



# Governance

Democracy and economic growth

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## Democracy and economic growth

The relationship between economic growth and democracy is complex and contested. It is clearly affected by the development level and the time horizon adopted for the associated analysis as well as the actions of local elites. In respect of the former, Acemoglu et al. found that there is a 'robust and sizable effect of democracy on economic growth' and that a country that switches from non-democracy to democracy achieves about 20% higher GDP per capita in the long run.' They argue that the global rise of democracy over the preceding half-century yielded a roughly 6% higher world GDP.

Democracy also positively affects economic reform, private investment, the size and capacity of government, and reduced social conflict. For them, democracy is necessary for the formation of good corporate management, civil and political rights, solid institutional structures, property rights, social satisfaction and political stability, meaning that there is a solid and close link between economic growth and democracy — but this positive relationship is only evident with a long-term perspective where democracy creates a large, educated and articulate middle class of people and, second, transforms people's values and motivations.

In respect of agency it is also important to recognise the extent to which ruling elites in many African countries have been able to game the democratic system when external partners in the West started demanding political reform in exchange for debt forgiveness and aid. Rather than a response to domestic pressure, adopting the rhetoric of democracy was also a response to external conditionality. The effect is often that democracy in Africa is more procedural than substantive and has undermined the social contract between the ruling elite and citizens that lies at the root of substantive democracy.

Almost all high-income countries are democracies, reflecting the relationship between democracy and economic growth. However, the extent to which democracy causes economic growth at all income levels, as claimed by Acemoglu and others, remains contested. A lot depends upon the level of development, the nature of that democracy, how substantive it is and the extent, and how, local elites respond or manipulate the democratic intent.

Substantive democracy (which can perhaps be best described as liberal, constitutional democracy, including a clear separation of powers, credible and regular elections, etc.) contributes to growth by increasing investment, encouraging economic reforms, improving the provision of schooling and healthcare, and reducing social unrest. On the other hand, only rich countries have the means to affect the institutions associated with a liberal democracy.

Over longer periods, democracies invest more in broad-based public goods and are more likely to enact economic reforms that politically powerful actors would otherwise resist. Through credible elections, democracy provides a mechanism to hold the power of the elite or special interest groups in check; if imperfectly so, it ensures the separation of state powers into discrete branches of government and protects human rights and the rule of law. In this manner, **democracies engender confidence** to pursue long-term investments, encouraging domestic and foreign investors. Non-democracies are less likely to do so.

The evidence over shorter time horizons and at low levels of development is less compelling and somewhat contradictory. As democracy in low-income countries is invariably of a low, procedural type, it contributes little to improvements in well-being or how the country is governed. Because the quality of democracy in Africa is poor, 'more' democracy in poor countries does not necessarily translate into better governance or more rapid development.

The introduction of competitive politics and economic liberalisation in fragile settings such as post-conflict societies, for instance, in Somalia or South Sudan, may even undo much of the progress previously made in ending the conflict, as politicians invariably mobilise support along ethnic or sectarian lines and soon reopen the wounds that the peace process sought to resolve.<sup>[1]</sup>

As a result, in poor countries, the nature and orientation of the governing elite appear to be much more critical for positive

developmental outcomes than the institutional setting (democratic or not). The reason is that these countries typically lack the associated institutions and extensive codification in law and regulations to embed accountability in practice.

It is in this vein that [Gerring et al.](#) find that the relationship between electoral democracy and human development is maximised when:

- elections are not marred by fraud or systemic irregularities
- the chief executive of a country is selected (directly or indirectly) through elections
- suffrage is extensive
- political and civil society organisations operate freely and
- people have freedom of expression, including access to alternative information.

These five components lie at the heart of substantive or liberal democracy. Separating the powers of the executive, judiciary, and legislature, establishing a genuinely competitive political environment, and allowing for the development of free media and independent oversight mechanisms that have some teeth require adequate resources. Building these norms and institutions takes time and money, which is an essential reason for their close association with high-income levels. Governments can quickly adopt the trappings of electoral democracy (reflecting a hybrid/mixed system) by going through the motions of regular elections. Still, without capacitated systems and institutions, elected authorities cannot hold their executive to account.

In summary, the finding by Gerring et al. is that democracy will likely only have a positive impact on governance and development in Africa if it is substantive. That requires minimum levels of stability and capacity, implying minimum levels of development and confirming the limited contribution of democracy to growth in low- and lower-middle-income countries.

## Endnotes

1. Consider, for example, fragile post-conflict states such as South Sudan, Somalia, CAR, Chad, Côte d'Ivoire, and the DR Congo.

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