992).

Nevertheless, Barro (2002) establishes that many cross country studies on economic development focus on determinants of narrow economic variables. Hence, the most common variables are the GDP per capita ratio and the investment to GDP ratio. He emphasizes the need to focus on determining the quality dimensions of economic development rather than just GDP per capita. Moreover, Vega-Gordillo and Alvarez-Arce (2003) acknowledge that empirical results are open to criticism because they depend on the choice of methodology and the size of the sample. With that in mind, they suggest that several control variables must be included in the model for the analysis to be robust. Also, data on a wide range of variables is needed for many countries over a long period. Sala-I-Martın et al. (2004) examined the robustness of explanatory variables in cross-country economic development regressions. They found the most significant relationships between economic development and the relative price of an investment, primary school enrollment, and the initial real GDP per capita. Besides, the measures of human capital and health (such as life expectancy, the proportion of a country lying in the tropics, and malaria prevalence), religion dummies, and some sectoral variables such as mining are strongly associated with economic development.

To sum up, when empirically studying the relationship between the political variables and economic development, this section suggests that democracy as an independent variable should be decomposed into its determinants, i.e. political rights and civil liberties. This study also recommends that economic development as a dependent variable should include GDP per capita and the indexes of quality of development, which are strongly related to economic development. Quality of development indexes could be represented by the relative price of an investment, primary school enrollment, the initial level of real GDP per capita, life expectancy, human resources development index, inequality of income distribution, and malaria prevalence. It is noteworthy that the quality of development indexes could be used as a primary variable or a control variable.

2.2.2 The Model`s Methodology

2.2.2.1 Dataset Sources

One of the main model's specification is the dataset source for the selected variables. There is no problem with the economic variables' sources because they come from formal government or international institutions. However, a problem may arise while choosing the source of the political variables. Different approaches are used to measure various political variables in different countries across the world. Some indexes which measure democracy have been found to report human rights. Then, they have soon been developed to measure the political variables such as political rights, civil liberties … etc. (Fariss and Dancy, 2017). Therefore, explaining different political variables' measuring methods calls for explaining the democracy indexes measures. This section will explain the different types of indices, their methodology, and assessment.

Interestingly, the first approach to measure political rights is the freedom house index (FHI), which is a 7-point scale, as a measure of political freedom. Civil and political rights are measured through categorized questions. Categories help in generating raw values for all the questions asked. The values are often in the form of points. An increase in the number of points is an indication of an increased complimentary valuation. The next step is to aggregate the points to fit them on the 0-40 political rights spectrum. After aggregating the 0-40 political rights spectrum points and 0-60 civil liberties, points are transformed to fit the abovementioned 7-point scale. The lower the point on the scale, the higher the country's freedom (Freedom House, 2019). For example, a country with a score of 1 is considered to have more freedom than a country with a score of 5. Any value of the index between 3 and 5 indicates that a specific state has partial free political rights. Citizens of countries with higher freedom exercise their political rights freely and independently.

The second approach is the democracy index, which splits the political rights into five distinct groups. The five groups can also be viewed as the democracy dimensions (Unit, 2020). The first category is pluralism and the electoral process, which presents the ways through which people vote. It determines the ability of the electoral process to reflect the overall picture of a population's choice. The second category is government functioning, which details the government's capacity to protect people's political rights. It is the government's responsibility to protect its citizens' rights, and the political ones are not an exception. A third category is political participation, which looks at how citizens participate in the political processes of their country (Unit, 2016). The fourth category is the political culture that determines the political life as a group of political traits possessed by different people. A final category is the civil liberties that grant people the freedom of participation in any civil duties. The approach involves bundling 60 indicators and later summarizing them (Salgado, 2020). Experts assess the primary evaluation of the indicators. The survey process is critical because the approach works with the world's values obtained from different surveys. Some countries do not have survey results. The survey results of similar countries are used to fill any missing data. Every indicator mentioned above gets ranked on a 0-10 scale, with 10 representing the highest level of political rights and 0 representing the subject's lowest value. The approach categorizes regimes into four categories.

