

CHAPTER 1

Exposing a 50-Year-Old Myth

Dictatorship is like a big proud ship—steaming away across the ocean with a great hulk and powerful engines driving it. It's going fast and strong and looks like nothing could stop it. What happens? Your fine ship strikes something—under the surface. Maybe it's a mine or a reef, maybe it's a torpedo or an iceberg. And your wonderful ship sinks! Now take democracy. It's like riding on a raft, a rickety raft that was put together in a hurry. We get tossed about on the waves, it's bad going, and our feet are always wet. But that raft doesn't sink . . . It's the raft that will get to the shore at last.¹

A Yankee Businessman in New Hampshire

This book makes the case that democracy does a better job raising living standards in poor countries than does authoritarian government. At first, you might think the claim sounds a bit trite—What decent person would argue otherwise? The truth is that for the past half-century or so, the bulk of academic literature, United States policymakers, and Third World leaders have done so. While America's support for selected dictators across Latin America, sub-Saharan Africa, and Asia has been primarily based on Cold War calculations, this has been further justified by the conviction that democracy in poor countries breeds economic stagnation and civil unrest.

Today, it is politically incorrect to extol publicly the virtues of autocracies—countries where leaders are not popularly elected nor subject to meaningful checks and balances. Nonetheless, the view that these governments do a better job of promoting economic growth and stability among poor countries remains firmly entrenched in the minds of many world

leaders, economists, national security advisors, business executives, political scientists, and international civil servants. According to this perspective, promoting democracy in poor countries is naïve and potentially dangerous.

Which side wins this debate matters, a lot. Acknowledging a democratic advantage for development—that is, a nation’s social and economic progress—opens the door to a major rethinking of political and economic policy toward the developing world. The case for the United States and other industrialized democracies to back unstintingly democratization throughout the Third World becomes overwhelming. This would mark a sharp turnaround from current, tentative measures, where meaningful support for the emergence of democracy often falls short of the rhetoric lofted in its name.

Many readers are no doubt wondering at this point, “What about China?” China’s rapid growth over the past 25 years makes it the contemporary poster child of authoritarian-led economic development. Doesn’t it pose a major obstacle to our claim about the superiority of the democratic over the authoritarian model? Although a complex and still unfolding phenomenon, we will argue that, paradoxically, China’s stunning economic performance helps make our case by highlighting the exceptional and fragile nature of economic growth in autocratic systems. First, however, let’s take a look at the contours of China’s economic boom.

Starting with market reforms in 1978 giving peasants incentives to boost agricultural productivity, China has experienced a nearly uninterrupted expansion of its economy. Income per person, adjusted for inflation, has risen more than six-fold over the past 25 years, to \$940 from \$151. In just the past decade, China has grown to the sixth from the eleventh largest economy in the world, with a gross domestic product (GDP) of \$1.2 trillion.

Like other East Asian countries, China rode an export-led development strategy to economic stardom. Trade makes up 50 percent of its economy and 5 percent of world exports. Lured by cheap labor and the prospect of gaining access to a market of 1.3 billion people, international investors have flocked to China, pouring some \$40 billion a year into its economy in recent years, or about 5 percent of GDP. Building on one of the highest savings rates in the world—40 percent of GDP—China has upgraded its communications technology and modernized its roads, ports, bridges, dams, and irrigation systems. In a single generation, farmers have switched from using donkeys to tractors. Television now reaches almost all city dwellers and the Internet connects with more than 12 percent of them.² To facilitate its transition to a market economy, China established experimental capitalist enclaves known as Special Economic Zones that were free of many of the legal and bureaucratic restrictions that were typical of China’s command economy and that hindered trade, foreign investment, and technology transfers.

As China's economy has grown, the quality of life of its people has improved. More than 90 percent of children attend primary school and 50 percent make it through high school. Life expectancy has reached more than 70 years, comparable to that of the United States and Europe. Malnutrition rates plummeted by nearly 50 percent in the 1990s, and untold millions of people have risen above the poverty line. In short, China has become an economic dynamo.

The Argument for Authoritarian Rule

China's experience is refueling the long-running debate about which type of political system is better able to boost economic development. Doesn't China's performance validate the conventional assertion that autocratic governments are better at mobilizing economic growth in poor countries? Is our instinctive desire to see democracy flourish in the developing world simply a projection of Western values? If we were genuinely honest with ourselves, wouldn't we acknowledge that there really is a "cruel choice" between democracy and development?³ If so, shouldn't we be pragmatic and support authoritarian governments in the world's poorest countries in order to reduce the misery of their citizens? Then, after material needs were addressed, as part of some Maslowian hierarchy of priorities, we could focus on the more ethereal issues of freedom and self-governance.

In other words, after taking a good, hard look at China, shouldn't we adopt the view that has prevailed among foreign policy experts almost since the end of World War II? Popularized by Seymour Martin Lipset, this perspective holds that democracies can flourish only if they are grounded in a literate and urbanized middle class. In poorer societies, its adherents argue, democracies can be manipulated by opportunistic leaders who will make populist promises to get elected but pursue their selfish priorities once in office. Unrestrained by adequate counterweights, these unscrupulous politicians are likely to abuse their power and rig the system to maximize their interests. The economy stagnates. Social conditions deteriorate. Alas, the disciples of Lipset argue, while democracy is a desirable goal, it is one that can best be achieved after a sequence of economic development and social maturation occurs. Democracy should be seen as the crowning achievement of a long process of modernization.

To spur development in poor nations, they assert, authoritarian⁴ governments are better able to marshal the limited resources available and direct them toward productive activities that will increase economic output. Because of the superior organizational abilities inherent in their hierarchical structures, only authoritarian governments can match resources to the urgent tasks besetting them of increasing savings and investing them

in public works like highways and dams, building up a disciplined military, enforcing the rule of law, and creating a functional educational system. Authoritarian governments can undertake all of these things more efficiently than can lumbering democracies. And, as the labor force becomes more skilled, more sophisticated technology can be employed and productive capacity further improved.

It was with this reasoning that Samuel Huntington, in his still influential 1968 classic *Political Order in Changing Societies*, touted the advantages of one-party states for low-income countries. Dominant political parties, particularly those backed by the military, were seen as unifying institutions.

The efficiency of authoritarian systems also supposedly lies in their perceived longer-term planning horizon. Spared of the arbitrary deadlines imposed by elections, they can identify long-range objectives, decide on the best policies for achieving them and implement these policies without deviating from the master plan. And there is no need to waste time and energy in endless negotiations with special interest groups, as democratic governments must do. These groups can be safely ignored, and unhappy though they might be at their impotence at first, they will ultimately realize they also benefit from the modernization efforts of a benign dictatorship.

In other words, by banishing politics from its economic policymaking, an authoritarian government is able to focus on the bigger picture. And it will seek to find solutions that benefit the society as a whole, rather than this or that favored group.

By dint of the same freedom from competing interest groups, the reasoning goes, authoritarian governments are more capable of instituting a fair, consistent rule of law, better able to establish and protect the property rights that form the basis for investment and asset accumulation, and in a stronger position to enforce contracts—thus assuring firms that enter into agreements that they will be paid.

The appeal of this perspective extended beyond the Cold War mindset in the West that the ideological battle against communism necessitated supporting friendly authoritarian governments. The orthodoxy of this view was captured in the World Bank's 1993 report *The East Asian Miracle*⁵ in which the global development bank endorsed the notion that authoritarian governments were better able to generate economic growth in the early stages of their development. Indeed, it was the meteoric growth of the East Asian Tigers (South Korea and Taiwan) that seamlessly bridged the Cold War moorings of the authoritarian advantage thesis to its persistent post-Cold War resonance. Although the East Asian financial crisis of the late 1990s caused the buoyancy of this view to lag somewhat, the underpinnings of the mentality remain strong. This is reflected in a 2002 report

to the Asian Development Bank that concludes, “. . . whereas democracies have been slow in grappling with poverty, the authoritarian regimes in the miracle economies achieved spectacular success . . . In a democracy with a thriving civil society, the process of policy consultation, adoption, and execution is much more time-consuming and involves many more procedural formalities than under an authoritarian regime.”⁶

A 2003 best seller by Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad*, picks up these themes in a contemporary repostulation of the Lipset–Huntington argument. Coupling the perceived superiority of the authoritarian growth record among poor countries and the notion that democracies have never regressed to authoritarianism once they’ve surpassed per capita income levels of \$6,000, Zakaria argues that the goal should be to support “liberal autocracies” in the developing world.

Authoritarian governments in poor countries supposedly have another huge advantage over democracies. They are insulated from the demands of the poor. In a system of one person, one vote, democratic governments in developing countries are pressured to respond to the population’s desire for costly entitlements like free schools, decent health care, minimum wage laws, labor rights, and generous pension plans.⁷ Not only would caving into these demands break the national budget, it would also discourage savings and investment. What foreign business would want to pour serious money into a country with so many extra costs attached, when it could move it instead to low-wage countries like China and Vietnam? Democracy’s ever-looming electoral cycle puts great pressure on politicians to extend fiscal commitments to particular constituencies that undermine a nation’s long-term economic health.

The argument further claims that the firm hand of an authoritarian government is required to maintain order and stability in backward nations in which tribal loyalties, economic disparities, social tensions, and regional conflicts are rife. Just look at Africa, Asia, the Middle East, and parts of Latin America, especially the former colonies. Too often, the people living there lack a real sense of national identity. In such places, only a strong national government can provide the security needed for people to go about their daily lives and safeguard the highways, bridges, and dams from insurgents. In other words, only a monopoly of power in the early stages of a country’s economic development can prevent anarchy.

This is the recurrent theme in Robert Kaplan’s widely read articles on democratization in the post-Cold War era.⁸ An unabashed Huntington revivalist, Kaplan challenges the West’s liberal instincts to promote democracy in the developing world. Lacking the Western traditions of tolerance and multiculturalism, efforts to encourage democratization in other regions of the world are likely to be highly destabilizing. Rather than advancing

democracy, civil conflict and the emergence of neo-autocrats is the more likely result. A realist-based strategy of supporting authoritarian governments that can consolidate the authority of the state is what is needed.

According to this school of thought, democracies in ethnically diverse societies are highly vulnerable to social fragmentation. Each tribe or clan will be reluctant to cede any authority or share power with rival groups, leading to hair-trigger tensions and the constant threat of civil conflict. State policymakers are left wringing their hands at the near impossibility of coordinated action to alleviate national ills. More ominously, weak politicians will have obvious incentives to stir up ethnic divisions in order to cast themselves as defenders of their own cultures against the machinations of rival groups. Such a stance might win them public office, but it can also unleash violent passions. In fact, it is argued, the very act of staging democratic elections in the diverse societies of much of the developing world can trigger conflict.⁹ Single-party rule, by contrast, can channel a profusion of interests into a central political apparatus that can minimize ethnic divisions and clamp down on troublemakers who would attempt to exploit them.

In another best-selling book from 2003, Amy Chua, in *World on Fire: How Exporting Free Market Democracy Breeds Ethnic Hatred and Global Instability*, argues that the global spread of “free-market democracy” has been a principal cause of ethnic instability and violence throughout the world. Her concern is that by increasing the political voice and power of the majority, democratization has fostered the emergence of demagogues who opportunistically whip up mass hatred against the wealthy minority elite found in most societies. The result has been ethnic confiscation, authoritarian backlash, and mass killing.¹⁰

In short, the tenets of the authoritarian advantage doctrine continue to resonate in contemporary debates over prosperity and peace. This directly factors into policy over what international actors should do in regions of the world facing political or economic transition: the Arab world, the former Soviet Union, Africa, Asia, and Latin America. The bottom-line policy question remains—should the international community promote democratization in poor countries?

The experts who favor authoritarian rule for poor nations, to be clear, are not disavowing the goals of freedom and democracy. They are no friends of tyranny. Rather, they say, they are realists and their pragmatism is a surer path to economic prosperity and democracy than the principled, though idealist notions of democracy proponents.

In their view, the key is timing. Once a society has reached some middle-income level of development, a transition to democracy becomes viable. Education and literacy levels will have risen to a point that political charlatans

can less easily dupe the general population. With economic development comes urbanization, a precondition for the formation of genuine political parties with broad popular support.

A country that has achieved a middle-income level of development is also more likely to have an established middle class that by its nature is a moderating political force. If poor people are forced by necessity to strive for short term gain, the middle class is concerned about economic stability and the prospects for steadily improving their lot. The middle class has more incentives to work within the political system than against it, and greater fondness for pragmatic politicians than for fiery radicals.

As an economy develops, the attitudes of a nation's elites also mature. They will find common interest with the middle class on many issues. And with the threat by populist politicians to their wealth and status receding, they will become more amenable to sharing power. Little by little, they will come to accept the concept of political equality, even to the point of giving the poor a voice in the nation's affairs.

This whole process arguably characterizes the transition to democracy by the southern European dictatorships of Spain and Portugal and certain of the East Asian Tigers (South Korea and Taiwan).¹¹ In all those countries, political participation was restricted to a single party for decades after World War II. Sound economic policies were pursued that facilitated rapid and stable economic development. Though Franco's Spain and Salazar's Portugal had fascist features, none of these states was totalitarian, enabling a private sector to develop and flourish. Some independent civic and associational life was allowed, fostering a degree of popular participation, provided it was not politically oriented. Over time and with varying degrees of political turmoil, transitions to more pluralistic political systems were successfully undertaken once these countries reached a fairly comfortable range of middle-income development. For Portugal and South Korea, this was a per capita income of roughly \$6,500.¹² The level was \$10,500 for Spain and Taiwan.

Democratic Disappointment in Latin America

The "development first" school also invokes Latin America to buttress its position. Latin America began its democratization process in the late 1970s and 1980s. Virtually every country in the region took steps away from military rule, eventually establishing competitive multi-party political systems. The average per capita income in Latin America was roughly \$1,800, ranging from around \$650 in countries like Honduras, Nicaragua, and Guyana to just under \$7,000 for Argentina when it moved to civilian rule in 1983. The late 1980s and early 1990s were subsequently a period of

robust, rapid growth for Latin America, raising hopes that democratization and prosperity could grow hand-in-hand.

However, the results in a number of Latin countries have been much more subdued since then, with growth slowing and poverty rates on the rise.¹³ The region's notorious economic disparities appear to be as acute as ever, and corruption is widespread. Nine of the 20 countries in the region were ranked in the bottom 30 percent of countries around the world by Transparency International, a leading nonprofit advocacy group, in its 2003 corruption perception survey. It is little surprise therefore, that political tensions have been boiling over. In 2003 and 2004, Venezuela, Ecuador, Bolivia, Paraguay, Argentina, and Peru have all had political protests resulting in violence and deaths.

Perhaps nowhere are these tensions more evident than in Venezuela. The economy has been steadily contracting there since 1980, with per capita incomes shrinking from \$4,400 to \$3,300. Railing against the sharp income disparities within Venezuelan society, populist Hugo Chavez, a former junior army officer who had led a failed coup attempt in 1992, was elected in 1999, promising to improve the lives of the country's poor. Chavez has undertaken high-profile programs to address poverty such as Plan Bolivar. This mobilized military personnel to construct various infrastructure projects including highways, schools, and hospitals as well as to provide various social services. Conditions have only seemed to worsen, however.

Concurrently, Chavez took actions that weakened Venezuela's long-established democratic institutions, including amending the constitution so as to centralize power in the presidency,¹⁴ stacking the courts with his allies, politicizing Venezuela's armed forces, removing civilian checks on the military, attacking the credibility of the country's political institutions, and bypassing the legislature through referendums. Despite the controversy created by such actions, Chavez maintains widespread support among the 30 percent of the population living under the poverty line, keeping him in power. Thumbing his nose at his political opponents who have not been able to displace him at the polls, he boasts of his revolutionary ideology and intention to stay in power until 2021.¹⁵

A short-lived coup against Chavez in April 2002 vividly demonstrated the strains between social classes in Venezuelan society. While many from the middle and upper echelons of society and even important elements of organized labor backed it, the poor rose up in Chavez's defense. Clashes resulted in the deaths of at least 12 people. This resistance, the ineptitude of the coup leaders, the uneasiness of the general population with the autocratic nature of the coup plotters, and widespread condemnation by the international community resulted in a sudden evaporation of support for the coup. Chavez was returned to power within two days. A subsequent three-

month strike in late 2002 and early 2003 again brought the country to a standstill and exposed the depth of Venezuela's division. To their credit, both the government and the strikers sought to curb violence. However, once the strike was broken, Chavez had a number of the strike leaders, led by executives from the state oil company, arrested.¹⁶ In 2004, a referendum to recall Chavez failed—perpetuating Venezuela's political impasse.

