

Is Democracy Friendly with Economic Growth? Special Reference to Economic Development of Asian Countries

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ABSTRACT

Most of the countries of Asia achieved independence from the colonial rulers during 1940's and 1950's. After the independence, most of these countries adopted democratic system of government. However, some countries either turned into authoritarian rule, open dictatorships or military junta. In this backdrop the aims and objectives of the paper is to answer the question that what should come first- Democracy or economic growth? Should the government give pre-eminence importance to civil-political rights, liberty and freedom, get the consent of its citizens for government policies; or prefer to remove poverty, hunger, unemployment illiteracy, misery of the people and provide economic growth through an authoritarian regime. The specific objectives of the paper is to understand the relationship between political institutions and economic development, to focus on the debate which institutions matter most for development: states, nations or regimes and to compare Western experiences of political and economic development with those of developing countries today. The study undertaken is basically qualitative in nature based on secondary data. Certain research questions have been raised in the study and attempt has been made to obtain answer to these questions. Findings of the study are both positive and negative. Political stability is a crucial for economic growth. Stability means a predictable political environment, which in turn attracts investment, both internally and from outside. Democracy provides political stability. Democracy has an intrinsic value and an instrumental value. It plays an important role in the creation of value and norms. On the other hand scholars who do not see any democratic values that support economic growth. They say that the main purpose of economic growth is to promote economic rights only. Democratic rights and freedoms hamper economic growth and development. This view is called as the '*Lee Thesis*' after former Singapore Prime Minister Lee Kuan Yew who was an ardent proponent of it. If people are given a choice between political freedom and fulfilling economic needs, people will invariably choose growth to rid themselves of economic misery and deprivation. They would not care for democracy. Liberal political freedoms are a western cultural priority and obsession, and culturally it is not that important for some cultures like those to be formed in the middle-east and Asia. The so called Asian Tiger economies are less than democratic to quite dictatorial. The Future Scope is that it will familiar us with the major debates about how different institutions matter for development.

Key Words : Development, Democracy, Economic growth, Political rights, Liberty, Asian Tiger

INTRODUCTION

Nobel prize winner in economics (1971) Professor Kuznets (1901-1985) says that the "economic growth is a long term rise in capacity to supply increasingly by diverse economic goods to its population, the growing capacity based on advancing technology and the

institutional and ideological adjustment that is demands". Professor Kuznets has mentioned six characteristics features manifested in the growth process: (a) High rates of growth per capita output and population (b) High rates of increase in total factor productivity, especially labour productivity (c) High rates of structural transformation of the economy (d) High rates of social and ideological

transformation (e) The prosperity of economically developed countries to reach out to the rest of the world for markets and raw materials (f) Limited spread of development to only a third of the world population.

Generally, Democracy as a term is used to denote 'liberal democracy' which implies certain institutions and procedures. It is a form of government based on people's mandate and balance the principle of limited government against the ideal of popular consent. Its liberal characters are reflected in a network of internal and external checks upon government that are designed to guarantee liberty and afford citizens protection against the state. Its democratic features are based upon a system of regular and competitive elections, conducted on the basis of universal adult suffrage and political equality. According to Richard (2002) the core features of liberal democratic regime are : (a) constitutional government based upon formal, usually legal rules; (b) guarantee of civil liberties and individual rights by the constitution; (c) institutional fragmentation and a system of checks and balances; (d) regular elections respecting the principles of universal adult suffrage and one person, one vote; (e) political pluralism in the form of electoral choice and a party competition; (f) a healthy civil society in which organized groups and interests enjoy independence from government; (g) a capitalist or private enterprise economy organised along market lines.

Theoretical Framework:

The theoretical framework of this paper is built upon two large fields within the academic disciplines of political science and development studies. First, this study builds on theories contrasting human versus economic development as indicators of development. Second, this study also builds on theories and previous empirical findings on the developmental effects of democracy. We will examine three core sets of institutions - state, nation, and regime – examining their character and development in both historical and contemporary perspective. By the end of this module, we will be familiar with the major debates about how different institutions matter for development.

Research questions:

The main research questions of this paper are: 1) what are the country-level effects of democracy on human development? 2) How do these effects differ from those on economic development? 3) How political

institutions affect economic development. 4) Should the government give pre-eminence importance to civil-political rights, liberty and freedom, get the consent of its citizens for government policies; or prefer to remove poverty, hunger, unemployment illiteracy, misery of the people and provide economic growth through an authoritarian regime.

