

The Effect of Democracy and Political Stability on Economic Growth: Empirical Evidence from BRICS-T Countries (2002-2020)

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Demokrasi ve Politik İstikrarın Ekonomik Büyüme Üzerindeki Etkisi: BRICS-T Ülkelerinden Ampirik Kanıtlar (2002-2020)

Abstract

This study examines the impact of democracy and political stability on economic growth in BRICS-T countries from 2002-2020. A panel data analysis investigated the relationship between democracy, political stability, the absence of violence, and economic growth. Results indicate that the democratisation process positively impacts economic growth, while political stability has a negative impact. Additionally, the study found a positive effect on economic growth from the population, inflation, and public expenditures variables, while the variables of gross fixed capital accumulation, foreign direct investment, and urbanisation did not have a substantial effect on economic growth.

Keywords : Democracy, Political Stability, Economic Growth, Panel Data Analysis.

JEL Classification Codes : P00, O43, O47, C23.

Öz

Bu çalışma, politik iktisat çalışma konularından demokrasi ve politik istikrarın ekonomik büyüme üzerindeki etkisini 2002-2020 dönemi için BRICS-T ülkeler örnekleminde araştırmaktadır. Bu amaçla, demokrasi ve politik istikrar ve şiddetin yokluğu ile ekonomik büyüme arasında panel veri analizi gerçekleştirilmiştir. Analiz sonucunda demokratikleşme sürecinin ekonomik büyümeyi olumlu yönde etkilerken, politik istikrar ekonomik büyümeyi olumsuz yönde etkilediği tespit edilmiştir. Ayrıca nüfus, enflasyon ve kamu harcamaları değişkenlerinin ekonomik büyümeyi olumlu yönde etkilediği; brüt sabit sermaye birikimi, doğrudan yabancı sermaye yatırımı ve kentleşme değişkenlerinin ise ekonomik büyüme üzerinde anlamlı bir etkiye sahip olmadığı sonucuna varılmıştır.

Anahtar Sözcükler : Demokrasi, Politik İstikrar, Ekonomik Büyüme, Panel Veri Analizi.

1. Introduction

Sustainable economic growth, one of the main goals to be achieved in every country, is a process that can be explained by evaluating many factors together. In the literature, it is accepted that factors other than labour and capital, such as natural resources, international trade relations, economic policies implemented by governments and demographic characteristics, are important factors affecting economic growth. Nevertheless, the magic behind the economic growth process has not been fully explained. Today, it is emphasised in studies that the level of democracy and political stability of a country has important effects in determining its economic growth potential.

The interaction between economics and political science in economic decision-making spans centuries. Notably, the influence of political ideologies and the prevalence of politician-led economic management significantly affect this relationship. Consequently, this interplay has emphasised the political implications inherent in economics (Caporaso & Levine, 1992: 7). Political economy is a scientific branch that explains the rules, boundaries, and functions of economics and political science and presents opinions on whether the state is in the economic system (Savaş, 2016: 2). Classical economics is one of the first concepts introduced in this academic discipline. Classical economics argued that the state should be involved in education, health, security, and public works while private property should be legally secured under the 'minimum state intervention principle.' On the other hand, neo-classical economics aimed to prioritise the scientific aspect of economics by proposing that solutions to economic problems should be formulated solely within the framework of mathematical models, separate from politics (Telatar, 2004: 12).

Economic crises and recessions have required the state's existence in the economic system. However, the effectiveness of these policies has remained limited while seeking solutions to the crises and economic recessions in the economic systems with monetary and fiscal policies, which are quantitative economic policy tools. Efforts towards the efficiency of economic policies have been made in areas such as the tax system, the existence and prevalence of public institutions, the type and functionality of the market mechanism, the foreign trade regime, and the exchange rate policy, which can be described as the structure of the economy, and the need for regulation has emerged to increase the fundamentals of the economy, such as freedom of belief and thought, freedom of choice and election, equality in education, and the existence of a governmental system (North 1990: 3; Savaş, 2016: 26). These developments, particularly since the second half of the twentieth century, have made it important to examine political regulations with economic analysis techniques and have paved the way for the emergence of a new understanding of political economy. Democracy and political stability stand out as interesting issues in the new understanding of political economy, with their possible effects on economic indicators (Shen, 2002: 11; Cervellati et al., 2006: 215).