All of this turmoil hurt the economy. Venezuela experienced a contraction in real GDP per capita of 27 percent between 1998 and 2003. The social, political, and economic cleavages of Venezuelan society appear destined to pull the country into still deeper malaise. It thus represents the worst of both scenarios—deteriorating economic performance and hardening dictatorial rule. It is the prospect of such a democratic reversal that many fear will engulf the entire region.¹⁷

The divergent experiences of China and Venezuela compel us to ask, as the conventional school would have us do: Is supporting democracy the right thing to do in the developing world? Doesn't it actually hinder economic development? In the process, are we ultimately undermining the likelihood that these countries can establish sustainable democracies?

Defying the Predictions, Democracy Works

We answer these questions emphatically: supporting democracy in developing countries is the right thing to do. It does not hurt their pursuit of prosperity and peace. It helps it.

Before proceeding further, let's take a moment to clarify what we mean by democracy since this gets to the heart of the debate. When we refer to democracy we mean those governance systems in which national leaders are selected through free and fair elections, there are institutions that foster a shared distribution of power, and citizens have extensive opportunities to participate in political life.¹⁸ This explicitly requires a high degree of basic political freedoms, civil liberties, and political rights. Countries that hold flawed elections or technically fair elections where opposition political parties cannot campaign freely or an independent press does not exist are not democracies. The notion of an "illiberal democracy," which some writers have propounded, is an oxymoron that only muddies the waters.¹⁹ Clearly, a state does not become a democracy overnight but rather reaches this threshold only after a period of political evolution. As such, a wide spectrum of governance systems, from the most oppressive authoritarian to the most liberal democracy, exists. However, when we refer to democracies, we include only those countries that have been determined to meet the robust criteria of democratic governance (see Appendices A and B for lists). Others that may not have reached this threshold, though are making progress along the spectrum are considered democratizers. Those in the

lower tier of this governance spectrum are categorized as autocracies. With that said, let's take a look at the evidence.

Defying the predictions of the “development first” perspective, some 70 low-income countries have made marked advancements toward democracy over the past two decades. More than half of these countries, 43 in all, had fully authoritarian governments before they started their transition. According to the conventional theory, this shouldn't have happened. Poor countries were not supposed to be able to undertake, much less sustain, democratic reforms. Yet, the quest for freedom and citizens' desire to gain greater control over their destiny has been unrelenting. In Africa, Asia, Eastern Europe, Latin America, and the former Soviet Union—all regions long considered resistant to democratic governance—societies have demonstrated the universality of this aspiration.

Not only were these low-income countries supposed to be unable to democratize, however, they were expected to stagnate economically. And yet the opposite happened. As we examine in detail in Chapter 2, low-income democracies and democratizing countries have outperformed their authoritarian counterparts on a full range of development indicators. Whether we consider life expectancy, literacy, access to clean drinking water, agricultural productivity, or infant mortality, democracies at all income levels have typically achieved results that are 20 percent to 40 percent superior to those of autocracies. Moreover, contrary to the concerns of some economists, they accomplished this without generating larger fiscal deficits than nonrepresentative governments. These differences in development performance, based on data for the past 40 years, have grown wider over recent decades.

Here, then, is the crux of our argument: Despite the enduring theoretical underpinnings to the authoritarian-advantage thesis, the evidence for it has always been weak. Not only can poor countries democratize, poor democracies can develop quite effectively. As a leading scholar in this field, Adam Przeworski, and his colleagues have succinctly put it, “There was never any solid evidence that democracies were somehow inferior in generating growth—certainly not enough to justify supporting or even condoning dictatorships.”²⁰

Notice that we are not saying that all democracies enjoy sterling development experiences. In fact, some democracies have struggled in their economic performance. Indeed the movement of more poor countries toward democracy has sharpened the relevance and the stakes of the democracy and development debate. Nor are we saying that certain autocratic governments haven't realized rapid economic growth. As the experience of China shows, in some cases they have. What we are saying is that when one looks at the experience of developing countries as a whole, those with more representative and pluralistic political systems have typically developed signif-

icantly more rapidly, broadly, and consistently than those with closed systems. This record is persistent and striking, even for the least developed countries. In percentage terms, two-thirds of developing country democracies exceed the growth medians for their regions over the past 20 years.

It is the experience of this solid majority, rather than the exceptional cases, that should guide our understanding of democracy's role in sustaining development. This is what is most relevant for policy guidance. The handful of instances where authoritarian governments have overseen spectacular growth hold important lessons. But to attempt to generalize these cases to the entire developing world is a mistake.

Low-income democracies exhibit another feature that runs counter to the conventional theory about how they ought to behave: resiliency. Even in the face of economic setbacks and social unrest, the majority of countries on the path to democracies has not backtracked into authoritarianism, but has held onto its newfound freedoms (a phenomenon we review in Chapter 3). And as they have stayed the course, their numbers have swelled. This momentum continues to the present. There are more low-income democracies and democratizing countries today than there were five or 10 years ago.

The change has been momentous. As recently as 1988, two-thirds of the world's states were nondemocratic. By 2002, the proportion had reversed. Some two-thirds of all nations, accounting for 70 percent of the world's population, were on the democratic path.²¹ Indeed, the trend marks a turning point in human history. Starting in the 1990s, for the first time a

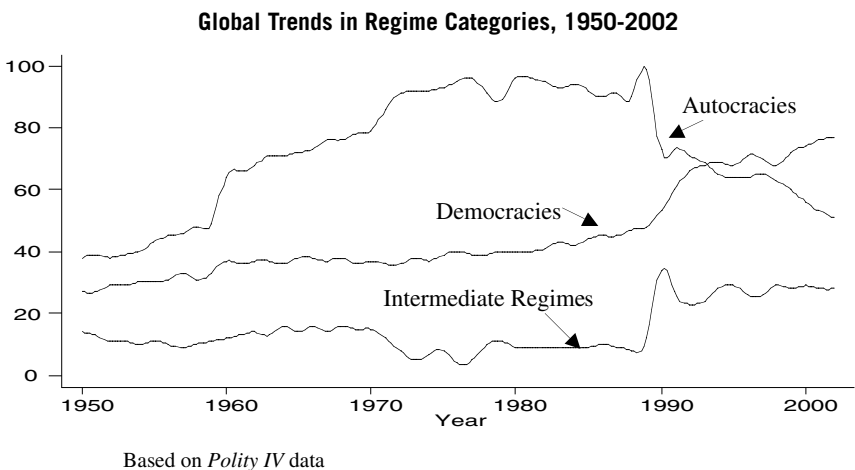


Figure 1.1 There has been a dramatic shift toward democracy since the mid-1980s, transforming global governance patterns.

majority of the world's people were living under some form of self-government (see Figure 1.1).²²

“Democratic Peace”

That might sound like a positive development, but is it? Some experts remain skeptical. After all, poor democracies are weak democracies, inherently unstable and fertile ground for conflict. Luckily for the world, that truism turns out to be not so true, either (something we discuss in Chapter 4). Low-income countries undergoing political pluralization are no more likely to be engaged in conflict than other low-income countries. And contrary to the claims that democratization increases fragmentation in ethnically diverse societies, the record shows that democracies do a better job of developing broad social coalitions and balancing multiple, competing interests in diverse cultures. In other words, global security hasn't been thrown into disarray since substantial numbers of new democracies have been created. Rather, in the early years of the twenty-first century, the gravest threat to international security is global terrorism. And the terrorist networks undertaking these nefarious acts are virtually all based in politically closed societies.

Counter to the expectations of the prevailing school, a great deal of research in the 1990s on the political dimension of conflict has revealed a powerful pattern of a “democratic peace.” Democracies rarely, if ever, go to war with each other. This pattern has held from the establishment of the first modern democracies in the nineteenth century to the present. As an ever-greater share of the world's states become democratic, the implications for global peace are profound. Indeed, as the number of democracies has been increasing, major conflicts around the world (including civil wars) have declined sharply. Since 1992, they have fallen by two-thirds,²³ numbering just 13 as of 2003.

Why Democracies Do a Better Job

What explains the consistently superior development outcomes of democracies? We outline the conceptual underpinnings of democracy's superior developmental performance in Chapter 2. The reasons are many and varied, but boil down to three core characteristics of representative government: shared power, openness, and adaptability.

Although holding free elections is what commonly defines democracy, what makes it work is the way it disperses power. Consequently, in contrast to most autocratic governments, a broader range of interests are considered on a more regular basis. This increases the likelihood that the priorities of the general public will be weighed. Indeed, the argument that authoritarian

governments can ignore special interest groups and therefore make decisions that are for the overall good of the society is based on a series of highly dubious assumptions. One is that the unelected leaders in these systems actually have the interest of the public at heart. The behavior of Fidel Castro in Cuba, Kim Jung-Il in North Korea, Alexander Lukashenko in Belarus, and Hassan Ahmad al-Bashir in Sudan, to say nothing of former Iraqi dictator, Saddam Hussein, would strongly suggest otherwise.

Another assumption is that authoritarian governments don't have to satisfy their own special-interest constituencies. In fact, most authoritarian systems are built on the foundations of extensive patronage networks upon which they rely to stay in power. Although typically shielded from public view, these networks have enormous impacts on economic opportunity and development. The separation of powers inherent in a democracy acts as a constant reminder to the public that the central government's powers are limited. Thus, it encourages the expansion—and the independence—of the private sector. This, in turn, fosters a climate of innovation and entrepreneurship, the engines of economic growth.

The multiplicity of influences on the decision-making process in democracies also leads to more moderate and nuanced policies. This moderating influence contributes to one of the most distinctive qualities of democratic development—its steadiness. The ups and downs of economic growth in low-income countries are smaller in democracies. Rather than experiencing alternating bouts of boom and bust, economies in democracies are more likely to undergo a stable pattern of moderate gains and small declines. For poor democracies, that quality of steadiness is exceedingly important, for it means that they are more able than countries run by dictators to avoid economic and humanitarian catastrophes. For broad segments of their populations, this is the difference between life and death.

Consider this remarkable statistic: 95 percent of the worst economic performances over the past 40 years were overseen by nondemocratic governments. Similarly, virtually all contemporary refugee crises have been wrought by autocratic governments. Although shared decision-making is frequently slower, this process is more likely to weigh risks, thereby avoiding calamitous policies. When something is going wrong, leaders hear about it and are forced to take action.

Interest groups in democratic societies not only have greater influence over decision-making, they are also better informed for the simple reason that democracies generally guarantee basic civil liberties like freedom of speech and association. The resulting free flow of information, including assessing and disseminating ideas from abroad, discourages insular thinking and stimulates vigorous debate. That in turn increases the likelihood that a broader range of options and concerns will be taken into consideration than

would occur in a more narrow political structure. Rather than being concealed, society's shortcomings are exposed and the seeds of a solution to them are sown. The end result is better and more informed decisions. Freewheeling discussion of a society's problems also acts as a curb on corruption, both public and private. Finally, it promotes efficiency, not only by preventing the misuse of resources, but also by facilitating a more informed allocation of investment and by deepening confidence in market systems.

Democracies also realize superior developmental performances because they tend to be more adaptable. Our catch phrase to characterize this is "democracies are learning organizations." That is, people who live in them are continually engaged in gathering more information, making adjustments to their positions, and reassessing progress. The mindset is: If something isn't working, you change it, and if something is working, you do more of it. Thus, through trial and error, democracies find the most suitable route forward. Typically, the policy adopted is a nuanced, middle-of-the-road one, reflecting numerous, and sometimes conflicting, points of view. The right course will vary from country to country, depending on its economic, political, and cultural circumstances. In other words, democracy does not guarantee that you will get the policy decision right. However, it does guarantee you the right to change it when you've got it wrong. Structurally, democracies' "horizontal networking"—that is, the flow of ideas back and forth between the public, private, and civic sectors—allows for greater versatility, timeliness, and capacity for adjustment in the adoption and implementation of a policy than the hierarchal structures typical of authoritarian systems.

Finally, democracies' adaptability allows them to get rid of corrupt or ineffective leaders. This reduces the amount of long-term damage they can inflict. It also provides a process of perpetual renewal. New actors with different ideas and priorities can come into power. Problems can be approached from fresh perspectives. In such a climate, innovation flourishes and deadwood—whether in people or systems—that builds up in public bureaucracies shrivels.

That a process for removing leaders is built into the structure of democracy provides a systematic mechanism for succession that minimizes political crises. This feature of democratic politics lessens the likelihood of civil conflict stemming from challenges to political legitimacy. Thus, the disruptions of war are avoided and the energies that would be spent in conflict are preserved for economic development. The resulting political stability in democracies, esteemed economist Mancur Olson observed, contributes to greater investor confidence, facilitating economic continuity and incentives for long-term asset accumulation.²⁴

Our point is that the type of political system a country has in place affects its rate and type of economic development. To many readers this may seem like common sense. However, international development agencies have been designed to ignore a country's political orientation when making funding decisions. The rationale is that this would detract from making these allocations on hardheaded, technical economic criteria. By overlooking democracy's developmental contributions, however, the effectiveness of many internationally funded development initiatives is muted. Worse yet, ignoring the political dimension can at times cause international development efforts to inadvertently undermine nascent democratization efforts—a subject we focus on in Chapter 5.

Accounting for Democracy's Shortcomings

None of this is to say that the mere establishment of a democracy is going to solve all of a nation's problems—far from it. The process of democratization is rarely smooth and straightforward. And even in the established democracies, there are competing and conflicting interests. A number of low-income democracies maintain growth rates that are below the median for their regions. Often, the slower pace is a legacy of their authoritarian pasts. For instance, after inheriting societies torn by acute inequality and corruption, a number of new democracies in Latin America have struggled to find the right path forward. Similarly, while elections have been held throughout Africa over the past decade, in far too many cases strongman regimes are reemerging with no accountability to the people. In parts of the former Soviet Union, democracy has been stillborn. In others, elected leaders have used the powers of the state to suffocate free speech or any public criticism of their rule. Whatever the cause, slow growth is demoralizing for citizens of an emerging democracy who had pinned their hopes for a better life on their new freedoms.

These are all serious problems and require concerted attention. Meeting the material aspirations of newly democratic societies is crucial to consolidating democratic gains across the world—the achievement of which remains uncertain. It is important to place the struggles of these newly democratic regions in context, however. Economic growth in both Latin America and Africa in the 1990s exceeded their respective performances during the 1980s, when most still had autocratic governments. Similarly, the median proportion of Latin American populations living on less than \$1 a day (in inflation-adjusted terms) has declined steadily under democratic governance (dropping to 11 percent in 2001).²⁵ And the increased attention given to corruption in these regions does not necessarily indicate that corruption has become more prevalent. More likely, it reflects the

increased willingness of people in these societies to talk about it. And despite the economic and political struggles in a number of Latin American and African countries, public support for democracy remains robust.²⁶

We contend, therefore, that shortcomings in a country's economic development are often explained by too narrow, rather than too much democracy. And yes, there are degrees of democracy, because democracy is about more than elections. As we have already pointed out, democracy's contribution to economic development comes through its creation of structures of shared power. Putting checks on the power of the chief executive, separating the party from state decision-making, establishing a merit-based civil service, fostering an independent private sector, facilitating the free flow of ideas, and creating expectations that a country's leadership will adhere to the rule of law—all of these are hallmarks of a democratic political structure that augments the prospects for social and economic development. Democracies at every income level that have established stronger mechanisms of checks and balances grow more rapidly than those that have not. To address the shortcomings of economically struggling democracies, therefore, requires broadening these structures of shared power.

It is possible, of course, for dictatorships to create checks on power. A number of the East Asian dynamos did so. Fearing the emergence of communist insurgencies like those that ultimately seized power in China, North Korea, and Vietnam, they certainly had a powerful incentive to spur broad-based economic development.²⁷ They also began their drive to develop with relatively egalitarian societies, diminishing the pitched social battles encountered in other regions. And they did a good job of it, reinvesting the assets created from their initial economic gains in education, health care, and job training. But the fact remains that, unlike democracies, dictatorships have no built-in inclination to create a system of restraints on government.

The Flaws of the Authoritarian Growth Model

The two overarching views we have described—authoritarian advantage versus democratic development—portend dramatically divergent visions of the way forward for low-income countries. We have already discussed some of the risks if the democratic-development position is misguided. Indeed, concerns over the anticipated political instability that would accompany “premature democratization” have been folded into the development-first argument. But let's examine the downside implications if the authoritarian-led development theory is off the mark.

They assert that the chances for poor countries to make the transition to democracy improve once they reach some middle level of development. Until then, they say, authoritarian governments are best suited to lift up

these countries' economies. But why is this? A strong case can be made that they are the worst suited. Since they are narrowly based, the economic growth that is realized is likely to be confined to a sliver of the population. Lacking transparency, autocratic governments tend to encourage patronage and corruption. Their repressive nature also makes them susceptible to internal conflict. Far from nudging their economies to that magical middle-income threshold, autocratic government may actually impede the process. We believe that a policy strategy dependent on autocratic-led economic development is thus perpetually caught in a vicious circle. Since these societies rarely develop, they are never considered "ready" for democracy.