Aims and Objectives:

- To understand the relationship between political institutions and economic development
- To debate which institutions matter most for development: states, nations or regimes
- Compare Western experiences of political and economic development with those of developing countries today
- To know what should come first- Democracy or economic growth?

Review of literature:

According to Dahl (1998) one of the reasons to support democracy is that it "fosters human development more fully than any feasible alternative". Regarding the effects of political democracy on economic growth, the theoretical arguments can be divided into the conflict, the compatibility, and the sceptical perspectives. Each of these opposing perspectives has obtained strong support, as well as criticism, in both the theoretical and empirical literature (Sirowy and Inkeles, 1990). On the one hand, a main argument for why democracy should hinder economic growth is through its pressure for immediate consumption and a following decline in investment. On the other hand, a main argument for why dictatorships should hinder economic growth "is that authoritarian rulers have no interest in maximizing total output" (Przeworski and Limongi, 1993). A small number of recent studies have also aimed to incorporate the human development perspective when studying the developmental effects of democracy. In a replication of Lipset's (1959) classical study, Diamond analyses the 1990 cross-country correlation between democracy and the HDI, in addition to per capita national income, concluding that "the relationship between democracy and development is even stronger when the HDI is used as the development indicator". Moreover, Diamond argues that compared to GDP per capita the socioeconomic HDI has the advantage of "greater validity in indicating real levels of human well-being". In another study by Welzel and

Inglehart (2005), the relationship between democratisation and human development is analysed by applying data on national values from the World Values Survey. A major shortcoming of this data usage, however, is that their study only includes 62 countries and with country values measured at one time point only. While Tsai (2006) finds that democracies in the 1980s and 1990s achieved higher levels of human development, democracy is not found to be a powerful predictor of changes in human development during the same period of time. This differentiation between levels of development and changes in development is crucial and, thus, both of these effects will also be tested in this paper. Some previous empirical studies on the effects of democracy on development have also found this relationship to vary across time and space (Elgström, 2002). By analysing the impact of a country's stock of democracy over the past century on its infant mortality rates (as an indicator of human development), Gerring *et al.* (2012) conclude "that the best way to think about the relationship between democracy and development is as a time-dependent, historical phenomenon". More research, including case studies and qualitative methodologies, would be one way to further investigate this issue of causation.

METHODOLOGY

The study undertaken is basically qualitative in nature based on secondary data. Certain research questions have been raised in the study and attempt has been made to obtain answer to these questions. The secondary data has been collected from books, journals and newspapers.

ANALYSIS

Most of the countries of Asia, Africa and Latin America achieved independence from the colonial rulers during 1940's and 1950's. After the independence, most of these countries adopted democratic system of government. However, Pakistan, Myanmar, Indonesia, Taiwan, Singapore, Nigeria, Cuba etc. either turned into authoritarian rule, open dictatorships or military junta. For a new Independent country whatever may be the political regimes (authoritarian rule, open dictatorships or military junta) the question here is that what should come first? Democracy or growth: What should be the first preference of the government?

Should the government give pre-eminence importance?

- i. to civil-political rights, liberty and freedom, get the consent of its citizens for government policies; or
- ii. prefer to remove poverty, hunger, unemployment illiteracy, misery of the people and provide economic growth through an authoritarian regime.

In regard to the relation between political regimes and economic growth, two questions are discussed: (1) Whether economic development affects the emergence and the survival of political regimes and (2) Whether political regimes affect economic performance. These two questions are inextricably connected. To determine whether political regimes affect economic performance, we must first ask how political regimes emerge and endure. Unless this question is posed first, we will be unable to distinguish the effect of the conditions under which political regimes find themselves from the effect of regimes.

Suppose that poor countries in general grow slower than wealthy countries. Since most poor countries are dictatorships and all wealthy countries are democracies, we will conclude that economic growth is faster under democracies. But this will be an invalid conclusion: the difference will be due to conditions under which these regimes exist, not to anything they do. As another example, consider the possibility that democracies are vulnerable to economic crises, while dictatorships survive them. Again, if we were to just compare the growth rates observed under the two regimes, we would conclude that democracies grow faster. And, again, this conclusion would be erroneous: we will have observed this difference only because democracies died when they encountered bad economic conditions and became dictatorships capable of surviving survived under these conditions. Finally, consider the possibility that there is some factor which cannot be observed systematically and which affects both the political regime and the rate of growth.