Lipset (1959) declared a critical relationship between democracy and economic growth. Since democracy is a costly property, it may have a negative impact on economic

growth in developing countries. Therefore, democracy is an optimal form of government, particularly for developed countries. Empirical literature indicates that political stability in developing economies can reduce risk and uncertainty and promote investments (Alesina et al., 1996; Abeyasinghe, 2004; Shabbir et al., 2016; Baklouti & Boujelbene, 2018). The BRICS-T countries are among the developing countries with significant international trade, high population, and a share of global GDP. The economic significance of the BRICS-T (Brazil, Russia, India, China, South Africa, and Türkiye) countries has motivated our choice of country sample for this research topic. The lack of investigation into the relationship between democracy, political stability, and economic growth, specifically in the BRICS-T sample within the existing literature, further reinforces our research motivation. The availability of the dataset was the determining factor in selecting the years 2002-2020 as the research period, but this decision also poses a limitation. Annual indices on democracy and political stability have weakened the possibility of making a time series in terms of time dimension for the research period. Therefore, panel data analysis was utilised to increase the scientific validity and reliability of the research. Previous literature has evaluated the impact of democracy and political stability on economic growth in various country groups, including D8, MENA, MINT, OECD, and Sub-Saharan African nations. This study examines the effect of democracy and political stability on economic growth in a specific context.

This study investigates the relationship between democracy, political stability and economic growth in the BRICS-T countries from 2002 to 2020. After the introduction, the study will be divided into four sections. The theoretical section explains the relationship between democracy, political stability, and economic growth, while the literature section presents information on empirical studies examining these issues. After introducing the dataset and econometric method in the methods section, the analysis section will present the empirical findings, and the study will conclude with the conclusion section.

2. Theoretical Background

The study's theory section outlines the semantic framework of the concepts and the transmission channels through which democracy and political stability impact economic growth.

2.1. The Relationship Between Democracy and Economic Growth

The historical background of the concept of democracy dates back to the life of the city-state, Athens, during the Ancient Greek period (Dahl, 1998: 9). The concept of democracy, which is derived from the words *demos*, meaning people, citizens, and *kratos*, meaning power, governance in the ancient Greek language and expressed as *demokratia* in the pre-Christian era, is defined in the Turkish language as 'the self-government of the people' in its classical meaning (Nişanyan, 2012: 126). Especially until the 19th century, the concept of democracy remained a concept that was considered utopian by philosophers in the fields of political science and philosophy and was suggested as not an ideal form of

government (Sartori, 1987: 182). In the last few centuries, the liberation movements that started in the US and Europe and the developing socio-economic conditions have enabled social masses to be more effective in administrations. This social movement has brought popularity to the concept of democracy and has been effective in starting the democratisation processes of the states (Huntington, 1991).

The importance attached by countries to economic growth after World War II has made it important to research the economic factors with a direct effect on economic growth and external factors with an indirect effect. Establishing a relationship between democracy and economic growth has also become the subject of research by political economists and political scientists in economics. The United Nations Development Program sources (UNDP, 2002) indicate that most developed countries have democratic systems, and 42 out of 48 countries with high human development levels are governed by democracy. However, this explanation raises an important question: Have countries developed economically because they are governed by democracy, or is democratisation a result of economic development?

The Lipset hypothesis primarily explains the relationship between democracy and economic growth in literature. Lipset (1959) considers the capitalist system and the existence of a developed country economy necessary for completing the democratisation process. According to this idea, not the effect of democracy on economic growth but the effect of economic growth on democracy should be mentioned. In line with the Lipset hypothesis, democratisation results from economic development. Based on the view put forward by the Lipset hypothesis, the conflict approach, sceptical approach, and compatibility approach, explaining the relationship between democracy and economic growth, can be mentioned.

The *conflict approach* was developed based on the ideas of Lipset (1959) and Huntington (2006). Lipset considers democratisation due to the stages of industrialisation, urbanisation, high welfare and education level. Therefore, according to Lipset, the transition to democratisation will not have been fully realised in developing countries, which have not completed their industrialisation and urbanisation processes. Huntington argues that resource use inefficiency, a result of the weak and fragile structures of political institutions in developing countries, is the possible cause of dysfunctions in psychological and institutional modernisation processes. Hence, democracy is defined as a costly luxury government for developing countries. The *sceptical approach* argues that many factors can influence economic growth, and therefore, a continuous and meaningful relationship cannot be established between democracy and economic growth. Different economic policies applied in similar political regimes and those implemented in different political regimes may yield different results on economic growth (Gerring et al., 2005: 324). The *compatibility approach* defines democracy as a form of government of the people by the people, in which economic freedoms and property rights are protected, and a free-market economy and press freedom are supported (Sirowy & Inkeles, 1990: 132). According to the compatibility approach, economic growth can coexist with democracy, depending on the emergence of innovative and competitive technologies, the conversion of savings into investments, and

the realisation of effective resource allocation in countries that have completed the democratisation process, even if they are developing economies (Olson, 1996).