It is a sort of "catch-22" of economic development: A poor society can't go democratic until it becomes relatively prosperous, but it can't become relatively prosperous until it goes democratic. The contradiction highlights another conspicuous flaw in the authoritarian thesis first noted by political scientist Guillermo O'Donnell: It does not specify at just what level of economic development an autocracy becomes ready to make the big leap to democracy.²⁸ In fact, we see that among the handful of authoritarian governments that have grown steadily over an extended period of time (such as Singapore, China, Soeharto's Indonesia, Tunisia, and Egypt), most have been no more willing to share power after decades of growth than they were at early stages of development.

Furthermore, this transition theory does not take into consideration the social and cultural dimensions involved. As one observer noted, it treats political systems like coats. It assumes that a society can just take an autocratic system off and put a democracy on.²⁹ The reality, of course, is that political systems affect the culture, values, incentive structure, and economy of a society. Nations that have lived with authoritarian rule undergo a persistent deterioration of societal values and cohesion.³⁰ The breakdown in order following the toppling of Saddam Hussein in Iraq and the lawlessness and perceived moral vacuum in Russia after decades of communism are contemporary manifestations of the decay that builds up under the shell of autocratic stability. The further down an autocratic path a society has gone, the longer and bumpier is the road to democracy.

And the greater is the risk, by far, of human misery, even catastrophe. Over the past 40 years, autocracies have been twice as likely to experience economic collapse as democracies.³¹ When that happens, the danger of mass starvation looms. In contrast, Nobel laureate Amartya Sen has observed, there has never been a democracy with a free press that has experienced a famine.³² Autocracies are also more prone to conflict. Eighty percent of all interstate conflicts are instigated by autocracies.³³ Furthermore, they are more vulnerable to civil wars. And since civil wars

have a 30 percent chance of spilling over into neighboring countries, the consequences of this instability must be considered in the context of the broader region.³⁴ In short, a development strategy based on supporting autocracy is akin to picking one's way through a minefield.

A review of the weak empirical support for an authoritarian growth advantage, coupled with the high probability of risk, prompts us to revisit the question of why this conceptual framework has had such resonance. The fact that this thesis gained currency during the Cold War certainly had some bearing on the outcome. The West was obsessed with the communist threat. Cooperation from anticommunist authoritarian allies was highly valued. Moreover, at the time the groundwork for this theory was laid in the 1950s and 1960s, there weren't many low-income democracies in existence; 70 percent of the world's states were nondemocratic. Most of the new states of this era were rightly seen as possessing limited levels of human, financial, and infrastructure capacity. Concerns over how they could be held together shaped an acceptance of the need for hierarchal political structures. Moreover, the superpower alliances that divided the world and propped up many of these authoritarian governments seemed highly durable. Therefore, for scholars writing during this period to imagine successful democratic transitions, much less a wholesale shift toward democratic governance, would have required exceptional vision. Finally, development thinking at this juncture was still dominated by the belief that purely technocratic solutions could address poverty and stimulate economic growth around the world. Many of the prevailing theories (for example, industrialization, investment to fill the finance gap, forced savings, and import-substitution) focused on top-down approaches. These strategies were well suited to hierarchal political structures. The belief was that if the correct technocratic development formula could be found and adopted by the leadership in the developing world, then rapid development would result. In other words, the appeal of the authoritarian-led approach has always had at least something to do with its expediency, in comparison to the messy and time-consuming procedures typical of democracy.

It is really no surprise, then, that the authoritarian advantage thesis enjoyed such support in the decades following World War II. However, revivalist supporters of this view in the post-Cold War era—when the numbers of democracies around the world have been increasing—are in a much more awkward position. From our perspective, they have seized on specific cases of supposed economic successes in dictatorships, compared these to selected democratic failures, and used them to justify the original theory. To sustain this view, they have had to rely on idealized versions of autocratic success. Over the last 20 years, there have only been a handful of cases of sustained growth under authoritarian regimes: Bhutan, China,

Egypt, South Korea, Singapore, Taiwan, Tunisia, and Vietnam.³⁵ However, to hold these up as a model for other developing countries requires ignoring the 60 or so other dictatorships that had sustained sub-par growth during this period. In other words, seven times as many authoritarian regimes had poor growth as had superlative growth. Moreover, 43 had at least one episode of a disastrous economic experience—which we define as an annual contraction per capita GDP of 10 percent or more—during this time. To cling to the notion that autocratic government is required for development among poor countries requires an exceptional degree of selective thinking.

Succinctly put, the autocratic growth model is terribly narrow. The number of countries that have followed it with success is few. Those that have gone on to become democracies are even fewer. Proponents of this model, therefore, are hinging their claims on a few exceptional cases: South Korea, Taiwan, Portugal, and Spain (all of which did move into the democratic camp). How valid are these cases as a template for today's developing countries in Latin America, Africa, Asia, and the former Soviet Union? The political cultures in these regions are generally characterized as personalistic, elitist, and patronage-based—traits that are inimical to promoting economic development. Yet these are the very characteristics that an authoritarian growth model reinforces. Furthermore, the deepening monopolization of political and economic power typical of autocratic government makes the proposition that they are better suited to improving and sustaining living conditions in developing countries even less credible.

For historical perspective, let's consider some of the one-party states of the 1960s touted by Huntington and others as models for development: the Soviet Union, Yugoslavia, Mexico, North Korea, and North Vietnam. Several enjoyed periods of rapid growth over an extended period. In some years, they set the pace for growth globally. However, in none was the early growth sustained into subsequent decades. On the contrary, they all went through disastrous economic ordeals between growth spurts. This volatility is characteristic of growth in authoritarian economies. To repeat an important point: While a small number of countries with closed governments post the most rapid growth rates in the world, a much larger group of them clogs the ranks of the worst performers. In many cases the same country can occupy both positions in a period of a few years. The poor track record of even the historically star performers of the autocratic-growth thesis reveals the sandy ground upon which this model is built.

China vs. India

This brings us back to China. Will it continue on its torrid pace of growth and make a smooth transition to democracy? Or will it begin to shudder

and eventually endure economic collapse as so many other autocratic governments have before it? In other words, is China more likely to be the next South Korea or the next Indonesia? We are hoping for the former. This would be in the best interests of the Chinese people and the world at large. However, economists point to economic flaws—ranging from insolvent banks, environmental destruction, and soaring unemployment to swooning returns on foreign investments—that could undermine China's future performance.

Whatever the strengths and weaknesses of China's economy, we rivet on two points. First, China's rapid growth began only after it adopted market-based reforms—economic performance flowed from economic policies rather than its form of government. In the previous three decades under an authoritarian government and a planned economy, the economy stagnated. Clearly, authoritarian rule paved no road to prosperity. To the contrary, prosperity came as the dictatorship, copying the example of Japan and the East Asian Tigers, moved away from micromanaging the economy and toward a market system. Second, China faces profound challenges in the years ahead, not the least of which is the task of absorbing workers rendered unemployed by the closure of moribund state-controlled enterprises.

As the Communist Party moves away from its ideological roots, it increasingly becomes primarily a mechanism to maintain power. Its rural base has dwindled, suggesting that its social base is narrowing sharply. While some have applauded the move to accept entrepreneurs into the party as a means of broadening this base, in fact, this is really an elaborate means of consolidating patronage relationships.³⁶ Rather than creating an independent middle class that will serve as a counterweight to the party, the party is co-opting the wealthy entrepreneurs to ensure that it remains the sole power center in society. Entrepreneurs that join the party have privileged access to public contracts and bank loans. Unsurprisingly, levels of corruption are on the rise.³⁷

Even if the Chinese economy continues to grow, it faces daunting challenges. Will the Communist Party allow for a genuine transition to democracy? Or is it racing toward the edge of an economic cliff like so many other autocratic countries in the past that had seemed to be performing economic miracles? The latter is an unsettling—and real—possibility. For Beijing's only claim to political legitimacy today is its ability to deliver economic growth. If it is no longer able to do so, its governance structure will be exposed not only as closed and inflexible but unworkable—and will crumble under its own weight. Should that happen, the consequences for the Chinese people will be severe and foreign investors will be left with the sad realization that their dreams of a big payout blinded them to the economic realities of an opaque system built on a weak adherence to a rule of law.

Whatever happens, China faces a period of great transition in the years ahead. Despite the successful transfer of power to new leadership in the sixteenth Party Congress in late 2002, the lack of a legitimizing process leaves its political structures unstable. The Communist Party's narrowing political base, which now represents a scant 5 percent of the population, only magnifies its alienation from the population. Indeed, a survey of migrant laborers indicates that the prevailing image of the party is that of a self-serving elite.³⁸ Ultimately, therefore, Chinese authorities retain power by their capacity for repression. As Minxin Pei has noted, "the preservation of a one-party state and the implementation of the rule of law are fundamentally incompatible."³⁹ In short, China must establish a legitimate, stable political structure. Until it does, the sustainability of its economic progress remains uncertain.

The performance of democratic India, the other Asian behemoth, has frequently been compared to China's as a barometer of the superiority of authoritarian governance to that of democracy. By most measures, over the last two decades, China has dominated. For while India's achievement has been impressive, its doubling of per capital incomes from \$239 to \$496 between 1982 and 2002 falls far short of China's quadrupling of incomes from \$189 to \$940 in the same period.⁴⁰

And yet, the comparison is not as clear-cut as it might seem. While both China and India established their political structures in the aftermath of World War II, it was arguably China that first adopted a capitalist economy. Starting with its economic reforms in the late 1970s, it pursued more liberalized pricing, labor, export, and capital policies than India (at least until 1993 when India seriously undertook economic reforms). In contrast, India borrowed heavily from the Soviet economic model. Consequently, it maintained a significant degree of central planning in its economy into the 1990s (the over-regulated legacy of which, many argue, remains a problem today). India's public sector share of GDP growth increased to 26 percent in the 1980s from 10 percent in 1960.⁴¹ Furthermore, drawing on the development theories that prevailed from the 1950s well into the 1970s, India largely adhered to the import-substitution and industrialization models of development even as China was embracing market-based reform. But as India has adopted a more liberal economic posture, its growth too has accelerated, averaging annual per capita gains of more than five percent in the 1990s.

In short, the China–India economic rivalry is still playing out. And already, India is exhibiting the corrective traits of democratic governance. Its growth is robust, though not exceptional. Nonetheless, it has avoided economic crises and humanitarian catastrophes, something China has not.⁴² India has been more willing to reduce subsidies to state-owned enterprises

and allow foreign ownership.⁴³ Moreover, India has demonstrated an ability to innovate—as seen by the originality of the high-technology products that have been generated in Bangalore—products that China cannot match, despite the massive state subsidies it lavishes on its technology sector.

As it has moved into an era of competitive party politics, the Indian ship of state is also benefiting from a long-overdue “scraping of the barnacles”—the breaking up of some of the entrenched formal and informal patronage networks that had come to characterize Indian economic life. China, while enjoying the exhilaration of rapid growth—as have other authoritarian systems before it—still has some treacherous shoals to navigate. The encrustation of its one-party monopoly is increasingly burdensome, as seen by the growing levels of corruption. Public outrage and violence against state officials have been on the rise, especially in rural areas. Most seriously, China must yet address how it will negotiate a transition to a more representative form of government, something India has already done. Until then, China’s economic gains are inherently unstable.

The Way Forward

We’ve put forth the argument that democracies perform consistently better on a range of social and economic development indicators than authoritarian governments do. They respond more readily to people’s needs, they are adaptable, and they create checks and balances on government power that discourage reckless policies.

Why is it important to delve into this debate? Because ideas matter—they have consequences. If the “development first” view holds, the international community will pursue one set of policies to spur economic development in poor countries. If instead democracy’s developmental and security advantages are recognized, major shifts in policy would be required. Highlighting some of these changes is the focus of Chapters 6 and 7.

Indeed, frustrated with a long string of development failures, the World Bank, the United Nations Development Program (UNDP), and other development organizations began to focus more explicitly on governance issues starting in the 1990s. Poor governance and its draining by-product, corruption, were identified as root causes to chronic underdevelopment. This led to many new projects aimed at enhancing governance effectiveness by strengthening the capacity of the civil service, judiciary, and anti-corruption agencies. Similar efforts were undertaken to establish and implement more consistent property rights and contract enforcement legislation to make emerging market economies more attractive to private investment. In parallel to these changes, many bilateral donors, led by the

United States Agency for International Development (USAID), established democracy promotion units that focused on a wide range of activities including electoral and constitutional reform, capacity-building for legislators, encouraging civil society, and promoting norms for civil-military relations. Despite this increased attention, the focus on “good governance” has, by and large, not translated into linking development assistance to democracy. Low-income autocracies continue to receive the same level of official development assistance, on average, as democracies. Reorienting United States and other industrialized democracies’ development policies, therefore, would at the very least require gauging how far down the path of democracy a given country has gone before allocating development assistance to it. That may sound like a simple exercise, but in fact it would require major changes in the way countries and multinational organizations divide up the economic-aid pie. At present, certain agencies are legally required to ignore political characteristics of a government to which funding is provided. If a democracy-led development thesis gains acceptance, that mandate would have to be revised.

Policy adjustments in timing and approach are also in order. To accept the role of democracy in triggering economic development compels recognition of the role of coalition building in democratic societies. There are, of course, the broad social compacts between labor and management, rich and poor, rural and urban that establish the norms and parameters that guide a democratic society’s politics. However, democracies also thrive on engaged citizens acting through private associations. They provide an active brake on repressive government, forcing authorities to take proper heed of legitimate interests. Think of the essential role in the West played by coalitions of consumers, small businesses, tax opponents, labor, and human rights groups. Such coalitions take time to build—a process that varies by country. If international donors try to force poor countries into a standardized prescription of economic reforms without taking this into account, they could undercut incipient democratization efforts.

Changes in U.S. national security policy are also required. National security concerns have regularly been invoked to trump democracy considerations in U.S. foreign policy decisions. This Cold War tendency has persisted long after the fall of the Berlin Wall. As American foreign policy leaders come to recognize the nexus between autocracy, poverty, and conflict, they will be obliged to revisit the wisdom of this approach. The long-term downside costs are frequently greater than is recognized when these relationships are initiated. Indeed, the expanding threat of international terrorism is in certain respects a direct outgrowth of earlier instances of U.S.-supported autocratic governance.

The tensions between the short-term goal of gaining the support of strategically important authoritarian governments and the long-term damage to American policy that such a policy might have are likely to intensify in the coming years. Viewing the issue in this way is a departure in strategic thinking from the often-accepted formula that giving military assistance to dictatorships is a tradeoff between our partiality for democracy and our need for security. In fact, the United States' experience since World War II, made vivid by the September 11, 2001 terrorist attacks, has shown that America's vital foreign-policy interests of promoting democracy and safeguarding national security are not only compatible, they are complementary.

For the past half-century, the United States and much of the industrialized world have supported a strategy of relations with low-income countries built on a mix of false assumptions. In this book, we will hold those suppositions up to the light. In the process, we demonstrate the superiority of democracy over dictatorship in spurring economic development and preserving social stability. We invite readers to walk with us as we review the record and to contemplate the policy dimensions of a democracy-centered foreign policy. Such an approach, we believe, greatly improves the prospects for a safer and more prosperous world.

CHAPTER 2

Setting the Record Right

I believe what a country needs to develop is discipline more than democracy. The exuberance of democracy leads to indiscipline and disorderly conduct, which are inimical to development.

Lee Kuan Yew
former President of Singapore

Democracy is the answer. Not because democracy is perfect. It is precisely because it is imperfect. We are not looking for another utopia; we are looking for an optimal solution based on the systems available to us. By that standard, there is no contest . . . and there is no justification for further delay. For decades after independence, many of our populist regimes told us that democracy had to be suspended until “national liberation;” until Palestine had been liberated; until we have economic development; until we have true social justice; and so on. As it turns out now, after 50 years of depriving ourselves of democracy, we find ourselves with none of these things! And we’re no closer to democracy.

Saad Eddin Ibrahim
Egyptian Democracy Activist

The belief that authoritarian¹ government is better suited to propel economic growth in low-income societies draws on a storied intellectual tradition. Aristotle believed that only in a wealthy society in which assets were equitably distributed could ordinary citizens develop the self-restraint to participate in politics without succumbing to the irresponsible appeals of

demagogues. This idea built on the view of his mentor, Plato, that matters of state were so serious and complex that only a specially trained technocratic elite was equipped to manage the day-to-day responsibilities of governance.