Enlightened leaders, for example, may opt for democracy and well manage the economy. If we rely on comparisons of the observed cases, we will—yet again erroneously—conclude that faster growth is due to democracy, rather than to the enlightened leadership.

Democracy's effect on economic growth constitutes one of the oldest research problems in social science. It dates back to the 17th century, when the social sciences and the concepts of economic progress and democracy

all began to take their modern form. Two of the main positions still debated today were staked out in the 1650s, one side arguing that democracy hinders economic growth, the other side arguing that democracy promotes economic growth. We will refer to these positions as the “trade-off” and “win-win” perspectives- labels reflecting the positive normative connotations that democracy and economic growth both enjoy.

Thomas Hobbes pioneered the “trade-off” perspective in *The Leviathan* (1651). Hobbes had little confidence in the farsightedness or benevolence of rulers, but argued that absolutist regimes were more likely to improve the public welfare simply because they could not promote their own interests otherwise. Regimes where power was limited, by contrast, divided into factions that stood to gain from the misfortune of the public.

James Harrington’s response to Hobbes, *The Commonwealth of Oceana* (1656), pioneered the “win-win” perspective. Against Hobbes’s view of the shared interests of the absolute monarch with the country as a whole, Harrington viewed rulers as potential looters who took what they could. The central concern, then, was to limit the ruler’s ability to beggar the country. In short, constitutional limits on power would protect the public welfare. Although the concepts of democracy and economic growth have changed in the three centuries since, Hobbes’s “trade-off” (*adal badal*) and Harrington’s “win-win” positions continue to spar. Trade-off proponents—in both academic and political debates—argue that democracy is an inefficient luxury that only wealthy countries can afford. In this view, economic growth, especially among poor countries, requires what Gregor calls “developmental dictatorship,” in which “masses must be infused with a work, sacrifice, and obedience ethic, the dictatorship’s functional analogue of the protestant ethic so successful during the more leisurely development of northern Europe and North America.”

Win-win proponents argue that dictatorship, however benevolent, undermines the rule of law needed for routine economic activity. In this view, economic growth requires what Sklar calls “developmental democracy,” in which legal and electoral limits on arbitrary power give individuals the security to plan for their economic futures.

We can conclude that whether economic growth affects the emergence and the survival of democracy; and whether democratic values affect economic

performance. These two questions are inextricably connected. The difference views of the scholars on this issue are discussed below :

Democracy and Economic Growth is Compatible:

Some scholars opine that democracy and economic growth need not to be incompatible. They give the following arguments in favour of it.

1. Only democracy provides a better political stability compared to other forms of government: Political stability is a crucial for economic growth. Only democracy provides a better political stability compared to other forms of government. Stability means a predictable political environment, which in turn attracts investment, both internally and from outside. The resulting virtuous circle of poverty reduction, job creation, increased state revenues and investment in welfare and education bring benefits to all in society such that a return to violence or chaos is in no-one’s interests. Some scholars argue that political freedom can have a major role in providing relevant information in solving and fulfilling the economic needs and in providing incentives. There have been many noteworthy examples of rapid growth in some countries under liberal authoritarian regimes that has lent credence to the view that democracy is an impediment to growth.
2. Democracies promotes economic growth or the per capita income: According to Lipset (1959) the economic freedom in the liberal democracies promotes economic growth or the per capita income. In 1959, Lipset gave a theory that better to do nation, the best are its chances to maintain democracy. As a country develops economically, its society and people develop the skills needed to sustain democracy faster and better.
3. Democratic countries which had the better per capita income have been the most stable: Adam Przeworski and Limongi (2000) after studying the period 1950-1991 had calculated that in a democratic county that has a per capita income of under \$ 1500, the regime has a life of eight years, with \$ 1500-3000, it is 18 years and above \$ 6000, it is stable. About two-thirds of democratic countries which had the per capita income of \$ 9000 have been the most stable.

The views on the relationship between democracy and economic growth have changed by the time to time. As Rodrik in his recent empirical studies based on samples of more than 100 countries suggests that there is small reason to believe that democracy is conducive to lower growth over long time spans.

Democracy and economic growth need not to be incompatible: Noble Laureate economist Sen (1999) in his book *Development as Freedom* has argued that democracy and economic growth are not linked and need not to be incompatible. He pointed out for instance that country He argued that in authoritarian systems development occurs because of high levels of literacy, presence of basic facilities like health care, land reforms, use of international markets, open competition etc. to him growth mean increase in GDP in the quality of lives capabilities of the citizens. In democratic countries civil and political rights give the people an opportunity to draw attention to their exact demands and guide policy making and implementation towards those policies. Political rights give an opportunity to the poor people for economic rewards and fulfilment of needs.