The World Bank aims to eradicate poverty worldwide by 2030. Accordingly, the aim is to reduce poverty to 3% (Yueh, 2020: 360). North (1988; 1990), who investigated why very few countries led a more prosperous life, focused on the effectiveness of institutions and drew attention to incentive policies increasing manufacturing and export for economic growth. The education system spread throughout society, the power to create innovation by turning savings into investment, and the rule of law in response to this question. Many studies investigating the relationship between democracy and economic growth also state that this relationship can be realised not directly but indirectly, particularly by increasing the effectiveness of institutions. Adejumobi (2000) claims that the democratic approach will be effective in the development of institutional conditions and processes that will contribute to economic growth and development in the presence of freedom of thought, expression and organisation, the rule of law, the protection of human rights, and the principle of separation of powers. Bornschieer (2002) considers that the independence of the media and the judiciary, the principle of separation of powers, and the effective functioning of internal parliamentary control mechanisms, expected in societies with the dominant pluralist democratic approach, will increase the trust of individuals in institutions and each other. In Bornschieer's democracy and economic growth model, the sense of confidence in society will also improve, and this interaction will contribute to the increase in the efficiency of the education system with the development of democracy understanding. The development that democracy will bring about in education, science, and technology will also support the economy's growth through this transmission mechanism. In a different model, Bhagwati (2002) argues that entrepreneurial activities come to the forefront more in democratic societies than autocrats. According to Bhagwati, democracy will permanently affect economic growth through the effective functioning mechanism of the markets in an economic system where markets are spread and competition is fair in democratic societies. These studies in the literature researching the relationship between democracy and economic growth in the samples of developing and developed countries indicate that democratisation and economic growth processes can be experienced simultaneously within the framework of the compatibility approach.

2.2. The Relationship Between Political Stability and Economic Growth

Political stability is the interest of scientists who put forward ideas on economics and political science, but there is no clear definition of this concept. Arora (1970: 1203) defines the concept of political stability as the long-term continuity of political, administrative, and structural arrangements. In his work, Hurwitz (1973: 452) defines the concept of political stability as implementing structural management and implementation strategies in a legitimate constitutional order under the control of a stabilised government without political and social violence events. Although the concept of political stability is associated with the continuation of the term of office of the current government in the first place, the examples of Germany after World War I, the Socialist Soviet Union in the following years, and North

Korea in the more recent period demonstrate that political instability may occur during the periods of the same administration and government.

A report published by The United Nations Development Program (UNDP) in 2002 shared the view that the understanding of reconciliation and tolerance expected to exist in democratic governments reduced political instabilities and economic crises by decreasing internal conflicts. However, this view is not a definite result. Although political instability is a rarer problem in democratic societies compared to autocratic regimes, political instability can be experienced in both forms of government. Alesina & Perotti (1993: 3) explain the sources of political instability with constitutional and unconstitutional government changes, social unrest, and political violence phenomena. While the head of the country's administration is regarded as the source of political stability in autocratic forms of government, overthrowing this understanding of government will cause political instability. In democratic government forms, polarisations in the parliament, coalition governments, frequent early elections, voters' indecision, and the administration and timing of the elections are shown as the factors revealing political instability (Eren & Bildirici, 2001: 31).