In the twentieth century, the notion of an authoritarian advantage among low-income countries was popularized by the work of Seymour Lipset, who contended that only with elevated levels of income, education, and urbanization could political pluralism take hold.² Conceived at the height of the Cold War when there were relatively few democracies, Lipset's thesis viewed democracy as the crowning achievement of a country's development.³ At early stages of development, by extension, authoritarian governments were considered more capable catalysts of economic progress. That development, in turn, would create the conditions—industrialization, literacy, and a substantial middle class—that would eventually lead to stable democracy.

There were social, political, economic, and security dimensions to this argument. Higher incomes helped the poor to develop longer time horizons and a more gradualist view of politics. Meanwhile, widespread attainment of basic material needs and literacy made the concept of power sharing with commoners more conceivable to the wealthy. In contrast, if democracy were attempted prematurely in a society still mired in poverty, illiteracy, and weak social institutions, the likely result would be irresponsible government leading to social instability or domination by an elite class that was unaccountable to the general public.

The validity of this theory was widely accepted in academic and policy circles.⁴ The reasoning was that in a society with limited resources and capacity, the iron fist of an authoritarian regime was better suited to mobilizing the nation's limited financial and human resources. The evidence seemed to support this logic: communist Soviet Union, Yugoslavia, and Romania were among the fastest growing economies in the world in the 1950s and 1960s. In his 1968 classic, *Political Order in Changing Societies*, Samuel Huntington touted the invaluable organizing role that a strong single political party could bring to a poor society: "The great utility and the great appeal of the single-party system in modernizing countries is that it is an institution that, in large measure, promotes both concentration (and hence innovation) and also expansion (and hence group assimilation)." "In various ways the established one-party systems in Mexico, Tunisia, North Korea, and North Vietnam have all demonstrated both these capacities." Liberal, pluralistic, democratic governments lacked the political power to bring about fundamental change.⁵

Authoritarian governments were also assumed to be better equipped than democracies to overcome cultural and legal obstacles to development

and plunge into the nation-building tasks of educating the masses, creating a national transportation system, and exploiting natural resources. And, crucial to reducing disparities in wealth and income, they had the wherewithal to force through land reform, as South Korea, Taiwan, Japan,⁶ Mexico, Turkey, Egypt, Pakistan, Syria, and numerous systems had all amply demonstrated.⁷ Huntington and Nelson neatly summed up the harsh necessity: “Political participation must be held down, at least temporarily, in order to promote economic development.”⁸ It was a view that gave moral support to the West’s Cold War policy of supporting authoritarian governments that disavowed communism.

Even with the end of the Cold War and the movement toward democracy by numerous developing countries, the notion of an authoritarian advantage remains embedded in the worldviews of many international actors. Some have cited the need to face a “cruel choice” between democracy and development⁹ and the destabilizing effects arising from unmet expectations created by simultaneously supporting both.¹⁰ In its 1993 report, *The East Asian Miracle: Economic Growth and Public Policy*, the World Bank endorsed the technocratic and efficiency-enhancing advantages of authoritarian systems for generating development—a view echoed in 2002 by the Asian Development Bank.¹¹ Some leading growth economists continue to warn against the dangers democracy poses to economic growth. Robert Barro, for example, has urged Western policymakers to support efficient authoritarian regimes that provide political stability and improve economic conditions in poor countries.¹² Although rarely voicing open support for this view, many diplomats and multilateral agency representatives quietly endorse it.¹³ The attractions for them are more than intellectual. Dealing with one individual or a small number of powerful bureaucrats in an authoritarian system is a lot easier for diplomats than maintaining a broad network of relations in a democracy.

It goes without saying that authoritarian leaders are big fans of the authoritarian advantage theory.¹⁴ At a private presentation of the path-breaking *Arab Human Development Report* to Arab League foreign ministers in August 2002, all but two of the 19 ministers in attendance were reported to have dismissed the report’s recommendation to address the region’s “freedom deficit.” Their ostensible rationale was that this would hurt prospects for development in the region.

Proponents of authoritarian-led development also based their position on the perceived weaknesses that democracies bring to the task. Democratic leaders, they say, are too quick to cave into the demands of the masses for budget-busting welfare programs, too willing to cater to special interests, too indecisive to take the bold steps necessary to build strong state institutions, and just plain too weak to stave off political instability.

The first of these major failings is “macroeconomic populism,” the inevitable surrender by democratic leaders to the electorate’s demands for higher wages and social service entitlements that will satisfy poor people’s short-term needs but breed long-term macroeconomic instability.¹⁵ Invariably, taxes will go up, public-sector deficits will widen, private entrepreneurs will be starved of capital, innovation will be stifled, and productivity will decline.

A second often-stated drawback of democracy in spurring economic development is the vulnerability of politicians to the influences of wealthy individuals, resource-rich monopolies, or powerful labor unions that can mobilize funding, publicity, and popular support on their behalf. As a result, policies are skewed to benefit these special interests at the expense of the general public and worsen rather than alleviate economic inefficiencies. By contrast, dictators can resist such pressures and forge policies that will serve the nation’s long-term interests.

A third perceived deficiency of democracies, deriving from their need to placate competing coalitions of power, is their inherent messiness and slowness to act. Stalemates are common, and when compromises are reached, they often have little practical effect. Furthermore, decisions are never final.¹⁶ Rather, they are regularly open to review, renegotiation, and reversal, particularly if a new leadership comes to power. Even in the prosperous and politically mature United States, this dynamic can be seen at work in the never-ending debates and legislative maneuvering over abortion, campaign finance reform, and affirmative action. Elections, from this perspective, are a perpetual source of uncertainty and, therefore, a disincentive to investment. Consider the case of a major international energy firm that in the late 1990s invested several billion dollars in a number of emerging democracies in Latin America that had adopted free-market systems. The understanding of the firm was that electricity would be supplied on a cost basis, allowing it to recoup its investment over a designated period. The flow of revenue in turn would provide the company with an incentive to sustain and expand its services. Alas, before long, populist candidates in some of those countries were declaring that essentials like electricity should be provided to the public for free, or at least at reduced cost. The proposals threw the company’s planning into disarray and discouraged further investment, not just by the energy provider but any foreign company. Advocates of authoritarian governments as the surest route to economic development say they offer greater security to outside investors because a smaller number of people in power reach decisions more quickly and more certainly.

A fourth disadvantage cited by critics of democracies is their tendency to precipitate political instability.¹⁷ This view holds that elections in poor

countries populated by fractious ethnic, regional, religious, and economic groupings have a polarizing effect.¹⁸ In such a context, there is a great temptation for politicians to fan factional conflicts to gain the support of this group or that. This is particularly the case in winner-take-all societies that lack established checks on public authority, a tradition of professional journalism, norms of compromise, and transparency. Low-income countries are considered particularly susceptible because their very poverty limits the potential for economic trade-offs that can lead to compromise among the competing factions. Authoritarian governments can avoid that trap by using their power to keep factional rivalries in check.

Empirical Experience

However many scholars have studied the relationship between democracy and development, they have been hard put to find a causal relationship between them.¹⁹ There is always the possibility that none exists. But assuming one does, it is difficult to measure. So many factors come into play both in a country's political evolution and in its economic progression that separating them all out, quantifying and analyzing them and the connections among them are practically impossible. Seemingly straightforward matters, like defining democracy, can be daunting. For example, does a country merit the name just because it holds elections? It depends on how the elections are held, of course. But then, how do you evaluate that process? For clarity's sake, when we say democracy we mean political systems characterized by popular participation, genuine competition for executive office, and institutional checks on power. This is operationalized using the Polity IV democracy index, which assigns a 0 to 10 democracy rating annually for every country with populations greater than 500,000.²⁰ (For a list of countries and their democracy scores, see appendices A & B.) We set a high bar in our designation of democracies so as to avoid introducing bias from countries that may demonstrate certain trappings of self-governance, though eschew meaningful mechanisms of shared power.

Similarly, economic growth is a crude measure of development—it doesn't capture distributional questions or the extent to which citizens are meeting basic needs. Furthermore, economic data, particularly among poorer countries, are often missing. Compounding the complexity, many analyses have drawn heavily from the Cold War era when relatively few low-income democracies existed and much development aid was used to solidify superpower alliances rather than address poverty.

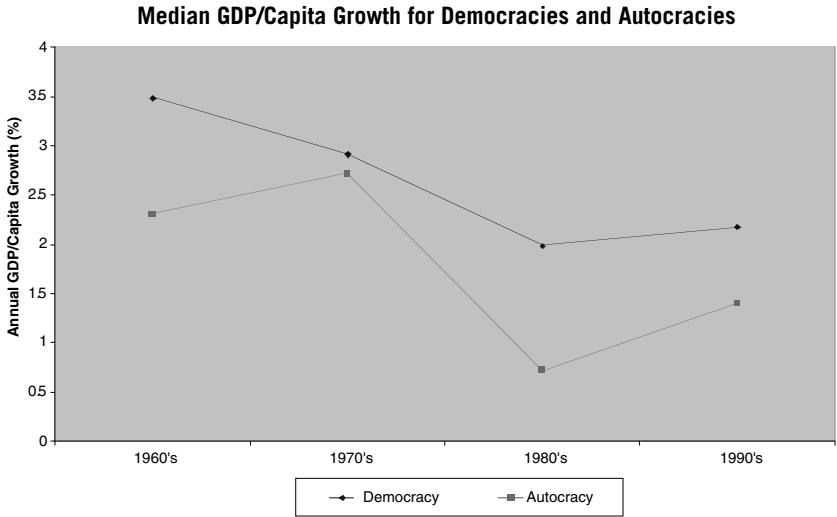
Given all those difficulties, we have approached the empirical questions surrounding democracy and development differently. Rather than looking for a causal link between them, we aim to study the extent to which they

coexist in low-income countries—in other words, whether they are compatible with each other. This, after all, is the central issue to the overarching policy question to this debate: Should the international community support democratization in developing countries? The common wisdom asserts that democracy hinders economic progress in the early stages of development. If, however, it can be shown that the two phenomena occur simultaneously, then the empirical basis for the authoritarian-led development model largely dissolves.

Toward that end, we examine as large a sample of countries as possible—covering the period from 1960 to 2001—the most inclusive and recent years for which reliable cross-country data is available. Recognizing that there is a spectrum of governance types, we compare countries that qualify as democracies versus autocracies (i.e., at the top and bottom tiers of the Polity IV democracy ratings). This allows for the sharpest comparison of how governance type may affect development outcomes—and is most directly relevant to the question of whether or not an authoritarian advantage exists for developing countries.

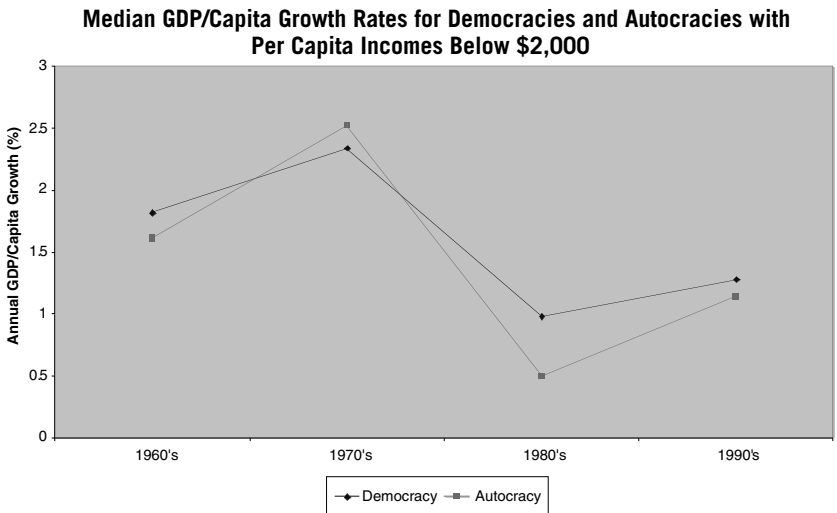
We find that despite the wide acceptance of the prevailing wisdom, democracies have, on average,²¹ out-performed autocracies on virtually every aspect of development considered. When a full sample of countries is considered, democracies have realized consistently higher levels of economic growth than autocracies during the past four decades (Figure 2.1). This translates into a 30 percent advantage in annual per capita economic growth rates (2.3 percent versus 1.6 percent).²² Since these figures include countries that are better off, this difference in itself is not startling. It has long been recognized by all sides that most prosperous states in the world are well-established democracies. These democracies have an impressive record of improving productivity, asset creation, and superior economic growth.²³ The real debate, therefore, is whether low-income democracies²⁴ are capable of growing at a clip comparable to low-income authoritarian governments. (We categorize countries with per capita incomes below \$2,000 as low-income.) In other words, can countries such as the Dominican Republic, Bulgaria, India, and the Philippines keep up? The disagreement is not on the goal (prosperous democracies) but on the path and the timing to get there.

Limiting our review to low-income countries, we find little discernible difference in per capita growth rates between democracies and autocracies from 1960 to 2001 (see Figure 2.2). The median growth levels for each decade considered are very comparable. The clear-cut democratic dominance seen in the full sample does not hold among low-income countries. Nevertheless, we do not see any evidence of an authoritarian advantage—as long argued by the conventional wisdom—even during the early decades of this period when this thesis was first put forward. For the entire 40-year



Based on data from *World Development Indicators 2003; Polity IV*.

Figure 2.1 Over the decades democracies have consistently outpaced autocracies in their rates of economic growth.



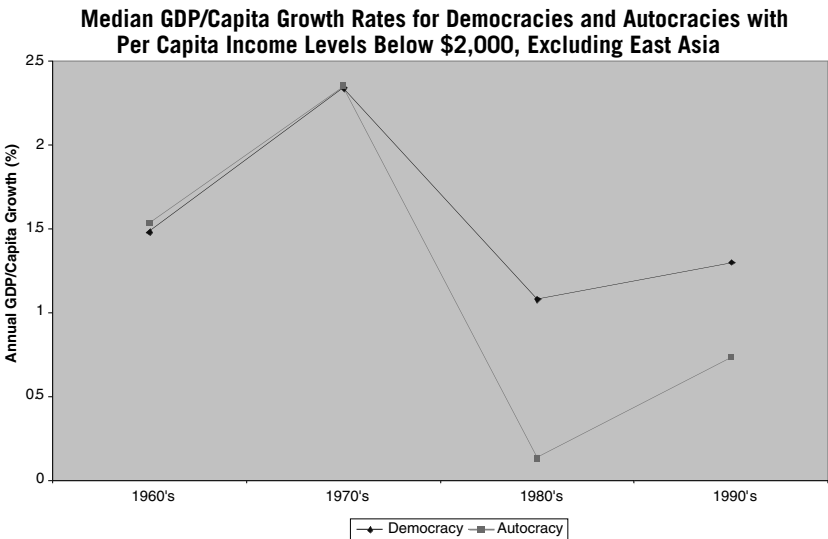
Based on data derived from *World Development Indicators 2003; Polity IV*.

Figure 2.2 Low-income democracies have grown just as rapidly as low-income autocracies over the four decades since 1960.

period, the median growth rate among low-income countries is roughly equivalent: 1.5 percent for democracies versus 1.3 percent for autocracies.

There is more to this story, however. The phenomenal growth experience of the East Asian Tigers skews the overall growth rate of authoritarian countries. When East Asia is removed from the low-income sample, the median authoritarian rate drops markedly while the democratic rate holds steady (see Figure 2.3). This reveals a pattern of democratic growth rates 50 percent superior to that of autocracies for the rest of the world over the 40-year sample period. The differential since 1970 has widened with low-income democracies outside of East Asia outpacing their autocratic counterparts in their average rates of growth by 1.6 percent versus 0.9 percent. Even stronger 40-year divergences emerge for countries with per capita incomes below \$1,000 (1.75 percent versus 0.75 percent) and \$500 per year (1.6 percent versus 0.6 percent). Some of the faster growing low-income democracies that are reflected in these results include Botswana, Costa Rica, Dominican Republic, India, Lithuania, Mauritius, Nicaragua, and Trinidad and Tobago.

This gap in growth rates between democracies and autocracies might be larger except for a simple, though frequently overlooked, recording problem:



Based on data derived from *World Development Indicators 2003; Polity IV*.