The first one is the authoritarian regimes with a score below four while the hybrid regime scores between 4 and 6. Flawed democracies score between 6-8. Finally, the score for the full democracies ranges between 8 and 10 (Yevdokimov et al., 2018)

The third approach is the democracy ranking index (EIU index) that ranks different countries' democracies. Remarkably, a country with a high level of democracy has a high political rights score. According to the approach, quality democracy is a sum of non-political elements' performance and political systems' traits (Wike et al., 2017). High-quality adherence to political rights can be concluded from analyzing conservative political systems. Therefore, the EIU index is a more integrated approach, as it includes other aspects that indicate the quality of political rights.

Put differently, the polity project index (PPI) covers both quantitative and comparative analysis. It also covers major independent global systems across the world. This index assesses the qualities of autocratic and democratic authorities. The institutionalization of democracy is the primary focus of the index. The index uses a 21-point scale to assign values between -10 and +10 (Boese, 2019). It is possible to divide democratic regimes into three main categories, i.e. autocracies (-10 and -6), anocracies (-5 and +5), and democracies (+6 and +10). PPI has six elements that record the critical qualities of political competition, executive author constraints, and executive recruitment. An updated version, namely Polity 5, covered 167 countries from the effective global system from 1800 to 2018 (The Polity Project Website).

Lastly, V-dem is different from EIU as the latter presents dozens of indicators, while V-Dem presents hundreds of them. V-dem uses extant indices, factual data, and in-house coders to determine the level of adherence to political rights. It has various scales and ranges. There are regular updates to the index due to the rapid changes in different states regarding political rights. Its advantage is that it uses factual data from official government documents, which help in providing ratings. Its measurement model has minimized code errors such that it depends on the methodological and theoretical experts from different teams in the world to present reliable data (Coppedge et al., 2017).

After reviewing many studies which investigated the relationship between the different measures of political variables and economic development, we found that most of them have used the FHI while just a small number of them have used the PPI measure. Furthermore, Giannone (2010) pointed out that despite the significant criticism of its methodology, many researchers who are interested in a comprehensive variety of different aspects of democracy often use the FHI measure. The FHI index is presented as a base to discuss and express views, conduct research, and support interpretive assumptions.

Similarly, Elff and Ziaja (2018) have studied the method factors in 23 democracy indicators from four popular data sources, namely The Economist Intelligence Unit (EIU), Freedom House Index (FHI), Polity IV, and the Varieties of Democracy (V-Dem) project. After examining these sources, they suggest that the largest method factors can be observed for some of the Polity IV indicators. They indicated that although FHI displays less bias on the cross-sectional data, its average score was the worst of all sources when assessing changes. They also highlighted that the previous studies had confirmed an ideological bias of the FHI source. Elff and Ziaja (2018) added that very few sources of studies had used the EIU's democracy index as a diagnosis of moderate method factors. They also noted that the essential addition to the recent group of democracy data producers was the V-Dem Project. The size and diversity of V-Dem's expert group contrast, which is based on a much smaller number of experts, mainly citizens of the United States, embodied existing data sources, such as the Polity IV project and FHI data.

To sum up, FHI data does not offer a politically neutral time series due to methodology changes and the strict interdependence between methodological and political aspects both for research and policymaking. Despite the low bias of the cross-sectional data, FHI does not perform well when assessing changes as disaggregated data is not publicly available. Several studies have suggested this source's ideological bias (see Elff and Ziaja, 2018; Giannone, 2010; Boese, 2019). The PPI suffers from redundancies and misconceptions due to omission of participation logic and unclear aggregation rules. It also exhibits the most considerable variance common to some of the polity indicators. For instance, the Polity project emphasizes the logic of ruler selection rather than on participation (Elff and Ziaja, 2018; Munck and Verkuilen, 2002; Boese, 2019).