The main research area in which political instability represents the subject of economics research is related to the effects of this phenomenon on macroeconomic indicators, especially economic growth. Studies on political instability and economic growth reveal the different transmission channels through which political instability affects economic growth directly and indirectly (Blomberg, 1992: 18). Increased uncertainty and risk factors are the most critical effects of political instability on the macroeconomic system. Uncertainty and risk factors in the economic system reduce macroeconomic predictability for investors, which slows down economic growth by reducing investments (Asteriou & Price, 2001: 386). As specified in different growth models, physical capital is in the first place among the most important factors supporting economic growth. The environment of uncertainty that arises with political instability creates a risky environment for the capital that will enter the country, creating an obstacle for capital inflows, particularly in developing countries, and is regarded as a cause of capital outflows (Alesina et al., 1996: 193; Lensink et al., 2000: 87). As the uncertainty and risk environment slows down economic growth, public revenue sources decrease with a decrease in tax revenues, and borrowing is mostly preferred for public sector budget management. Domestic borrowing causes interest rates in the country to rise, and this interaction creates the crowding-out effect of the private sector with an increase in interest rates, indirectly reducing re-investments and slowing down economic growth (Albatel, 2004: 21; Asogwa & Okeke, 2013: 164).

During political instability, current governments bear the uncertainty of being re-elected. Hence, to be re-elected, they can tend toward short-term consumption expenditures that will win them votes instead of long-term investments and increase their rent-seeking activities. Such populist government decisions, far from rationality, may adversely affect economic growth in the long run by damaging the effective use of public resources (Yalçinkaya & Kaya, 2017: 280). In addition to these transmission channels, the brain drain moving from regions with high political instability to regions with less political instability

may affect economic growth through human capital, and income inequality, which is expected to emerge in case of political instability, will also adversely affect economic growth according to the socialist distribution and crisis theory (Şanlısoy & Kök, 2010: 107; Arslan, 2011: 74).

Although the effect of political instability on economic growth is expected to be negative, this effect is not an absolute result. Klomp & Haan (2009) argue that the environment of uncertainty caused by political instability may also affect economic growth positively by delaying investments, causing more capital initiatives in the medium term, and causing beneficial changes in government policies in the medium and long term.

3. Empirical Literature Review

The economic ideas developed in the social and human sciences field have been shaped by the contributions of different disciplines, such as history, philosophy, sociology, psychology, political science, and anthropology, for centuries. Expressing economic thought with mathematical models and indexing the economic events observed over time with quantitative values have made the empirical use of statistics and econometrics widespread in research in the field of economics. The literature section of the research includes empirical studies investigating the relationship between democracy, political stability, and economic growth. This section will be presented in the democracy-economic growth relationship and political stability-economic growth relationship.

3.1. The Relationship Between Democracy and Economic Growth

One of the first studies empirically investigated the democracy-economic growth relationship in the literature belongs to Barro (1996). The least-squares method was employed in democracy and economic growth relationships, researched in 100 countries from 1960 to 1990. This study concluded that democracy affected economic growth positively in countries with a low level of democracy, whereas democracy affected economic growth negatively in countries with a high level of democracy. The results obtained by Barro support the compatibility and conflict approaches, explaining the democracy-economic growth relationship.

Perotti (1996) tested the hypothesis, stating that democracy would positively affect economic growth using the least-squares method in a sample of 67 countries from the 1960-1985 period. In this study not supporting the proposed hypothesis, no statistically significant effect of democracy on economic growth was encountered. This result supports the sceptical approach.

Tavares & Wacziarg's (2001) study for the years 1970-1989 on a sample of 65 developing countries concluded that the democratisation process supported economic growth by improving human capital and reducing income inequality but adversely affected economic growth by increasing the share of public expenditures in gross domestic product

and reducing capital accumulation. This study found the final aggregate effect of democracy on economic growth to be negative at a low level.

Acemoğlu et al. (2019) researched the relationship between democracy and economic growth in a sample of 175 countries from 1960-2010 using the generalised method of moments. This study determined that democracy positively affected economic growth by increasing the schooling rate, promoting investments, reducing social unrest, and supporting the development of economic reforms. The result above supports the compatibility approach, arguing that democratisation and economic growth can co-occur.