Figure 2.3 Outside of East Asia, low-income democracies have dramatically outpaced low-income autocracies in their rate of economic growth—a divergence that widened since 1970.

many authoritarian governments do not make their economic statistics publicly available. Consequently, these data points are not included in the comparative growth rates we examine. If they were, the level of autocratic growth would likely be even lower than what we document. Specifically, from 1960 to 2001, a full one-fourth of economic growth data for autocratic countries is missing. For the same period, just under five percent of the data from democracies are missing.²⁵ Thus, growth data for 38 authoritarian countries during parts or all of this period are not considered. This includes states such as Afghanistan, Cambodia, Cuba, Djibouti, Iraq, North Korea, Somalia, and numerous Middle Eastern and Eastern Bloc states. In contrast, only five democratic countries have missing data. The availability of data does improve in the 1990s but sharp differences between the two categories of countries remain evident. Eleven percent of authoritarian developing-country growth data points are missing compared with 1 percent for democracies. To fill in some of these data gaps, the creators of the World Bank's World Development Indicators, considered the most comprehensive dataset available, have estimated the per capita GDP growth rates for certain autocratic countries even when they do not have a credible base level of income from which to gauge growth. Although these figures are included in our comparisons, the compilers of the indicators acknowledge that these estimates do not have the same degree of reliability as other growth figures that are listed.²⁶ In short, a distinguishing feature of regime types—degree of openness—directly affects even our ability to conduct reliable economic comparisons.

Another distinguishing characteristic of democratic growth is its relative stability. Even among low-income countries, democracies have demonstrated less volatility in their growth rates than autocracies (a pattern reflected in Figures 2.1 to 2.3). Therefore, the strength of democracies' economic performance is as much their ability to maintain steady growth over time as it is to achieve relatively rapid progress.²⁷

To a large extent, this reflects democracies' tendency to avoid disastrous economic outcomes. If we consider the 20 worst per capita economic-growth rates for each of the past four decades, we find that only five of these 80 "worst performers" have been democracies—Mauritius in 1968, Bangladesh in 1972, Nigeria in 1981, and Latvia and Lithuania in 1992. The same pattern holds up in proportionate terms. The probability of any country experiencing an "economic disaster" (defined as a 10 percent decline in annual per capita GDP) during the 1960 to 2001 period is 3.4 percent. For democracies, it is less than 1 percent. As might be expected, the tendency for disastrous decline is greater among less wealthy countries. Countries with per capita GDP's below \$4,000 had a 3.7 percent probability of experiencing a 10 percent contraction. The rate for democracies in

this income category was 2.3 percent.²⁸ In short, democracies, regardless of income level, rarely allow the bottom to fall out of their economies. These figures are particularly noteworthy in that the 1990s were a period of great economic volatility among democracies. Of the 15 instances since 1960 in which a democracy experienced a contraction of more than 10 percent of GDP, 11 occurred in the 1990s. Ten of these 11—all but Thailand in 1998—were transitioning from a communist economic system. Nonetheless, even during the 1990s among countries with per capita GDP's under \$4,000, democracies experienced economic disasters at roughly half the rate of states below the democratic threshold (3 percent versus 6 percent).

Volatility can also be measured by looking at the coefficient of variation.²⁹ This is simply a statistical measure of variance. Larger coefficients of variation represent more volatility. By assessing the coefficients of variation, we can gauge the level of stability associated with the respective rates of growth. A review of the 1980 to 2001 period reinforces the assessment that growth in democracies is markedly more consistent than autocratic governance systems (see Table 2.1). At every income level, the coefficient of variation is smaller for democracies than autocracies.³⁰ As would be expected, the volatility in growth rates generally declines as income levels increase. This is particularly the case among the prosperous democracies, whose growth rates tend to hover within a relatively narrow band.

In sum, the experience of the last four decades of the twentieth century shows that democracies, even low-income democracies, outperform autocracies in economic growth, in part because that growth is steadier and less prone to sudden, sharp dips. Their superior track record spares the poor much suffering, both present and future, for the poor have no choice in times of economic emergency but to sell what few assets they have to stay alive. Reacquiring these assets afterwards typically costs them anywhere from 50 percent to 300 percent of the price they got for them.³¹ Thus, democracies' ability to mitigate against disaster—whether economic or humanitarian—provides protection against catastrophic material loss, which in turn facilitates the acquisition and maintenance of assets over time. This

Table 2.1 Coefficient of Variation for Democracies and Autocracies 1980 to 2001

GDP per Capita	Democracy	Autocracy
\$0–\$500	3.49	23.1
\$500–\$1,000	5.24	24.2
\$1–\$2,000	4.29	8.93
\$2–\$5,000	3.69	5.37
\$5,000+	1.21	10.6

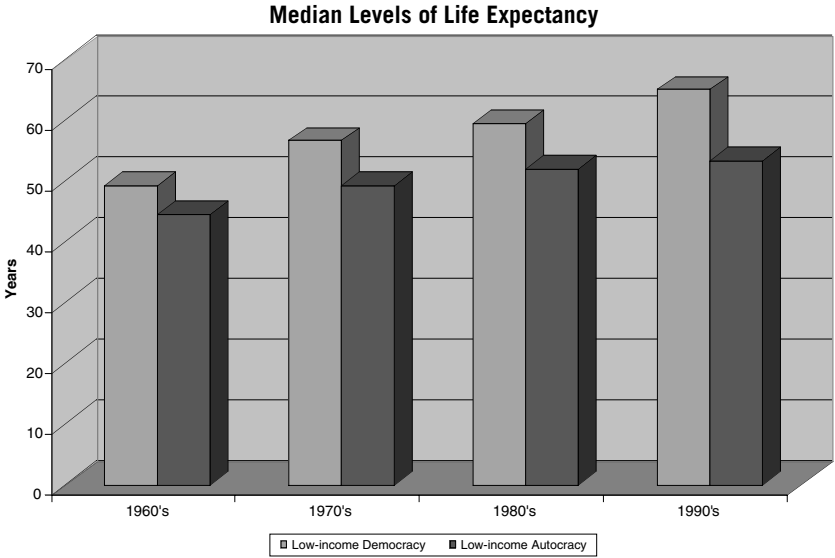
Based on data from *World Development Indicators 2003*; *Polity IV*.

is consistent with the observation by economist Mancur Olson that only established democracies have been able to consistently create assets over multiple generations.³²

Although economic growth is the most commonly cited way to compare one country's economic development against another's, it is in many ways an inadequate indicator of socio-economic progress. Taken alone, it does not reveal the extent to which economic output is shared among households or concentrated in a few sectors like oil or minerals. It does not necessarily take account of gains or declines in productivity. It does not capture improvements in living conditions like health care and education. Although levels of well being generally mirror improvements in national income, this is not always the case. A number of Middle Eastern countries enjoy substantial wealth but have lagged in their level of social welfare.³³ Similarly, there is considerable variation between countries with comparable income levels. For example, the Republic of Congo and Sri Lanka had comparable levels of per capita GDP in 2000 (\$841 versus \$860, respectively), but exhibited a gap of more than 20 years in life expectancy (51 years versus 73 years).

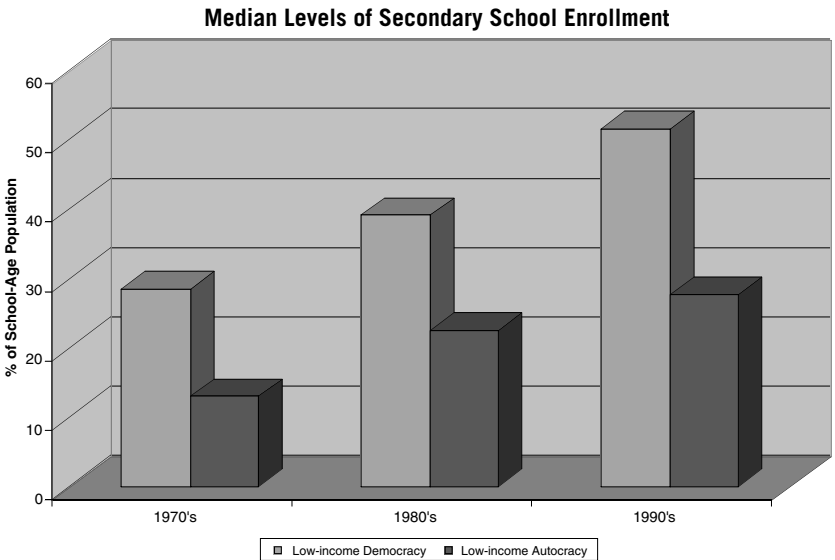
In other words, in addition to GDP, one must look at how well an economy satisfies people's basic needs, like access to food and clean drinking water. These social-welfare indicators are an important gauge of how efficiently the benefits of a growing economy are distributed to the general population. Whatever the size of GDP, equally important measures of national welfare lay in statistics like death rates, school enrollment, and cereal yields.

And comparisons of social welfare by regime type do reveal distinct differences. Citizens of democracies live longer, healthier, and more productive lives, on average, than those in autocracies. Moreover, they have done so consistently for the past four decades—a gap that grew wider in the 1980s and 1990s (see Figure 2.4a to Figure 2.4d). Specifically, people in low-income³⁴ democracies have had life expectancies that are eight to 12 years longer than those in autocracies, on average (see Figure 2.4a). To cite a few examples, Ghanaians born in the 1990s were expected to live a decade longer than their West African counterparts in Guinea—even though they have comparable levels of per capita income. Similarly, the 63-year life expectancy in India is seven years longer than that found in Burma, despite the latter having double the per capita income. Although there are numerous country-specific factors that can help explain these differences, like resource availability, regional location, and colonial history, on average low-income democracies distinguish themselves by posting consistently superior levels of social welfare across various measures of development progress. Consider secondary school enrollment (Figure 2.4b); low-income



Based on data from *World Development Indicators 2002; Polity IV.*

Figure 2.4a Citizens in low-income democracies live up to a decade longer than individuals in low-income autocracies.



Based on data from *World Development Indicators 2002; Polity IV.*

Figure 2.4b Secondary school attendance levels in low-income democracies are nearly double those of autocracies.

democracies have typically realized enrollment levels nearly double to those of autocracies. To give a conservative illustration, in 2000, 77 percent of school-aged Filipino children were attending secondary school, compared with the 57 percent enrollment rate in (until recently) autocratic Indonesia—despite having nearly identical levels of per capita income.

Agricultural productivity is a vital measure of social well being in many low-income societies in which the vast majority of people live off the land. Higher yields mean not only more food but increased employment. Indeed, the assets generated from improved agricultural productivity were the principal source of capital for savings and investment for many of today's industrialized countries at the early stages of their development. Figure 2.4c shows how democracies have been consistently better able to generate superior yields. For example, from 1995 to 2001, both pluralistic Malawi and autocratic Cameroon averaged agricultural yields of 1,450 kilograms per hectare. This was the case even though Malawi had less than one-third of the per capita wealth of Cameroon, (\$165 versus \$650) and possessed significantly fewer natural resources.

Figure 2.4d measures the progress made on levels of childhood mortality. This chart demonstrates the dramatic advances that have been made in reducing the rate of childhood deaths over the past four decades—approximately a

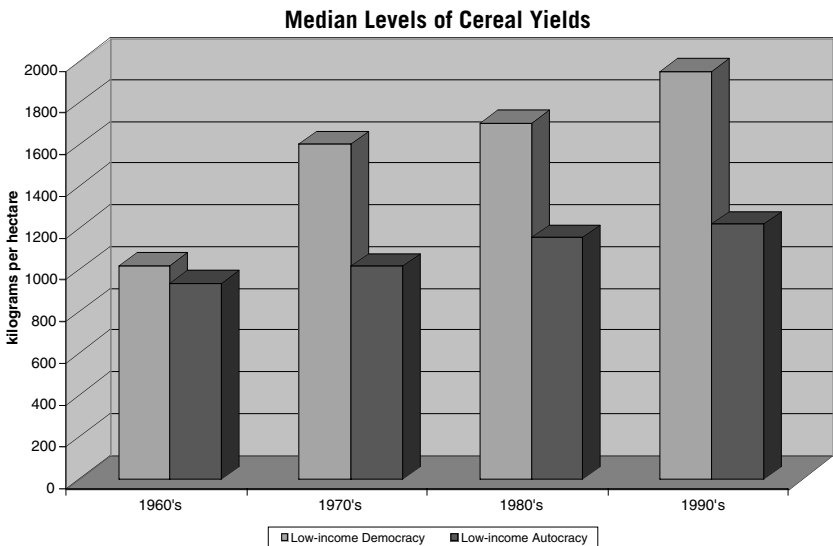
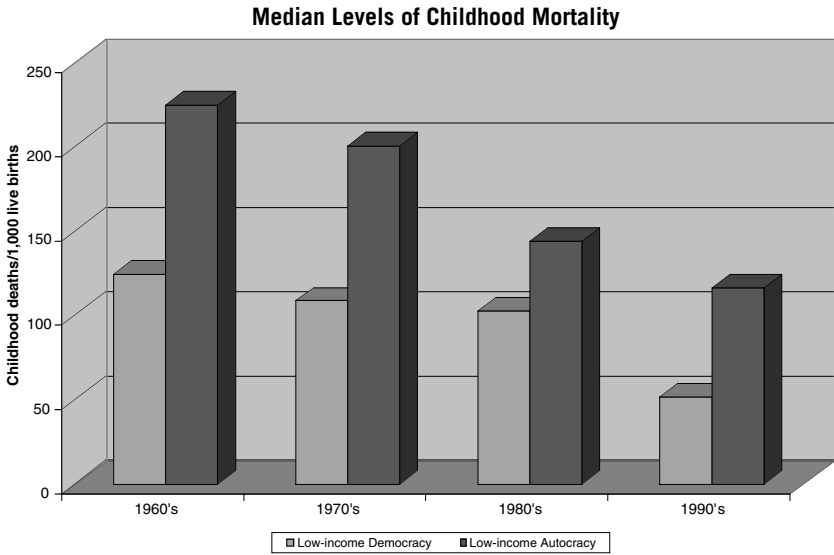


Figure 2.4c Cereal yields in low-income democracies are typically a third higher than in low-income autocracies.



Based on data from *World Development Indicators 2002; Polity IV.*

Figure 2.4d The global decline in levels of childhood mortality has been characterized by low-income democracies posting child mortality rates that are typically nearly half those of low-income autocracies.

two-thirds decline from the 1960s. But, decade after decade the mortality rate of democracies was roughly half that in autocracies. Illustrative of this is the contrasting experiences of autocratic Belarus and its democratic neighbor, Lithuania. At the break up of the Soviet Union, Lithuania had a slightly higher incidence of child mortality—20 as opposed to 16 deaths per 1,000 live births. By 2001, reflecting their divergent political trajectories, Belarus' rate had increased to 20 whereas Lithuania had cut its levels in half—to nine. Similarly, while authoritarian Bhutan had a per capita GDP 30 percent larger than pluralistic Bangladesh (\$550 as opposed to \$400), Bangladesh had a lower child mortality rate, 77 per 1,000 births versus 95.