Regarding the V-dem index, it is noteworthy that there is a significant advantage to the index, which is that many experts contribute to preparing its results. The project experts come from the most studied countries, while FHI and other indexes depend on in-house experts to study most countries. Besides, the V-dem index relies upon a massive time series and a vast number of studied countries. Nevertheless, the V-dem project has been released after 40 years from the rivals, which gives it a considerable advantage to avoid all the methodological problems in the other measures as well as becoming the new standard in democracy measurement which adapts to future challenges (Boese, 2019). Finally, despite some method factors in preparing the V-dem, there are still few studies on the political variables that used the V-dem project dataset. The V-dem project team has also worked hard towards qualifying the indicator (Elff and Ziaja, 2018). Therefore, this study suggests that using the V-dem index may improve future studies' credibility because it avoids most of the other indexes' pitfalls. Re-examining the relationship between the political variables and economic development through this dataset would allow interested researchers to draw more robust inferences about the interaction between economic and political variables.

2.2.2.2. Method of Analysis

This section describes the statistical methods used to study the relationship between political variables and economic development in the literature. Two main methods are used to study the aforementioned relationship, namely causality analysis and regression analysis.

Few studies in the literature have examined the relationship's causality while the majority have used the regression analysis. Among the studies reviewed, some studies investigating the causality between political variables and economic development suggested that a higher economic development level is associated with better political freedom. On the other hand, a group of studies emphasized that economic development does not depend on political freedom, but rather economic development is negatively affected by political freedom. For instance, Dawson (2003) indicates that long-term impacts are statistically significant and show that greater political/civil freedom is causing better economic development. This finding supports Vega-Gordillo And Alvarez-Arce 's (2003) findings who highlighted that the impact of political freedoms on economic development is much less noticeable, resulting in faster growth and economic freedom. On the other hand, Ken Farr and Wolfenbarger (1998) pointed out that political freedom does not cause economic well-being but the other way around. Finally, Gasiorowski (2000) found that democracy in underdeveloped countries produces higher inflation and slower economic development.

Put differently, out of the reviewed studies which used the regression analysis, this study has found that some of them concluded that the relationship between political variables and economic development is straightforward and robust (see Feng, 2001; Anwar and Cooray, 2012; Guseh and Oritsejafor, 2007; Mbaku and Kimenyi,1997; Chris and Ulubasoglu, 2004; Adam and Filippaios,2007; Nalley and Barkley, 2005; Santhirasegaram and Selvarathinam, 2007; Tavarez and Wacziarg, 2001). Another group of studies reported that political variables are not related or, in the best case, there is a weak or indirect correlation with the economic development (see Butkiewicz and Yanikkaya, 2005; Bashir and Xu, 2014; Haan and Siermann,1996; Fazleen et al., 2012; Bahmani et al., 2006; Stroup, 2007; Rodrik,2000; Lajili and Gilles, 2018; Przeworski, 2007).

Additionally, Dawson (2003) studied the causality for a methodological reason. He considered that the studies that examined the political variables and economic development regression used the variables` averages, making it difficult to draw inferences from the correlation and causation. He argued that averages make it more challenging to conclude causation since all the intermediate effects are summarized into a single explanatory variable. Therefore, it becomes impossible to attend to the timing of different events and their effect on growth. Also, Vega and Alvarez (2003) studied the nature of causality of the relationship. They believe that the interaction between political variables and economic development can form various cause-effect chains. They suggest that it is essential to study the relationships' causality because it is vital in designing development-oriented policies.

Moreover, Farr and Wolfenbarger (1998) pointed out that studying this relation from the causality side is also essential. They think that limited empirical evidence exists to support any possible interrelationship. They also suggest that the causality study improves the decision-making in general on two levels, the economic and political levels. Gasiorowski (2000), however, supported the methodological reason for using causality methodology in studying the relationship between political variables and economic development. He considered that the causality is more rigorous in studying this relationship and leads to more accurate conclusions.

To sum up, this study suggests that the causality study of the relationship between political and economic variables is essential and needs further investigation. The ambiguity in the relationship between economic development and political variables suggests that it needs more investigation to prioritize the decisions that should be making for development. Is there should start by giving the people their political rights to reach development or starting with economic development to reach political rights. Consequently, causality analysis provides better support for the decision-making process, which helps design policies to maintain economic stability and sustainability. It is worthy to note that regression analysis is an analytical tool that provides a better view of the current situation rather than improving the decision-making process.