Many scientific studies in economics investigate the relationship between democracy and economic growth in different samples, periods, and methods. The results supporting the conflict approach, which argues that democratisation and economic growth processes cannot co-occur, were obtained by Alesina & Rodrik (1991) in a sample of 67 countries using the least-squares method for the 1960-1990 period by Farr (1998) in a sample of 20 industrialised and 78 industrialising countries using the Granger causality test for the 1975-1995 period; by Acaravcı et al. (2015) in 15 MENA (Middle East and North Africa) countries using the dynamic panel data analysis for the 1999-2010 period. The results supporting the compatibility approach, which suggests that democracy and economic growth can co-occur, were achieved by Beşkaya & Manan (2008) in a sample from Türkiye using the Engle and Granger causality test for the 1970-2005 period; by Demirkan & Kaya (2012) in a sample from Türkiye using the Johansen cointegration test for the 1980-2006 period; by Hayaloğlu (2015) in a sample of MINT (Mexico, Indonesia, Nigeria, and Türkiye) countries by conducting the panel data analysis for the 1990-2012 period. The results supporting the sceptical approach, arguing that there will be no stable and statistically significant effect between democracy and economic growth, were obtained by Helliwell (1992) by conducting the panel data analysis in a sample of 125 countries for the 1960-1985 period and Şahin (2016) by performing the Granger causality test in a sample from Türkiye for the 1995-2015 period. In their study on eight emerging market economies, Bozkurt et al. (2018) achieved findings supporting the conflict approach for Argentina, China, Indonesia, and South Africa and the compatibility approach for Brazil, Chile, India, and Türkiye. These studies demonstrate that it is impossible to reach a definite result in light of scientific studies investigating the relationship between democracy and economic growth.

3.2. The Relationship Between Political Stability and Economic Growth

Two approaches draw attention to the empirical studies investigating the relationship between political stability and economic growth in the economic literature. The first of these approaches investigates the effect of different situations and events causing political instability on economic growth. In the relationship between political stability and economic growth examined with this approach, the adverse effects of events causing political instability on economic growth draw attention. Among these studies, Asteriou & Price (2001) determined that the number of strikes, the number of terror cases, the number of elections, the number of government changes, and the number of wars adversely affected

economic growth in a sample from England for the 1961-1997 period; Kurzman et al. (2002) found that rebellions negatively affected economic growth in 106 countries for the 1951-1980 period; Butkiewicz & Yanıkkaya (2005) revealed that political violence adversely affected economic growth in 100 countries for the 1970-1997 period; Aisen & Veiga (2013) determined that the cabinet reshuffle negatively affected economic growth in 169 countries for the 1960-2004 period, and Parlakyıldız (2015) found that the conflict environments in the country negatively affected economic growth in 25 countries for the 1999-2013 period.

In empirical studies investigating the relationship between political stability and economic growth, the second approach usually investigates the effect of political stability or political instability on economic growth. These studies are listed in chronological order. Feng (2001), in his analysis of 42 countries for the period 1978-1988, concluded that political instability negatively affected economic growth by reducing private sector real investments with its reducing effect on savings.

Abeyasinghe (2004) predicted the effect of democracy and political stability on economic growth using the least-squares method and the average index data calculated to represent the variables of democracy, political stability, and economic growth in a sample of 112 developing countries for the 1998-2002 period. The results show that democracy has a negative effect on economic growth, while political stability has a positive impact on economic growth.

Sakamoto (2005) researched the effect of weak government models, which he defined as multi-party, minority, and short-term government formations, representing political instability on economic growth in 17 OECD countries for the 1961-1998 period. Contrary to the general opinion, this study found that weak governments performed more successfully in realising economic growth during specific periods than strong ones. Within the scope of the study, it was observed that economic growth did not create any pressure on the general level of prices, but budget deficits arose due to the active use of the public sector budget for economic growth in weak government models with independent central banks.

Gür & Akbulut (2012) tested the effect of political stability on economic growth in 19 developing countries for the 1986-2003 period with four different models within the scope of panel data analysis. According to the two-way fixed effects model with the highest statistical significance, it was concluded that political stability positively affected economic growth.

Shabbir et al. (2016) researched the effect of political instability on economic growth in D8 countries for the 1995-2013 period. They revealed that corruption increased during periods of increased political instability and economic growth accelerated. As a reason for this situation, it was concluded that the bureaucracy problem emerging in the functioning of institutions, especially in some countries, slowed down the economic functioning, bureaucratic obstacles were overcome, and economic growth accelerated with increased corruption activities during periods of political instability. Overcoming difficulties in

bureaucracy with corruption activities is known as the "*Grease the Wheels*" hypothesis in the economic literature. This hypothesis indicates that corruption can help the wheels of the economy turn faster in some countries.

Gök (2020) examined the relationship between democracy, political stability, and economic growth in a sample of 44 sub-Saharan African countries for the 1996-2017 period. According to the results of the Granger causality test used in the study, the presence of a bidirectional causality relationship between democracy, political stability, and economic growth variables was determined.