Many development experts believe a nation's infant mortality rate is the most reliable barometer of its overall economic and social health because it embraces such a multitude of social and economic conditions, from access to food, health care, and housing to the availability of schooling for girls. So they pay particular heed to it.³⁵ Again, as shown in Table 2.2, democracies attain consistently superior results across income levels. For example, democracies with per capita incomes below \$500 have averaged 104 infant deaths per 1,000 live births. This compares to a rate of 117 for autocracies. In the lower-middle income category (those with per capita incomes

Table 2.2 Median Levels of Various Social Welfare Indices by Political Category (1960-2001)

GDP/Capita	Infant Mortality Rate (deaths/1000 births)		Childhood Mortality Rate (deaths/1000 births)		Life Expectancy (years)	
	Democracy	Autocracy	Democracy	Autocracy	Democracy	Autocracy
\$0-\$500	104	117	107	172	53	47
\$0-\$1,000 ¹	93	112	102	159	55	49
\$1,000-\$2,000	39	64	40	51	67	64
\$2,000-\$5,000	27	39	23	39	70	67
\$5,000+	10	24	9	18	75	71

GDP/Capita	Primary School Enrollment (%)		Adult Illiteracy (%)		Female Youth (15-24) Illiteracy (%)	
	Democracy	Autocracy	Democracy	Autocracy	Democracy	Autocracy
\$0-\$500	77.2	56.1	56.5	60.7	51.5	56.7
\$0-\$1,000	77.2	60.5	47.3	55.3	41.5	49.5
\$1,000-\$2,000	92.0	85.9	14.5	36.3	6.0	21.6
\$2,000-\$5,000	91.2	92.6	11.0	12.9	3.8	6.0
\$5,000+	97.3	78.2	4.8	25.0	0.5	9.1

(continued)

Table 2.2 (continued)

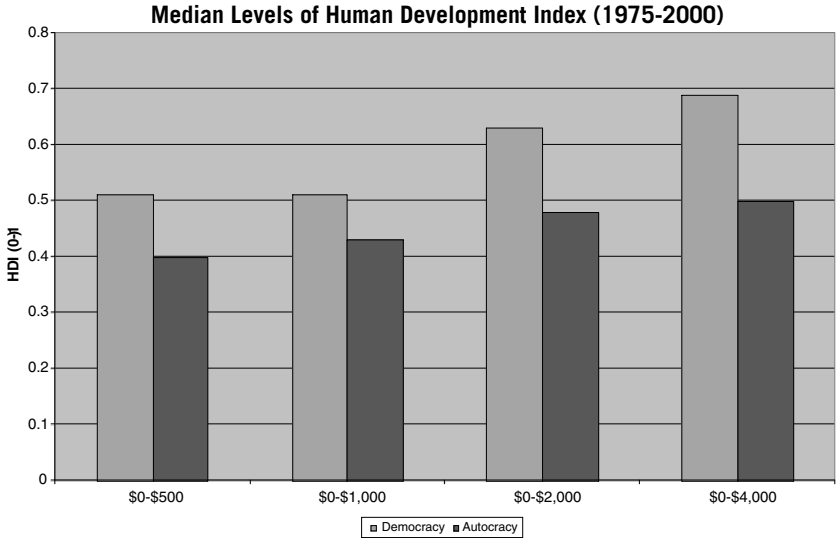
GDP/Capita	Female Sec. School Enrollment (%)		Access to Clean Water (%)		Births Attended by Health Staff (%)	
	Democracy	Autocracy	Democracy	Autocracy	Democracy	Autocracy
\$0-\$500	20.5	9.9	54	40	48	32
\$0-\$1,000	19.2	12.1	54	45	44	37
\$1,000-\$2,000	58.5	39.0	71	71	69	57
\$2,000-\$5,000	61.9	56.0	89	70	92	86
\$5,000+	93.3	61.3	100	98	100	97

GDP/Capita	Cereal Yields (kg/ha)		Crude Death Rate (per 1,000 people)		Population Growth (Annual %)	
	Democracy	Autocracy	Democracy	Autocracy	Democracy	Autocracy
\$0-\$500	1,197	1,052	11.9	17.2	2.34	2.51
\$0-\$1,000	1,368	1,067	11.8	15.8	2.39	2.56
\$1,000-\$2,000	2,126	1,323	7.2	10.0	2.08	2.54
\$2,000-\$5,000	2,302	1,683	6.7	10.0	1.49	1.83
\$5,000+	3,770	1,938	9.4	5.1	1.30	3.14

Democracy - Democracies (8-10 on Polity scores); Autocracy - Autocracies (0-3 on Polity scores)

Sources: World Bank, *World Development Indicators 2003*; *Polity IV* Democracy Scores; Observations based on country-year;

¹As there are relatively few cases in the \$500-\$1,000 GDP/capita range, the \$0-\$1,000 category is included to represent this income iteration.



Based on data from *UNDP Human Development Report 2002*; *Polity*; *WDI 2002*.

Figure 2.5 Democracies score consistently higher on UNDP's Human Development Index for each income category considered.

between \$1,000 and \$2,000), democracies have experienced some 40 percent fewer infant deaths—39 versus 64—than autocracies.³⁶ Similarly, female youth illiteracy is closely monitored since women play such a critical role at the household level in promoting other aspects of development—from health and education to maintaining the environment and starting small businesses. Table 2.2 demonstrates a rapid decline in female youth illiteracy as per capita income levels rise in democracies. Among democracies at the \$1,000 to \$2,000 interval, typically only 6 percent of young women are illiterate. In autocracies, the female illiteracy rate remains at nearly 22 percent. Perhaps most importantly, Table 2.2 reveals the breadth of social-welfare differences that emerge along regime-type categorizations. Access to basic levels of health, education, and food production define living standards for many developing countries. In 57 of the 60 categories compared, democracies demonstrate an advantage over autocracies—differences that are, for the most part, statistically significant. Meanwhile, mixed political systems, those governments with certain, though limited institutional checks on power, generate results that are typically in between those of the more distinctive democracy and autocracy categories.

In certain respects, these results are even more noteworthy since they cover a period when a number of communist autocracies (for example, the

Soviet Union, Cuba, China, and Mongolia) established commendable public health and education systems.

In an attempt to create an alternative to raw economic growth as a measure of national well being, the UNDP has published a Human Development Index annually since 1990 that covers three basic dimensions of human development: a long and healthy life, knowledge (as determined by adult literacy and by secondary and tertiary educational enrollment), and a decent standard of living (as measured by per capita GDP). A country's level of attainment on each of these dimensions is scaled on a 0 to 1 basis relative to the performance of other countries in a given year. The three scaled scores are then averaged to determine a country's overall rating for that year. Sweden and Norway have typically achieved the highest Human Development Index scores, roughly 0.94, whereas Sierra Leone and Niger have generated the lowest, 0.27. In 2003, scores for 175 countries were tabulated. Using this methodology, the UNDP has calculated index scores for all countries from which sufficient data are available for five-year intervals from 1975 to 2000. The results show a strong association between democracy and well being among developing countries (see Figure 2.5). At each income category considered, democracies generate higher median levels of the Human Development Index than autocracies.

A similar pattern is apparently evolving with regards to HIV and AIDS. Although the lack of reliable data makes firm comparisons premature, a snapshot of the spread of this disease suggests a continuation of the pattern of democratic responsiveness to human needs among developing countries (see Table 2.3). In every income category considered, democracies post substantially lower estimated percentages of adults who are HIV positive. Given the singular importance of public awareness for the slowing of this highly contagious virus, this result is not surprising. (And these figures do not factor in the presumed greater accuracy of reporting in democracies.) Although certain democracies have been seriously challenged by HIV/AIDS (for example, Botswana), the openness that is encouraged under democratic governments is a distinct advantage for public health efforts.

Table 2.3 Median Percentage of Adult Population with HIV/AIDS (2000/2001)

GDP per Capita	Democracies	Autocracies
\$0–\$500	0.20%	3.2%
\$500–\$1,000	0.15%	2.8%
\$1,000–\$2,000	0.20%	1.6%
\$2,000–\$4,000	0.45%	0.95%

Sources: World Health Organization; UNAIDS; *Polity IV*.

As a result of the poor quality of cross-national data on income inequality, we refrain from making any direct comparisons of this gap based on governance type. Nonetheless, as mentioned earlier, the extent to which a greater percentage of a population has access to basic services and opportunities for a healthy life implies such a relationship. Consistent with this observation, the percentage of a population living on \$1 a day (according to UNDP figures) is larger in autocracies than in democracies for every income category considered. For example, in countries with per capita GDPs below \$1,000 in the late 1990s (the latest period for which data are available), 26 percent of the population of the average democracy subsists on less than \$1 a day, compared with 36 percent in autocracies. Therefore, while the difficulty of measuring income inequality in a manner reliable enough for cross-national comparisons limits generalities, indications suggest that the disparities in democracies are less acute.

In short, the historical record shows that low-income democracies have demonstrated a strikingly superior performance of democracies across a broad range of development indicators. The consistency of this pattern underlines the robustness of this association. Democratic governance matters for development. Of course, democracies, autocracies, and regimes that are somewhere in between all exhibit wide ranges in their development performances. Being a democracy does not ensure rapid development progress. Nonetheless, at every income level considered, democracies on the whole have consistently generated superior levels of social welfare. This pattern holds even at the lowest income category (below \$500 per capita GDP), in which democracies outperform other governance types in all 12 measures considered in Table 2.2.

A Growing Differential in the Post-Cold War Period

Figures 2.4a through 2.4d also suggest a growing divergence in the standards of living between democracies and autocracies over the course of recent decades. There are many possible explanations for this. The quality and coverage of development data in developing countries has improved dramatically over the past 20 years. This has made measuring differences in development performance more reliable. Moreover, for a variety of reasons, the 1980s and 1990s were a time of great economic volatility for many developing countries. Autocratic governments have, by and large, fared particularly poorly during this period. The growing discrepancy in development performance may also reflect the curtailment of subsidies from both sides of the superpower rivalry that propped up autocratic governments. As this external revenue stream has dried up and with it the distorting effects on development have diminished, democracy's distinctive developmental advantages may be coming more sharply into focus. The

performance differentials may also reflect the decline in the number of autocratic governments that were communist (and that invested relatively more heavily in health and education than other authoritarian governments).

There may be other global phenomena that are contributing to the growing gap in development performance. It may be that there is greater relative compatibility between democracies and the widespread adoption of market-based economic systems. With a growing reliance on trade to stimulate economic performance, democratic societies may be demonstrating a greater ability to absorb and adapt to new information in a way that enhances their competitiveness. Similarly, recent decades have seen a dramatic increase in the accessibility of telecommunications, transport, and air travel. Societies that are relatively more open are likely to benefit from these features of the emerging global economy. Regardless of cause, recent patterns of development performance suggest that these global trends are accentuating the relative developmental strengths of democracies.

Social Welfare Expenditures

Perhaps one reason that low-income democracies have achieved a development advantage is that they pour more money into social services than do autocracies. This is not true. Public spending on education differs relatively little between democracies and authoritarian systems over the 1960 to 2001 time period (see Table 2.4). Low-income countries, regardless of political type, have typically spent between 2.5 percent and 3.5 percent of their GDP

Table 2.4 Median Levels of Social Spending Among Low-Income Countries

Variable	Regime	1960s	1970s	1980s	1990s	Overall
Public Spending on Education (% of GDP)	Democracies	2.27	2.75	3.15	3.22	3.17
	Autocracies	2.42	3.49	3.31	3.94	3.47
Spend/Primary Student (% of GDP per Capita)	Democracies	10.2	17.6	10.5	11.4	11.0
	Autocracies	12.5	12.7	11.7	12.5	11.9
Public Spending on Health (% of GDP)	Democracies	—	—	—	2.39	2.39
	Autocracies	—	—	—	1.90	1.90

Based on data from *World Development Indicators 2003*; *Polity IV*.

on public education—with autocracies spending more overall—3.5 versus 3.2 percent. On a per-student basis, autocracies have spent nearly a full percentage point more of per capita GDP on primary school students than democracies over this four-decade period.

As extensive cross-national health expenditure data are only available for the 1990s, we are limited in our ability to generalize for this sector. As per the data available, low-income democracies did spend a slightly greater share on public health as a percentage of GDP than autocracies—2.4 percent versus 1.9 percent. This observation is matched by low-income democracies' relatively greater per capita health expenditures (\$37 versus \$18), though again this data is limited to the 1990s. Therefore, the superior health-related outcomes among democracies may be due to their relatively greater commitment of resources to the health sector.

To the extent that democracies are spending greater shares of their public resources on health activities, however, this does not translate into larger fiscal deficits. Both democracies and other governance systems have averaged deficits of between 3.0 percent and 4.5 percent of GDP in the years 1970 to 2001 (see Table 2.5). Differences in aggregate averages are negligible. Nor do low-income democratic governments exhibit disproportionate levels of government spending. The overall share of government expenditures as a part of the economy is comparable for low-income democracies and autocracies—12.7 percent versus 13.1 percent from 1960 to 2001. Consequently, given the breadth of democracies' superior developmental track record, factors other than lopsided funding of the social sector must be responsible.

In summary, the historical patterns of democratic development imply that even low-income democracies are better able to marshal the resources at their disposal into services that contribute to improved standards of living. That is, contrary to the conventional hypothesis, democracies are capable of creating administrative structures that are both efficient and effective. They typically generate higher levels of social welfare and (possibly)

Table 2.5 Median Levels of Public Expenditure Among Low-Income Countries

Variable	Regime	1960s	1970s	1980s	1990s	Overall
Gov't. Expenditures (% of GDP)	Democracies	11.5	11.6	12.8	13.1	12.7
	Autocracies	10.8	12.5	14.7	13.7	13.1
Budget Deficit (% of GDP)	Democracies	n/a	3.20	4.41	3.02	3.46
	Autocracies	n/a	2.70	4.76	2.27	3.24

Based on data from *World Development Indicators 2003; Polity IV*.

economic growth for a greater share of their populations than autocracies do. Considering the importance of human capital to improved economic productivity, the tendency of low-income democracies to more effectively build the health and education capacities of their societies suggests that democratic policies also indirectly contribute to long-term economic development.

Democratic Advantages

The track record of the past 40 years compels us to alter how we frame the debate about democratic or authoritarian advantage. The question is no longer whether authoritarian regimes have a development advantage. The evidence we've reviewed makes it clear they do not. Nor is the question whether low-income democracies are capable of developing at comparable levels to autocracies. They are. The pressing question becomes, how do low-income democracies spur development? Specifically, why do low-income democracies generate higher standards of living than autocracies? On an intuitive level, the superior development track record of democracies should come as little surprise. In instances where history has created recent "natural experiments" (pairs of countries with similar cultural, economic, and geographic origins), states that pursued relatively more open and democratic forms of government have developed much more rapidly. In East Germany versus West Germany, North Korea versus South Korea, Haiti versus the Dominican Republic, and China versus Hong Kong and Taiwan, the advantage of countries with more open governance structures has been self-evident. Robert Putnam observed a parallel pattern in his seminal work comparing southern and northern Italy.³⁷ Putnam argues in great detail that the stronger democratic and civic culture of northern Italy has fostered its relative prosperity compared to the south. Clearly multiple factors contribute to the divergences; nonetheless, these cases are instructive.

There are a lot of reasons why democracies are better suited than authoritarian forms of government to promote economic and social development. Some have to do with the way they are structured, others with the manner in which they operate. Below, we have organized those explanations around three core characteristics of democracy: shared power, openness, and adaptability.

Shared Power

1. *Vertical Accountability.* At its core, government is the mechanism created by societies to determine "the public interest" from among many competing alternatives. Through governments, priorities are

identified and resources allocated. The type of government in place is thus critical to the way these decisions are made. Democracies are designed so that this decision-making process is more representative. In an effort to gain the support of a majority of voters either directly or through governing coalitions, politicians in democracies have incentives to act in accordance with the political center of a society (that is, according to “the median voter”). In other words, by requiring the support of a broad segment of the population to earn their right to govern, democratic structures encourage public officials to serve the interests of ordinary citizens in government spending and policymaking. Structurally, this enhances the likelihood that a broader percentage of the population benefits from the public goods and services provided. Democracies are thus based on the premise that the electorate will hold leaders accountable for their actions (vertical accountability).

It isn't just the need to win elections that prods a democratic government to respond to the priorities of its citizens. Civic groups that champion ordinary people's interests also hold elected officials accountable for their actions. These groups, furthermore, foster the public participation that has long been the decisive factor in the effectiveness of development projects. A World Bank study examining levels of participation in Tanzania found that villages in which adults belonged to two or more civic associations had income levels that were 40 percent higher than comparable villages with less participation.³⁸ These qualities are also important at the national level. In a cross-national assessment of projects financed by the World Bank, the economic rate of return was 8 percent to 22 percent higher in countries with the strongest civil liberties than in countries with the weakest civil liberties.³⁹

2. *Horizontal Accountability.* Democracies are conceived on the notion of shared power, especially the horizontal checks and balances stemming from multiple branches of government. This creates a self-reinforcing mechanism for curtailing abuses of power by any one individual or entity, notably the chief executive. The moderating influences of such a system avoid the devastating consequences of radical policy choices made by an exclusive set of individuals, thereby providing better protection from economic or political disasters. The debilitating outcomes resulting from unchecked autocratic rule are evident in the reckless actions of Kim Jong-Il in North Korea, Robert Mugabe in Zimbabwe, Alexander Lukashenko in Belarus, and former Iraqi leader Saddam Hussein, to note just a few. In the developing

world, the moderating influences frequently spell the difference between life and death. Amartya Sen recognizes this association with his observation that contemporary democracies with a free press have never experienced a major famine.⁴⁰ The “quiet” famine of the late 1990s in North Korea that is estimated to have killed 10 percent of the population is a horrific illustration of unchecked power.

3. *Greater Allocation of Opportunity.* Government power in democracies is not only separated among various branches and levels, it is also limited. And the recognition of the distinction between the public and private spheres fosters a separation between political authority and economic opportunity. That in turn underpins the creation of private property rights and government adherence to the rule of law, innovation, economic productivity and asset creation. In such a society, individuals are able to pursue prosperity without belonging to a dominant political party. Merit, not political allegiance, is the relatively more decisive factor in their access to education, jobs, business licenses, credit, and other opportunities for improving their lot.

In other words, democracy is more efficient than dictatorship at tapping people’s talent and unleashing their energies to pursue their dreams. It would seem self-evident then, that breaking up the nexus of entrenched political and economic interests that thrive in dictatorships is often a prerequisite for economic development in poor countries.