He classified the importance of democratic system in economic growth and development into three categories: (i) democracy has an intrinsic value, (ii) and an instrumental value and (iii) and plays an important role in the creation of value and norms.

- i. *Intrinsic value*: According to Amartya Sen democracy has an *intrinsic value* to growth. As the political incentives provided by democratic governance acquire practical value at these times. The culture of political freedoms and civil rights also plays a major part in helping the formation of value and in the identification of needs.
- ii. *Instrumental value*: About the *instrumental value*, Sen argues the ultimate objective of economic growth is the realisation of human freedom. And to that extant democracy has an instrumental value. The instrumental role of freedom has many components like economic facilities, political freedoms, social opportunities, transparency, guarantees and protective security. He point out that economic needs and political freedoms are linked constructively. The exercise of political rights lead to a policy response from the government to economic needs and the

formulation and conceptualisation of economic needs need the presence of political rights. Democracy provides an opportunity to work its processes and institutions and use it for growth and development. So ultimately the success of democracy will depend on the use that people put to it.

- iii. *creation of value and norms*: A democratic set up thus can be very valuable, and people; society have always be on the lookout to make it even more successful this development, growth and social justice depends on the quality of functioning and practices of democratic institutions.
4. Economic growth which stimulates democracy or the adoption of better institutions: Economists Edwards Glaeser *et al.* (2004) opines that it is economic growth which stimulates democracy or the adoption of better institutions, and not the opposite. In his opinion economic growth of a country facilitates the political development. In his opinion the accumulation of human capital is a more important determinant of economic growth than political institutions. All countries with high levels of education were classified as stable democracies, and nearly all stable democracies were highly educated. In contrast, the economists believe that nearly all countries run by dictators were poorly educated. As education levels increased, democracies were more common.
5. More democratic political rights will strengthen economic rights:- In his book *Capitalism and Freedom* (1962) Freidman (1962) believes that, more democratic political rights will strengthen economic rights. In this way political rights are beneficial to economic development. The assurance of the individual's economic freedom results in, and is predicated upon, the maintenance of a free-enterprise exchange economy that constitutes an ideal economic arrangement for a free society. Democratic government activities like income redistribution would tend to retard economic development.
6. The more democratic a government is, ... the greater the diversion of resources from investment to consumption:- According to Glaeser *et al.* (2004) that the poor democratic

countries there is high consumption, and the government makes immediate investment, that results in growth. In these countries the role of trade union and the governments is most important in terms of growth. He noticed that “the more democratic a government is, ... the greater the diversion of resources from investment to consumption.

7. What matters for economic development is political stability, rather than the particular political institutions: Huntington relates economic development with political stability or a democratic stability. He pointed-that what matters for economic development is political stability, rather than the particular political institutions. Political instability effects economic performance only under dictatorship whether because of institutional constraints or of motivations of those who govern democracies, neither past nor expected changes of heads of governments affects growth under democracies. But under the dictatorships, economic growth slow down significantly when the tenure of rulers is threatened. The same is true of various forms of socio-political unrest ‘like strikes, anti-government demonstration, and riots occur more often in democracies but they retard growth only in dictatorship.
8. Democratic system are more stable and establishing the higher levels of development and economic growth:- Andrew Richard agrees that there are ample evidences clarifying that democracy is fully compatible with the market and through that with the economic efficiency is overwhelming. According to him those nations, having the democratic system are more stable and establishing the higher levels of development and economic growth. It is also finds that, an equal distribution of income leads to democratic stability. Therefore social and conditions have considerable effects on new democratic regimes that whether they can last and function effectively.

Democracy and economic growth is not compatible:

On the other hand scholars who do not see any democratic values that support economic growth. Economic growth does not bother democratic value. The

main purpose of economic growth is to promote economic rights only. The ideology of growth constitutes indeed, the dominant social paradigm, in both West and the East.