4. Data & Methodology

This study analysed the effect of democracy and political stability on economic growth for BRICS-T countries. In this respect, annual data for the 2002-2020 were used. Goldman Sachs Chairman Jim O'Neill defined BRIC countries for the first time in 2001. Brazil, Russia, India, and China have been accepted as emerging market economies. They are regarded as the engine of spending power with increased demand due to their large areas, rapid economic growth, and high populations. It is thought that the high growth rates in these economies can balance the population stagnation and slow growth in developed economies. It is even predicted that they will soon replace the G7 countries regarding global economic power. Later, South Africa was added to BRIC on December 24, 2010, and the country group turned into BRICS (Wilson & Purushothaman, 2003: 2; Smith, 2011: 1). Furthermore, many studies also consider Türkiye, which draws attention to its characteristics similar to BRICS countries, among this country group. We think it important to study this country group, which draws attention to its economic performance. Moreover, the fact that no empirical study on this country group was encountered in the literature was the determining factor in selecting BRICS-T countries as the sample group. The accessibility to the data set was decisive in choosing the years 2002-2020 as the research period of the study. The annual preparation of indices on democracy and political stability weakened the possibility of creating a time series for the relevant period. It was deemed appropriate to carry out panel data analysis to strengthen the scientific validity and reliability of the research within the scope of the analysis. Table 1 below contains the descriptions of variables used in the study.

Table: 1
Variable Descriptions

Variable	Explanation	Source
Dependent Variable		
GROWTH	Real GDP Growth, %	World Bank
Independent Variable		
DEMOCRACY	Democracy Index	Freedom House
PSTABILITY	Political Stability and Absence of Violence/Terrorism	World Bank
CAPITAL	Gross fixed capital formation (% of GDP)	World Bank
POPULATION	Population growth (annual %)	World Bank
INFLATION	Inflation, consumer prices (annual %)	World Bank
FDI	Foreign direct investment, net inflows (current US\$). A natural logarithm of the variable was taken.	World Bank
GOVEXPEND	General government final consumption expenditure (% of GDP)	World Bank
URBAN	Urban population. The natural logarithm of the variable was taken.	World Bank

The study, which accepted economic growth as a dependent variable, addressed democracy and political stability series as independent variables forming the study's basis. Furthermore, some variables regarded as important determinants of economic growth were added to the econometric model as control variables. As seen in the table above, data on variables other than democracy were obtained from the World Bank. The data on the political stability variable were acquired from the World Bank's "Worldwide Governance Indicators (WGI)" database, whereas other variables were taken from the World Bank's "World Development Indicators (WDI)" database. Democracy refers to the state of freedom and was calculated by the authors as the arithmetic mean of the index of political rights and civil liberties. The index for each country takes a value between 1 and 7. Accordingly, a value of 1 indicates the highest degree of freedom, and a value of 7 indicates the lowest degree of freedom. The score obtained in the calculations made by the World Bank to determine the political stability value of each country varies between -2.5 and +2.5. A value of -2.5 indicates the lowest level of political stability, and a value of +2.5 indicates the highest political stability. The model created for empirical analysis is presented in the following way;

$$GROWTH_{it} = \beta_{it} + \beta_1 DEMOCRACY_{it} + \beta_2 PSTABILITY_{it} + \beta_3 CAPITAL_{it} + \beta_4 POPULATION_{it} + \beta_5 INFLATION_{it} + \beta_6 FDI_{it} + \beta_7 GOVEXPEND_{it} + \beta_8 URBAN_{it} + \varepsilon_{it} \quad (1)$$

Econometric analysis is applied in 3 stages. First, the presence of cross-sectional dependence (CSD) is examined by Breusch & Pagan's (1980) CDLM₁ test, which yields effective results when the time dimension (T) is larger than the cross-section dimension (N) and by Pesaran's (2004) CDLM₂, which gives effective results as T and N approach infinity. Considering that other countries are also impacted by the shocks in a country nowadays, the estimation results made without investigating the relationship between the cross sections may be biased and inconsistent. Hence, it was deemed necessary to investigate the CSD relationship between countries at the first stage.