In his pioneering work on this subject, Donald Wittman contends that the competitive nature of democratic political markets, as with economic markets, make them inherently efficient. The structures of both markets, he argues, are organized to promote wealth-maximizing outcomes. The parallels are striking. Politicians can be thought of as political entrepreneurs who, like their economic counterparts, are rewarded for efficient behavior. The populace is allowed to judge their accomplishments, just as the market judges products and services, and voters can reject them, just as consumers have the freedom to reject whatever is offered for sale. Rival politicians can profit by exposing their shortcomings, just as companies can publicize their competitors’ flaws. Wittman writes: “(Only) a model that assumes that voters are constantly fooled and that there are no alternate political entrepreneurs to clear up their confusion will predict that the decision-making process leads to inefficient results . . . Theories of elite control of democratic politics tend to leave out the *democratic* part entirely: either policies are formed and conducted outside the democratic domain or the elites lull the mass of voters to sleep.”⁴¹

Openness

4. *Information Access.* Many of democracy's development advantages revolve around its support for freedom of speech. In a freewheeling public debate, a greater range of ideas is considered than would otherwise be the case. Given the greater accessibility of information to the public, the quality of analysis is higher. Government officials contemplating a new policy must face a higher level of scrutiny that they would in a dictatorship. Journalists, scholars, and business and civic leaders will offer their opinions and counterproposals. In a democracy, policymakers will be compelled to take into account these views and any new information they provide. In contrast, the absence of this information, analysis, and dialogue in autocracies increases the likelihood that a new policy will fail because government officials won't have considered all the possible negative consequences.⁴² In democracies, the deliberative decision-making process not only leads to more informed choices, it also generally results in greater public support for decisions once they are made.

Democracies' horizontal linkages allow them to better absorb and disseminate information throughout their bureaucratic structures and society at large than autocracies do, especially autocracies with hierarchal structures. Janus Kornai documented the deleterious effects of poor information flow in hierarchal organizations in his study of Eastern bloc state-owned enterprises.⁴³ Although authoritarian governments have succeeded in mobilizing production in large, repetitive-function sectors like manufacturing, energy, and mining, they have had a harder time sustaining those industries' economic performance because that requires improving efficiency through innovation and productivity gains. This inherent weakness isn't always apparent. Controlled economies can grow rapidly for years or even decades without developing the mechanisms necessary for improving efficiency.

Democracies' superior capacity for disseminating information and adapting to changing circumstances is especially crucial in today's fast-paced and highly competitive global economy. The free flow of information that characterizes democracies spurs innovation and productivity gains, reduces the risk and lowers the transaction costs of financial transactions, fosters investment, and improves economic efficiency.⁴⁴ In a similar vein, Joseph Schumpeter, writing at the end of World War II, recognized that the innovation central to the dynamism of capitalism lay in the creativity of the individual. He worried that as economic power became centralized in monopolies

(and information flow was curtailed), individual initiative and thus innovation would be suffocated. It followed that maintaining the capacity for innovation in capitalism was contingent on maintaining competition.⁴⁵

5. *Greater Transparency.* The relative openness of democracies also contributes to greater levels of transparency in the use of public resources. Although this is insufficient to prevent corruption, it does increase the probability that such illegal activity will be exposed. Democracies in the late 1990s are perceived, on average, to exhibit levels of corruption that are nearly half that of autocracies, according to annual surveys by Transparency International, a nonprofit organization that aims to raise awareness about and expose corruption. Its 2003 survey involved 133 countries. Similarly, data from the International Country Risk Guide (ICRG), a monthly survey produced since 1982 mainly for corporate investors by the for-profit firm Political Risk Services, finds that the level of corruption in democracies is typically 15 percent to 25 percent lower than that in autocracies, no matter how rich or how poor the country. The ICRG assessed 139 countries in 2003. A separate World Bank study of 4,000 firms in 22 East Bloc countries found an inverse relationship between the level of corruption⁴⁶ and the extent of civil liberties, regardless of the pace of economic reform. The study also showed that higher levels of corruption were accompanied by greater concentrations of political power, fewer checks and balances to counter that power, more restraints on political competition, and greater influence over the government by big corporations.

Along with fostering corruption, economic monopolies impede transparency and hamper economic development. In general, the more open the society and the freer the flow of information within it, the greater the likelihood that corporate-governance standards will emerge. Conventions such as accounting principles, external audits, standardized financial reporting, shareholder protections, external boards, and disclosures of conflict of interest are the preconditions of a healthy and competitive marketplace.

Adaptability

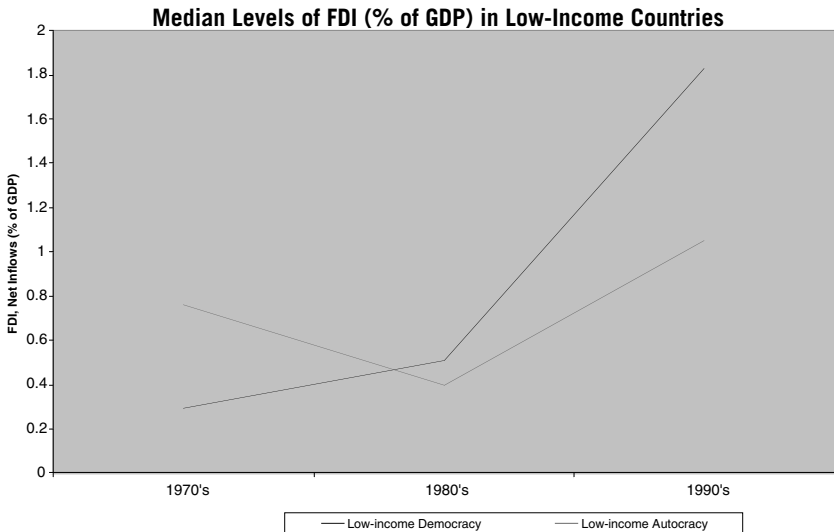
6. *Political Stability.* An established mechanism for replacing leaders augments democracies' political stability. The recognized legitimacy of this succession process serves as a deterrent to those who would contemplate unconstitutional seizures of power. Periodic elections allow for the peaceful replacement of ineffectual leaders,

limiting the damage they can do, mitigating the disastrous effects of their unchallenged policy assumptions and preventing the institutional sclerosis endemic to governments that remain in power for prolonged periods or are beholden to special interests. By contrast, in authoritarian systems, the very narrowness of their claim on power carries with it the ever-present risk that leaders in these systems will be deposed through unconstitutional means. As Mancur Olson noted, the stability of even durable autocrats is limited to a single lifetime.⁴⁷ Even if a leader isn't overthrown but dies or retires, the succession process must be reinvented every time. And the absence of a legal mechanism for a transition practically guarantees unscrupulous behavior on the part of potential successors.

7. *Democracies as "Learning Organizations."* Just as the process leading up to a decision in democracies is likely to be more open and deliberative, so too, is the post-decision period. Ineffective policies are apt to come under greater scrutiny and criticism, hastening adjustments. In fact, democracies are systems of constant self-surveillance and adaptation. They govern through a process of trial and error. When something is working, that approach is expanded. If a policy is ineffective, it is discarded. And a range of interests that are represented in the legislature, judiciary, press, and civil society act as early warning signals of such ineffectiveness. They thus help facilitate the adoption of a nuanced course forward in what are often uncharted waters. In short, while democratic governance does not guarantee coming up with the "right" policy, it does guarantee the option of changing a policy if it is "wrong."

The adaptive capacity of democracies was demonstrated in the aftermath of the East Asian financial crisis from which democracies rebounded more quickly than autocracies.⁴⁸ The comparative approaches of South Korea and Indonesia are particularly illustrative. South Korea was able to use elections in December 1997 to restore confidence in government and generate credibility for structural reforms. The reform-minded Kim Dae Jung administration came into office undertaking significant policy reforms that revitalized the economy. In Indonesia, meanwhile, the crisis exposed the structural weaknesses of the authoritarian system, ultimately leading to the collapse of the Soeharto regime.⁴⁹ Indonesia has yet to recover economically from this precipitous fall.

These structural and procedural features of democracies create conditions that are conducive to economic and social development. They may also partly explain the paradox that while private investors often express leering about democratization, in fact, foreign direct



Based on data from *World Development Indicators 2003; Polity IV*.

Figure 2.6 Median levels of foreign direct investment in emerging markets have shifted toward democracies, as a percentage of GDP, since the mid-1980s.

investment has gravitated to low-income democracies to a greater extent than less representative governments since the mid-1980s (see Figure 2.6).⁵⁰ Notably, the accelerating swing in favor of investment in low-income democratic countries occurred during a period of rapidly increasing global economic integration and democratization. Indicative of this trend, India is ranked higher than China on the Economist Intelligence Unit survey of the best places in Asia to do business.⁵¹

What About East Asia?

Although the record of democratic development is compelling, the rapid economic growth of a number of East Asian authoritarian nations presents conceptual and empirical challenges to the notion of the developmental superiority of democracies. South Korea, Taiwan, Indonesia, Singapore, Vietnam, and China have all realized rapid rates of economic growth over extended periods under autocratic systems.

So too did Chile under Pinochet, many would say. In reality, though, this experience is more ambiguous. Pinochet took over a country with well-established democratic institutions that provided the civil, legal, and administrative structures on which subsequent economic development was

built. Moreover, economic growth fluctuated wildly during his years in power, fitting the pattern of volatility that we have described for dictatorships. Seizing power from Allende in 1973 in the midst of an economic crisis in which the economy contracted by 6.5 percent, Pinochet oversaw per capita economic declines of 13 percent in 1975 and 17 percent in the years 1982 to 1983. Although Chile realized positive growth in 14 of Pinochet's 17 years of rule, it took until the mid 1980s for the country to surpass for good the \$2,300 of per capita output it had in 1973. Unemployment remained in the double digits until 1986. For all these reasons, it must be said that Chile under Pinochet does not fit the autocratic growth model. This is not to dismiss the importance of certain economic policies adopted by the Pinochet regime. Pinochet pioneered the use of an export-oriented liberal economic model in Latin America at a time when import substitution was the norm. Moreover, his administration distinguished itself from other autocratic governments by refraining from predatory behavior and practicing fiscal discipline.

The rapid growth of the East Asian authoritarians demonstrates that democracy is not indispensable for development. The relationship between regime type and economic performance is not ironclad. Although the trend is clear, exceptions exist and overarching generalizations should be avoided. It works both ways: for all the talk of the East Asian Tigers,⁵² there have been a number of cases of East Asian development disasters under authoritarian rule, notably the Philippines (under Marcos), Cambodia, Burma, and North Korea. Reflecting their exceptionalism, the East Asian authoritarian dynamos experienced growth rates in the years 1960 to 2001 that were on average triple those of other authoritarian-run nations. Yet they made up less than 5 percent of such regimes during this time period. Thus, their authoritarianism was not a decisive factor in their extraordinary economic performance. Other distinguishing characteristics have to be considered, including the following:

1. *Good Economic Policies.* The high-performance East Asian economies all made choices to pursue market-oriented economic systems at a time when central economic planning was still in vogue. They managed to uphold a system of property rights that created the foundation for a vibrant private sector. Moreover, government policies in these countries were distinguished by their macroeconomic stability. They typically posted fiscal surpluses, established a stable exchange rate, and maintained a disciplined monetary policy that held inflation in check. Building on their populations' tradition of saving, they were able to funnel domestic capital into a reliable engine for growth. At the early stages of their development, with between 60 percent and

90 percent of their populations engaged in agriculture, the East Asian Tigers also strategically invested in agricultural technology to increase the production of rubber, palm oil, silk, rice, and the like, improving their nations' competitiveness and increasing both their export income and jobs.⁵³

2. *Chinese Businessmen.* The East Asian dynamos did not develop in a vacuum. Rather, they benefited from the synergy of the broader regional dynamism. A particularly important element of this regional network was the expertise and capital mobility of ethnic Chinese businessmen based in many of the key East Asian economies.⁵⁴ Working through these informal channels with established mechanisms for assessing credit worthiness and penalties for default, firms in the East Asian Tigers were able to expand relatively rapidly to take advantage of neighboring markets. This network of Chinese traders acted as a proxy for the contracting culture that Douglass North identified as integral for economic development.⁵⁵
3. *Japanese Capital.* The East Asian dynamos also benefited from the ready availability of Japanese capital. Having become major international creditors by the 1970s, Japanese banks recognized the potential of the emerging East Asian economies and invested heavily in them. By the mid 1990s, roughly 40 percent of East Asia's asset liabilities were to Japanese banks.⁵⁶ There was a downside to this. During the East Asian crisis of 1997–1998, the Tigers' reliance on a single creditor contributed to a regional financial meltdown. Nonetheless, between the Japanese banks and the Chinese business networks, fledgling firms were not constrained by lack of capital.
4. *Access to Markets.* Following Japan, the East Asian authoritarian growers pursued aggressive export-oriented growth strategies. They thus avoided the constraints to growth imposed by small domestic markets typically encountered by developing countries. The West's willingness to maintain large trade deficits with East Asia without pressing for an immediate reciprocal opening of markets was another fortunate, though historically exceptional, circumstance. Meanwhile, the East Asian dynamos benefited greatly from their close proximity to China as it became an economic force.
5. *Collective Interests.* Before their take-off, the high-performance East Asian economies exhibited a high degree of income equality compared with Latin America and the Middle East. In addition to removing a common source of friction, this characteristic contributed to a strong sense of national solidarity. This translated into relatively wide access to health services and educational opportunities as these countries grew economically. Improved human capital, in turn, has

contributed to higher levels of economic productivity and investment. Cultural norms⁵⁷ that placed a high value on equality may also partly explain why East Asian leaders, unlike other authoritarians, kept patronage and graft under control. Campos and Root also argue that leaders in East Asia had incentives to pursue strategies of shared growth lest they face communist insurgencies such as those that crippled China, Vietnam, North Korea, and Cambodia.⁵⁸ In a number of important cases (South Korea, Taiwan, and Hong Kong), the East Asian dynamos were also relatively ethnically homogeneous. This characteristic may have contributed to their political stability as authoritarian governments are particularly susceptible to conflict in ethnically divided societies.⁵⁹

6. *Capital Mobilization.* As with most authoritarian growth historically, much of the East Asian “miracle” can be explained by high rates of investment, transfer of labor from agriculture to manufacturing, and higher labor participation rates.⁶⁰ However, the extent to which they have been able to make the transition to productivity-enhancing, sustained development has varied considerably. Notably, this transition is something democratic South Korea and Taiwan were able to make, whereas authoritarian Indonesia was not.
7. *External Influence.* The economic exceptionalism of East Asia has also dovetailed with geopolitical developments. During the Cold War, the United States was committed to providing support to countries resisting communism. This translated into the transfer of substantial political, economic, and military resources from the United States for each of the East Asian authoritarian growers. Moreover, the United States and the United Kingdom helped shape key legal and economic institutions in South Korea, Taiwan, Singapore, Hong Kong, Thailand, and Malaysia, and by extension their property rights laws, land reforms, business and accounting codes, and financial institutions. Similarly, many of the post-independence institutions that contributed to subsequent economic dynamism in Malaysia and to a lesser extent, Singapore and Indonesia, were established under democratic governments. Malaysia had a democratic government from 1957 to 1968 and Singapore for most of the 1959 to 1964 period. In Indonesia, a robust parliament capable of mediating political conflict, independent courts, a free press, and fair elections also existed before Sukarno seized power.⁶¹ Therefore, while often overlooked, the East Asian dynamos have their own democratic imprints that have shaped their subsequent economic gains.
8. *Strong Institutions.* In addition to strong legal and economic institutions, the dynamic performers in East Asia have developed relatively

competent and efficient civil structures that provided public goods and services, enforcement of government regulations, revenue collection, and policy guidance. In comparison with other regions, notably Latin America, whose median GDP in 1960 was more than 50 percent higher, East Asia has had substantially lower corruption. This illustrates the high-performing East Asian's ability to restrain governments' predatory behavior with a measure of independent oversight.⁶² Reflecting the comparative efficiency of the East Asian growers' public institutions, these advances in living conditions relative to Latin America have been realized without incurring correspondingly greater levels of government spending.

9. *Information Flow.* Finally, while not bastions of civil liberty, the fast-growing East Asian authoritarian nations allowed some scope for free expression. In South Korea, student protests were tolerated throughout the 1960s and 1970s. And the authoritarian governments of East Asia allowed press freedoms at levels comparable with the global median over the past three decades.⁶³ This permitted the flow of both information and technology, increasing the efficiency of financial transactions and spurring economic development.