1. If people are given a choice between political freedom and fulfilling economic needs, people will invariably choose growth to rid themselves of economic misery and deprivation:- The liberal capitalist school of thought who insists on seeing democracy is an impediment to growth advance three basic arguments. *First*, that democratic rights and freedoms hamper economic growth and development. This view is called as the ‘*Lee Thesis*’ after former Singapore Prime Minister Lee Kuan Yew who was an ardent proponent of it. *Second*, if people are given a choice between political freedom and fulfilling economic needs, people will invariably choose growth to rid themselves of economic misery and deprivation. They would not care for democracy. *Third*, liberal political freedoms are a western cultural priority and obsession, and culturally it is not that important for some cultures like those to be formed in the middle-east and Asia. In Asian cultures order and discipline which facilitates prosperity are more important.

The so called Asian Tiger economies have all followed system that has been from less than democratic to quite dictatorial. This school of thought argues what is the need for democratic rights and duties when governments think about and work for the welfare of its citizens. They have argued since collective goals are clear, principally of economic growth, the government job of delivering on them should not be hampered by democratic checks and balances. For instance Taiwan, South Korea, Singapore, China, Indonesia have had authoritarian governments that were able to take fast decisions and implement them that has lead to rapid growth in these countries.

2. Economic development leads to democracy, but democracy retards economic development:- Przeworski and Limongi (2000) views that the favourable effects between democracy and economic development as single directional; that is, economic development leads to democracy, but democracy retards economic development. Therefore democracy would be directly related

with economic level, but inversely related with economic growth. They further says that, -Since wealthy countries might have reached high economic level for other reasons, but would slow down after democracy is established, while for poor countries economic development has not create a favourable environment for democracy, but thus they would also enjoy economic growth not retarded by democracy. Almost all the advanced economics of the world, including the United States, Japan, Germany, Grait Britain, Russia etc., and also almost all the emerging economies in contemporary world, made their initial take-off and fastest growth under non-democracy we have in mind today. This view can be stretched as for as stating that, ‘dictatorships are needed to generate development.’

3. Democracy is not necessarily the best form of government for poor countries from the perspective of economic development. Norwegian social scientist Elster (1993) views that, democracy does not necessarily lead to economic development, nor the other way round, even though democracy is not necessarily the best form of government for poor countries from the perspective of economic development. The point is economic development cannot and should not justify simply because it is not yet clear whether democracy is more effective than its alternatives in bringing about economic development. The economic considerations can be nothing more than just an instrumental point of view, and if we regard it is a sufficient justification for non-democratic regimes.
4. Economic growth does not bother democratic value:- The main purpose of economic growth is to promote economic rights only. The ideology of growth constitutes indeed, the dominant social paradigm, in both West and the East. According to Serge (2005) “Although the growth economy is the offspring of the dynamic of the market economy, the two concepts should not be confused since it is possible to have a growth economy which is not also a market economy- notably the case of ‘actually existing socialism’”. Growth economy can be defined as the system of economic organisation that is geared, either

“objectively” or deliberately, towards maximising economic growth. The growth economy have been already created a growth society, the main features of this society are consumerism, privacy, alienation and the subsequent disintegration of social ties.

Conclusion:

From the above discussion, it can be concluded that democracy with economic growth are more compatible. For the last fifty years the various countries that developed under the democratic government, having faster growth of per-capita income, because of lower rates of population growth, economic and political freedoms, social justice and equality. So, democracy is essential not because it can bring about every kinds of economic development, but also to given the opportunities to better living conditions for their citizens. On the other hand, various developing countries choose the option to remove poverty, hunger and shelter and provide economic growth with the help of the authoritative regimes over democracies. The countries like Taiwan, South Korea, Singapore, Hongkong having higher rates of growth without adopting a democratic system. Thus, both democracy and non-democracies have their limitations regarding the achievement of economic goals. In spite of many flows, democracy is the better option, but it needs to be strengthened and secured. But democracy should not be sacrificed on the altar of development.

Scope of Future Research:

This study has analysed the effects of political democracy and levels of development as well as economic growth. More democratic countries are found to have higher development levels, while positive democratisation changes are found to be associated with lower levels of development, both in terms of HDI and GDP per capita. Both more democratic and democratising countries were found to have relatively higher rates of human development. Applied to Sen’s (1999) theory of development as freedom, these results confirm the hypothesis that human development and human freedom are both compatible and positively interrelated (United Nations Development Programme, 1990). Moreover, these results also confirm the hypothesis that democracy and democratisation are more important for human development than for economic growth. Moreover, while this study has found support for a linear relationship

between democracy and development, there is also the possibility of a nonlinear relationship, which could be further analysed (Barro, 1996). Finally, this study has only analysed the effects of democracy on development. The reverse causality of economic development affecting democratisation is also possible. More research would be one way to further investigate this issue of causation.

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