Since the series had a CSD relationship, Pesaran's (2007) panel unit root test CIPS (Cross-Section Augmented IPS) was applied accordingly at the second stage. In this test, cross-section averages in standard ADF regression expand each variable's lag length and the first difference value. Using the CADF (Cross-Section Augmented ADF) test, the arithmetic mean of the statistics of each cross-section can be taken to obtain the CIPS statistics for the entire panel. If the calculated CIPS statistic is greater than the critical table values as an absolute value, it is stated that the series has a stationary feature. In the opposite case, it is accepted that there is a unit root in the series. In the third stage, after CSD and unit root pretests, panel regression analysis was carried out to assess the effect of the independent variables on economic growth. In this respect, static panel data analysis was carried out, and as a result of some tests, a fixed effects model was applied.

5. Empirical Findings

2. CSD analysis was conducted in the first stage, and the results are presented in Table

Table: 2
Cross-Sectional Dependence Test Results

	CDLM ₁	CDLM ₂
GROWTH	104.921*** (0.000)	16.417*** (0.000)
DEMOCRACY	40.737*** (0.000)	4.699*** (0.000)
PSTABILITY	54.802*** (0.000)	7.267*** (0.000)
CAPITAL	53.121*** (0.000)	6.960*** (0.000)
POPULATION	105.966*** (0.000)	16.608*** (0.000)
INFLATION	27.514** (0.025)	2.285** (0.022)
FDI	118.101*** (0.000)	18.824*** (0.000)
GOVEXPEND	96.664*** (0.000)	14.910*** (0.000)
URBAN	235.357*** (0.000)	40.231*** (0.000)
Model	75.997*** (0.000)	11.136*** (0.000)

Note: The symbols ***, ** and * denote 1%, 5% and 10% significance level.

According to the test results, cross-sectional dependence was observed in all series and models. Table 3 below contains the results of the CIPS test.

Table: 3
Unit Root Test Results

Variables	CIPS Statistic
	Level
GROWTH	-2.451**
DEMOCRACY	-2.450**
PSTABILITY	-2.646***
CAPITAL	-3.015***
POPULATION	-2.249**
INFLATION	-3.485***
FDI	-2.290***
GOVEXPEND	-2.406**
URBAN	-2.580**

Note: Table critical values for 1%, 5%, and 10% significance levels are -2.62, -2.35 and -2.21. The symbols ***, ** and * denote 1%, 5% and 10% significance level.

According to the panel unit root test results, it was found that all variables had a stationary structure in their level values. Therefore, while the GROWTH, DEMOCRACY, POPULATION, PUBLICEXP, and URBANIZATION variables are stationary at a 5% significance level, the PSTABILITY, CAPITAL, INFLATION, and FDI variables are stationary at a 1% significance level. Since these results indicate that there will be no spurious regression problem in the coefficient estimates, panel regression analysis was conducted at the next stage. In this respect, F and LR tests were first applied to test the classical model's validity. The results are presented in Table 4 below.

Table: 4
F and LR Test Results

	F test		LR test	
	F Stat.	Prob.	χ^2	Prob.
Unit Effect	17.35***	0.000	31.27***	0.000
Time Effect	2.69***	0.001	35.52***	0.000

Note: The symbols ***, ** and * denote 1%, 5% and 10% significance level.

According to the results of the F test, in which the fixed effects model was tested against the classical model, both unit and time effects were determined. Additionally, according to the results of the LR test, testing the random effects model against the classical model, it was seen that there were unit and time effects. Therefore, it was revealed that the fixed or random effects model should be used, not the classical model, in coefficient estimation. Hausman's (1978) specification test, whose results are given in Table 5, investigated which model would be used.

Table: 5
Hausman Specification Test Results

χ^2	48.77
Prob.	0.000

According to the test results, a systematic difference was identified between the coefficients, and it was decided to use the fixed effects model for estimation. Before the coefficient estimation, situations hindering effective estimation were examined. To this end, autocorrelation and heteroscedasticity problems were researched, and the results are given in Table 6 below.

Table: 6
Diagnostic Test Results

Model	Heteroskedasticity		Autocorrelation	
	Modified Wald Test	Prob.	Durbin-Watson Test	Baltagi-Wu (LBI) Test
	30.98	0.000	1.336	1.515

Note: According to Durbin-Watson and Baltagi-Wu LBI tests, the threshold value is accepted as "2".

The modified Wald test results indicate that there is a problem of heteroscedasticity in the model. Moreover, the Durbin-Watson and Local Best Invariant (LBI) test results revealed an autocorrelation problem. Accordingly, the Driscoll-Kraay robust estimator was employed to make efficient and consistent estimations since there were problems of heteroscedasticity, autocorrelation, and cross-sectional dependence in the investigated model. Table 7 contains the estimation results of the coefficients.