2.2.2.3. The model`s Group of Countries

Gasiorowski (2000) highlighted one of the methodical issues in studying the relationship between political variables and economic development. He mentioned that most studies are based on samples that include both developed and developing countries, which leads to misleading inferences. This problem is originated from the fact that the political and economic conditions may differ substantially between countries. Furthermore, he suggested that extra care must be taken in selecting the group of countries. This suggestion goes in line with Ken Farr et al.'s (1998) suggestions. They divided the selected group of countries into two main categories. They made the point that the risk of using pooled cross-sectional time-series data is that cross-country differences may be so significant as to overwhelm any time-series information available in the data. They also mentioned that the distinctive, and perhaps unique, characteristics among countries could result in significant differences in the levels of economic freedom, political freedom, and economic well-being. If this country-specific information is not controlled for, it may bias the results and provide an inaccurate picture of any true relationship among the studied variables.

Additionally, Tunçsiper and Biçen (2014) mentioned that the results must be measured according to the countries' group to account for the differences in economic and political conditions between different countries. Brunetti (1997) noted that most empirical studies report no relationship between democracy and economic development, and only few studies, under individual specifications, find significant positive or negative relationships. This suggests that the exact result applies only to some chosen subset of countries and years. This conclusion refers to the necessity of using a cross-sectional sample containing homogeneous characteristics in terms of conditions and specifications.

For instance, Chris and Ulubasoglu (2004) differentiated countries according to the population size because they may have idiosyncratic factors in determining real income. Further, they removed oil-producing countries from the sample because they mainly rely on natural resources for production, and a considerable portion of their GDPs do not represent value-added. This methodology is in line with Barro (1999) where he considered that the oil country dummy is significantly delusive because the high level of per capita GDP associated with oil production does not have a positive linkage with the other variables. As a result, reviewing the above studies suggests that a cross-sectional sample that reflects the differences between each group of countries' specifications should be used when studying the relationship between political variables and economic development.

3. Conclusion

This paper reviewed several existing empirical and theoretical studies to suggest an improved approach to study the relationship between political variables and economic development. It assessed previous studies` selection of variables and methodology to obtain robust results about the relationship between the abovementioned variables. Then, it evaluated different arguments on political variables and economic development relationship. It also surveyed several empirical studies and reviewed various methodological challenges to present suggestions for constructing valid models for empirical research on this topic.

This study recommends that when empirically studying the relationship between the political variables and economic development, democracy, as an independent variable, should be decomposed into its determinants, i.e. political rights and civil liberties. It also suggests that economic development, as a dependent variable, should include GDP per capita and the indexes of quality of development, which are strongly related to economic development. Quality of development indexes could be represented by the relative price of an investment, primary school enrollment, the initial level of real GDP per capita, life expectancy, human resources development index, inequality of income distribution, and malaria prevalence. It is noteworthy that the quality of development indexes could be used as a primary or a control variable.

Moreover, this study proposes using the V-dem dataset to improve future studies' credibility because it avoids most of the pitfalls of the other datasets. The re-examining of the relationship between political variables and economic development through this dataset would allow interested researchers to draw more robust inferences about the interaction between economic and political variables. Furthermore, this research recommends that the causality study of the relationship between political and economic variables is essential and provides better support for the decision-making process, which aids in designing policies to maintain economic stability and sustainability. It is worthy to note that contrary to regression analysis, which is an analytical tool that depicts the current situation rather than improving the decision-making process, causality analysis studies the two-way relationship. Additionally, this paper suggests that a cross-sectional sample that reflects the differences between each group of countries' specifications should be used when studying the relationship between political variables and economic development.

The recommendations proposed in this work are relatively simple and general. A future work to extend this study's suggestions is to build a model to study the relationship mentioned above to enhance the inferences.

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