China is the largest and most frequently cited contemporary authoritarian economic dynamo. Its experience parallels those of the earlier East Asian growers. It has maintained a strong macroeconomic environment of low inflation, fiscal prudence, and a strong savings rate—the second highest in the world in the 1990s.⁶⁴ Like the other East Asian dynamos, and contrary to pure liberal economic models, it has retained certain capital controls, including a nonconvertible currency, and limits to foreign ownership of its privatized enterprises. China started its economic development by lifting the constraints on its agricultural sector in the late 1970s.⁶⁵ This liberalization led to increases in food output, employment and personal income, and wealth that together acted as a springboard to modernization. China also has enjoyed ready access to capital from Taiwan, Hong Kong, and Japan, absorbing $\frac{1}{3}$ of all foreign direct investment in the developing world in the 1990s. It was able to sell its goods to western markets with few barriers, racking up massive trade surpluses with the United States. In addition, China began its economic growth spurt on a social foundation of general income equality. Healthcare services and educational opportunities were unusually extensive for a low-income country. Moreover, unlike the Soviet Union, communist China opted for a more decentralized administrative structure, including the retention of local taxes within respective jurisdictions for the provision of public services. This augmented the accountability demanded of local officials by the gen-

eral population.⁶⁶ China has also gradually instituted certain political and legal reforms reducing the scope for arbitrary behavior on the part of government officials.⁶⁷ Simultaneously, China has eased access to certain types of media and information technology, facilitating economic growth. However, it retains tight control over content so as to stifle criticism of the government.

Although China's economic performance over the past 20 years has been phenomenal, certain qualifications apply. China was starting from a low base; its economy had been stagnating for decades, reaching per capita GDP of only \$128 in 1970 (in 1995 U.S. dollars). The result was a huge, pent-up demand for goods and services. Meanwhile, systematic understatement of inflation by firms accounts for 2.5 percent of growth per year in China's nonagricultural economy from 1978 to 1998.⁶⁹ Some economists explain much of China's remaining growth as a result of one-time adjustments in the economy such as the reallocation of labor from rural to urban centers and rising participation of women in the workforce.⁷⁰ This would be the typical authoritarian phenomenon of capital mobilization. Others note that what productivity gains have been seen are among private firms (while productivity has been declining in state-owned enterprises).⁷¹ Productivity differences are also observed by sector. Agriculture, transport, and telecommunications do seem to show improvements in efficiency. In contrast, growth in the manufacturing, construction, and service sectors relies on the increased mobilization of resources (rather than productivity increasing investment).⁷² In other words, the sustainability of China's rapid growth remains in doubt.

In summary, the economic development of the East Asian autocratic growers has been highly exceptional. It has been closely linked to their pursuit of market economics, access to formal and informal capital markets, constraints against predatory leaders, relative social equality, and geopolitical factors, including the openness of Western markets to East Asia's goods and to the political, economic, and military support of Western governments eager to provide a bulwark against communism in the Cold War years. Therefore, while the East Asian experience demonstrates that democracy is not indispensable for development, the distinctiveness of the conditions that have fostered economic growth in its absence need to be recognized. This, in turn, tempers propositions that the East Asian experience can be easily replicated in other autocratic-led developing countries.

In the words of Nobel laureate Amartya Sen, the policies that led to growth in the East Asian authoritarian-run nations included "openness to competition, the use of international markets, a high level of literacy and education, successful land reforms and public provisions of incentives for investment, exporting, and industrialization . . . There is nothing whatsoever

to indicate that any of these policies is inconsistent with greater democracy, that any one of them had to be sustained by the elements of authoritarianism. What is needed for generating faster economic growth is a friendlier economic climate rather than a harsher political system . . . To concentrate only on economic incentives (which the market provides) while ignoring political incentives (which democratic systems provide) is to opt for a deeply unbalanced set of ground rules.⁷³

Institutions That Contribute to Development

Since the mid-1990s there has been a growing consensus among economists, political scientists, and international investors over the vital importance to development of strong social institutions.⁷⁴ Institutions are social values and norms that characterize how people in a society relate to one another. Some of these conventions may become formalized in a country's legal code, like freedom of the press or restrictions on the sale of alcohol, while others are not written down but are embedded in the nation's psychology, like respect for traffic laws, the extent to which police officers expect bribes, the inclination to resolve private disputes through litigation, the tolerance of sky-high pay packages for corporate executives, the willingness to question authority, and the readiness to participate in civic activities. Whether they take the form of law or custom, these institutions shape the behavior and interactions of public and private individuals and organizations and have a profound influence over the rate and manner in which a society develops.

The economist Douglass C. North has championed the focus on institutions. His view is that institutions, particularly those that contribute to more predictable behavior in the marketplace, explain much of the historical differences in levels of development around the world.⁷⁵ Consequently, though a number of Latin American countries may have adopted constitutions based on the U.S. model, the ways that they interpret and apply the rule of law can be starkly different from that in the United States. These institutional disparities go a long way toward explaining the divergence in incentives for investment, innovation, and asset accumulation. In fact, he contends that they are a more decisive force than technology in economic development. After all, once technology has been developed, it becomes readily accessible throughout the world, but societies vary widely in their openness to adopting it. North attributes this to the diversity of incentives created by a society's institutional structures.

Our analysis shows that democracies are better able to generate the institutions that foster efficient economic outcomes. Democratic institutions of shared power, adherence to the rule of law, and a free press, for example, contribute to more informed policy, greater transparency and financial

analysis for investors, enhanced responsiveness of leaders to the interests of their constituents, and stronger incentives to expose special interests.

Institutions that promote a separation of political and economic authority in a society provide checks and balances that mitigate against a monopolization of power that lead to economic distortions. Other examples of institutions that serve to strengthen democracy and the economy include checks on the executive branch, an impartial legal system, apolitical access to the market and credit, a merit-based civil service, autonomous anticorruption bodies, a transparent and systematic budgeting and disbursement process, accounting and auditing standards, and campaign finance regulations buffering candidates from private sector capture.

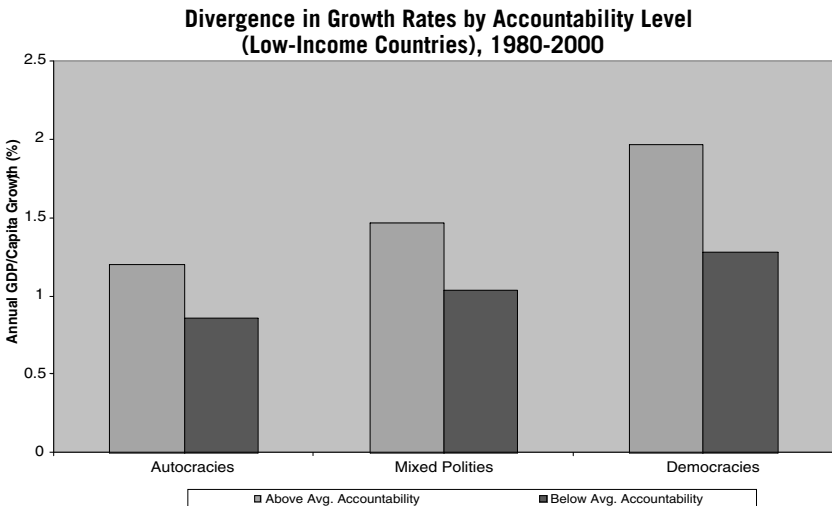
Although economists and investors often speak of the importance of the rule of law for economic growth, there is a political dimension to ensuring that the rule of law is established, enforced, and amended when necessary. As Ibrahim Shihata, the longtime General Counsel of the World Bank, noted: “Laws are not self-enforcing.”⁷⁶ How laws are enforced depends on who is enforcing them. Inevitably, then, the basis for a society’s rule of law is its system for selecting its leaders. The more rules-based, participatory, and transparent this process, the greater legitimacy and incentives an executive branch will have to enforce regulations in a manner that is fair and in the public interest. The institutions that foster stronger democratic processes reinforce those that improve the application of the rule of law.

Most research on the institutional dimension of economic development has emphasized the importance of “economic rights” like contract enforcement, property rights, protection from expropriation, and capital mobility, all of which can be classified under the rubric of rule of law.⁷⁷ Such analysis indicates that these institutions account for as much as 47 percent of economic growth. This equates to a difference in growth of up to two percentage points per year of GDP.⁷⁸ Over 20 years, this difference results in income levels that are 50 percent superior to that of a country with a flat rate of growth. The establishment of these economic institutions has been identified as a distinguishing factor of the relatively few developing countries (for example, Botswana, Chile, Costa Rica, Mauritius, Singapore, South Korea, and Thailand) that have been able to narrow the prosperity gap with the industrialized world.⁷⁹

Some researchers have expanded the analysis of institutions beyond a focus on economic rights to cover civil liberties, the autonomy of the civil service, the independence of the media, and constraints on the executive branch as part of a more comprehensive network of checks and balance that represent good governance. This research finds that each of these additional institutional categories is also an important explanatory factor for more rapid growth.⁸⁰ Moreover, in a study of contemporary democratizing

countries, press freedom was the institutional factor most consistently associated with predicting higher levels of growth across all regions.⁸¹ These findings demonstrate that more than just economic institutions are central to explaining developmental performance.

Understanding the importance of institutions also provides insight into why not all democracies attain superior development outcomes: democracies have dissimilar levels of institutional strength. On one 50-point scale of accountability institutions, democracies' scores range from 20 to 50.⁸² Those that distinguished themselves by the strength of their accountability institutions have typically enjoyed relatively more rapid economic development (see Figure 2.7). From 1980 to 2000, low-income democracies with above median levels of accountability grew at an annual per capita GDP rate of 2.0 percent, compared with 1.3 percent for those with below average accountability scores. Similar growth-accountability distinctions emerge when considering a sample of autocracies or countries with mixed governance features. Autocracies with above-average levels of accountability institutions posted a median grow rate of 1.2 percent, compared with 0.9 percent for those with sub-par levels; for regimes with mixed features the difference was 1.5 percent versus 1.0 percent. In short, countries with stronger accountability institutions typically grew between 30 percent and 60 percent faster than politically similar countries that had relatively weaker institutions.



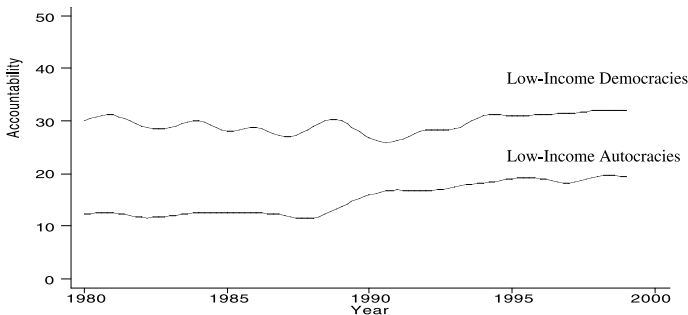
Based on data from *World Development Indicators 2002; Polity IV; Siegle, 2001.*

Figure 2.7 Within each governance category, countries that exhibited stronger mechanisms of accountability tended to grow more rapidly than those with weaker institutions of accountability.

The importance of institutions⁸³ to economic growth helps explain why elections, in isolation, do not contribute to improved development. Nations that hold elections, yet have weak institutions, display significantly lower economic growth and social welfare than democracies with strong institutions. Given the regularity of sham elections, this is unsurprising. An election in Zimbabwe or Belarus is far less meaningful than one in Costa Rica, Senegal, or Estonia. This underlines the point that elections by themselves are poor mechanisms for defining democracy. However, even when legitimate, elections, in their most functional form, are simply mechanisms for selecting political leaders. They do not have direct economic or development linkages. Rather, democracies' development advantage is tied to their ability to establish institutional checks and balances. These mechanisms moderate the pursuit of radical policies, ensure greater accountability of leaders to the general population, create incentives for responsiveness, encourage transparency, and foster adherence to the rule of law.

Said another way, democracies embrace stronger institutions of accountability than do other systems of governance. This is so even among low-income countries—marked by their distinctively superior levels of accountability ratings over time (see Figure 2.8). Adoption of stronger accountability structures, in turn, has a strongly positive effect on development. Correspondingly, low-income democracies score 10 percent to 20 percent higher on the International Country Risk Guide's indices of rule of law, bureaucratic efficiency, and (anti)corruption than do autocracies over the 1982 to 2000 period. Similar patterns emerge when assessing Kaufmann et al.'s index of governance indicators, including measures of

Accountability Levels of Low-Income Democracies and Autocracies



Based on data from *Polity IV*; Siegle, 2001.

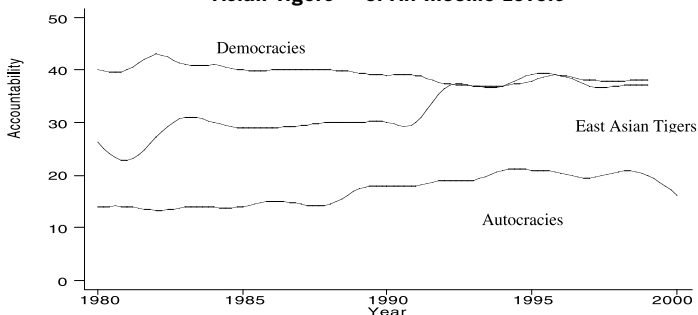
Figure 2.8 Low-income democracies have consistently exhibited stronger institutions of accountability compared to autocracies.

rule of law and government effectiveness. Whereas democracies typically rank demonstrably above the governance medians for low-income countries, autocracies consistently score below average. Advances in civil liberties, press freedom, and checks on executive power generally move in the same direction as improvements in the levels of rule of law, bureaucratic quality, and autonomy of the private sector.⁸⁴ Societies that enhance their institutional checks and balances in one area generally enhance them in others as well. Strengthening democratic structures enhances the accountability mechanisms that contribute to growth.

The East Asian Tigers have also distinguished themselves by the accountability structures that they have established. Although of a different nature and not as robust as democracies, these accountability structures are clearly more evident than those typical of autocratic governments (see Figure 2.9). Early on, this was largely realized by their superior standing in the areas of bureaucratic efficiency, rule of law, and space for the private sector. As several of the East Asian Tigers democratized—augmenting their institutional checks on the chief executive and civil liberties—accountability scores mirrored those of democracies.

Although often overlooked because of the global nature of the democracy and development debate, the importance of institutions to growth varies widely by country. There is no magic institutional bullet. Different combinations of institutional checks and balances appear to have been influential for different countries. All bring some value. In addition to the unique qualities that we have already discussed of the East Asian dynamos, other regional variations warrant notice. Take, for example, sub-Saharan Africa, where the relationship between levels of accountability and democ-

Comparison of Accountability Levels—Democracies, Autocracies, and East Asian Tigers— of All Income Levels



Based on data from *Polity IV*; Siegle, 2001.

Figure 2.9 The East Asian Tigers distinguished themselves from other autocracies by their relatively stronger accountability institutions.

ocracy is weaker than any other region—pointing to the shallowness of democratic processes on this continent. Those institutions most consistently linked to economic growth in Africa are a free press, rule of law, and a reliable civil service. In other words, it is the substance of creating systems of shared power rather than solely the holding of elections that matters for development. Stated bluntly, the neo-patrimonial structures that continue to characterize many African political systems are diametrically opposite to the institutions of accountability that are vital for development. In Latin America and central Europe, the move toward political pluralism has been closely associated with improved economic performance. Within these regions, however, countries that have demonstrated greater autonomy in their judiciary and private sectors have grown relatively more rapidly. South Asia is the region of the world with the least developed rule of law—posing a significant handicap to sustained economic growth. South Asian states that grew most rapidly established relatively autonomous private sectors, bureaucratic transparency, and a free press. In the Arab world, countries that have realized the most consistent economic performance have had comparatively greater levels of press freedom and executive constraints. In the former Soviet Union, the rule of law, a free press, and lower levels of corruption stood out as the institutional qualities that distinguished nations that realized the most growth during the 1990s.

Summary

Four decades of experience show that low-income democracies consistently outpace their autocratic counterparts on a wide range of development indicators. This can be attributed to democracies' relatively greater propensity for establishing institutions of shared power, information openness, and adaptability. Key to this performance, and critically important for developing countries, is democracies' ability to mitigate disaster. In addition to avoiding the human costs of such catastrophes, progress in democracies can be incrementally accumulated rather than constantly committed to making up lost ground. Economic concerns over supporting democratization in low-income countries—macroeconomic populism, inability to build human capacity, fractiousness, vulnerability to special interests, and so on—are not borne out in relative comparisons with autocracies or mixed systems.

Nonetheless, the relationship between regime type and economic performance is not universal. A select number of autocratic countries, particularly in East Asia, have grown rapidly. This group of strong performers, however, is highly exceptional on a number of fronts, especially in comparison to other autocratic states. Although held up as model, the robust economic performance of the East Asian Tigers is more than offset by the poor

(and oftentimes catastrophic) economic experiences of other authoritarian governments. Given this, perhaps the most compelling feature of the strikingly positive democracy–development relationship is its breadth. It does not rely on a select group of super performers. Rather, it is when considered on aggregate terms that democracies' more rapid and consistent development performance relative to autocratic states shines through most clearly.

It is this consistently superior developmental performance of democracies that provides the surest basis for policy guidance. Contrary to well-entrenched views established by the development-first perspective, the track record clearly shows that development in low-income democracies is not only possible but also far more reliable.