Table: 7
Coefficient Estimation Results

Independent Variable	Dependent Variable: GROWTH			
	Coefficient	Robust Std. Error	t stat.	Prob.
DEMOCRACY	-0.921**	0.419	-2.20	0.041
PSTABILITY	-2.001*	0.963	-2.08	0.052
CAPITAL	0.037	0.169	-0.22	0.830
POPULATION	3.322*	1.723	1.94	0.068

INFLATION	-0.060*	0.029	-2.06	0.054
FDI	-0.144	0.382	-0.38	0.711
GOVEXPEND	-2.807***	0.450	-6.24	0.000
URBAN	3.833	3.864	0.99	0.334
Within R ²	0.551	F Stat.	43.15	0.000

Note: The symbols ***, ** and * denote 1%, 5% and 10% significance level.

According to the coefficient estimation results, the most effective variable on economic growth was the POPULATION, which represents the population growth rate. In line with this, a 1% increase in population growth rate increases economic growth by 3.322%. The effect of the DEMOCRACY variable, which is one of the main variables in the study and indicates the level of democracy, on economic growth was found to be significant and negative. Considering that an increase in the variable value indicates a decrease in democracy, it was determined that a 1-unit increase in the level of democracy increased economic growth by 0.921%. It was found that an increase in political stability, indicated by PSTABILITY, one of the independent variables forming the study's basis, had statistically significant and adverse effects on economic growth. A 1-unit increase in political stability reduces economic growth by 2.001%. It was observed that apart from the POPULATION variable mentioned above, the INFLATION variable, which expresses the annual inflation, and the GOVEXPEND variable, which represents the rate of government expenditures, had statistically significant and adverse effects on economic growth. Additionally, the CAPITAL variable, which indicates gross fixed capital accumulation, the FDI variable, which denotes foreign direct investment inflows, and the URBAN variable, which represents the urban population, did not significantly affect economic growth.

6. Conclusion

This study analysed the impact of democracy and political stability on economic growth using panel data analysis on the BRICS-T countries, which have attracted attention for their economic performance and large capital inflows in recent years. The fixed effects model's coefficient estimation results indicated a positive effect of democratisation, one of the variables used in the study, on economic growth. Conversely, an increase in the level of political stability, one of the main explanatory variables, had a negative effect on economic growth. Furthermore, including population growth rate as a control variable in the examination revealed a beneficial influence on economic growth. The rise in population leads to a growth in demand and consumption while also contributing to increased production through the expansion of the labour force without a decrease in productivity. However, the control variable of inflation has been found to impact economic growth negatively. By this, the continuous increase in the prices of goods and services negatively affects the production capacity by reducing the purchasing power of households whose income does not increase by the same amount and by lowering their consumption demand. Similarly, it has been discovered that an increase in public expenditures to GDP ratio negatively affects economic growth. The evidence suggests a crowding-out effect of fiscal policy, given that the rise in the percentage of public spending to income causes an expansion of the budget deficit, which increases the public sector's borrowing needs and leads to a rise in interest rates. The remaining control variables, including capital accumulation, foreign

direct investments, and changes in urban population, did not demonstrate any significant impact.

The results regarding democracy and economic growth in the studied sample of countries are consistent with the findings of Barro (1996), Adejumbi (2000), Bornschieur (2002), Bhagwati (2002), Beşkaya & Manan (2008), Demirkan & Kaya (2012), Hayaloğlu (2015), and Acemoğlu et al. (2019) studies in the literature, which support the compatibility approach and argue that democratisation supports economic growth. In light of these results, it is thought that in the BRICS-T country sample, governance and political practices that protect human rights, spread education to the grassroots, support economic freedoms, and attach importance to participatory, rule of law and separation of powers in the understanding of governance will stabilise the economic development process. Despite the existing literature asserting that political stability promotes economic growth, this study and others by Sakamoto (2005) and Shabbir et al. (2016) have demonstrated that political instability may promote economic growth. Political instabilities caused by corruption allegations in Brazil, labour market strikes in China and South Africa, and political instabilities experienced in Russia due to international politics, as well as in Türkiye due to both domestic and foreign policy, have featured prominently on the economic policy agenda of the world during the study period. Despite these developments, it is believed that the countries included in the study's sample group maintain their economic growth with their export-oriented investment policies, taking advantage of a dense population and cheap labour.

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