

Democratization and Economic Development

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Abstract

This article investigates whether or not economic development is the main factor determining democratization. It shows that the effect of income on democratization is relatively small to influence democratization. This finding implies that democratization is largely exogenous to economic development. Thus, the modernization hypothesis that democratization is endogenous to income may be much weaker than the previous work claimed or presumed.

JEL classification: O430

Key words: democratization, economic development, autocracy

I. Introduction

The study of democratization lies at the heart of contemporary comparative politics. One of the most heated debates focuses on if rich dictatorships are more likely than poor dictatorships to collapse and be replaced by democracies. As indicated by Acemoglu *et al.* (2008), two distinct approaches have been applied to this problem in empirical social science. The first approach is based on the “modernization hypothesis” proposed by Lipset (1959). In his view, economic development and related activities, such as education, industrialization, and urbanization, stimulate democracy. If a dictatorship becomes as rich as the economically advanced nations, then it is highly probable that it will transition to a democracy. At this point, democracy is itself endogenous, since it results from development under authoritarianism.

The second approach, which is referred to as the “critical junctures hypothesis” by Acemoglu *et al.* (2005, 2007, and 2008), and exemplified by Moore (1966), considers that a dictatorship may tumble for many different reasons, because development, with all its modernizing consequences, plays no privileged role. Even though income and democracy are positively correlated, there is no evidence to suggest that income has a significant causal effect on democratization. Instead, it is the combination of many omitted, most probably historical, factors that shapes the divergent political and economic development paths of various countries, leading to the positive association between income and democracy.

Since there are only two types of regimes - democracy and autocracy - one emerges when the other one dies. The question would be essentially the same regardless of whether democracy emerges because of economic development or autocracy dies as a country becomes more developed. Thus, this article will couch the discussion in terms of the breakdown of autocracy. In particular, based on the duration of a country’s autocratic episode(s), it aims to justify which hypothesis is a more likely explanation of the relationship between autocratic breakdown and income. Based on the preliminary investigation, the evidence appears to show that the probability of any given dictatorship becoming democratic almost does not change when its income grows. However, if income does not cause democracy, then what does? The evidence indicates that the failure of autocracy is mostly due to the accumulated negative effects of rotten dictatorship over time. Besides, this kind of effect is exogenous to economic development. This result provides some supports to the argument that the emergence of democracy is exogenous to income.

The remainder of this paper proceeds as follows. Section II discusses the relevant literature and presents the propositions to be tested. Section III describes the data. Section IV presents the relationship between democratization and income. Finally, Section V concludes the article.

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II. Democratization and Economic Development

A. Modernization Hypothesis. This line of argument proposes that better economic performance drives institutional change. The seminal study is Seymour Martin Lipset's (1959) modernization hypothesis. In his view, economic development and increasing prosperity stimulate democracy. Not only development but also variables closely associated with it, such as the levels of educational attainment and urbanization, can facilitate the transition to democracy. This argument emphasizes that once a poor dictatorship becomes as rich as the economically advanced nations, it is highly probable that it will transit to democracy. Thus, poor authoritarian countries will become democratic when they reach a certain level of income threshold. Basically, this hypothesis emphasizes that there is a causal effect of income on democratization. Democracy is itself endogenous, since it results from development under authoritarianism. Examples of these studies include Londregan and Poole (1996), Barro (1999), Boix and Stokes (2003), and Epstein *et al.* (2006).

The fact underlying this hypothesis is that, as autocratic countries develop, the social structure becomes complex, production processes begin to require the active cooperation of employees, and individuals turn out to be more assertive. New groups, such as labor unions and the middle class, correspondingly emerge and become crucial in determining the choice of political regime. Simultaneously, education also becomes more widespread, technological change endows the society with more autonomy and information, and finally civil society materializes. At this point, the old political system can no longer be effectively controlled by a dictatorship. Various groups rise against the dictatorial regime, and this inevitably marks the end of the dictatorship. The modernization hypothesis thus suggests that democracies are more likely to emerge as countries develop economically.

B. Critical Junctures Hypothesis. The second approach, which is referred to as the "critical junctures hypothesis" by Acemoglu *et al.* (2005, 2007, and 2008), is proposed by Moore (1966) and regards the breakdown of autocracy as being caused by many different factors, but that economic development, with all its modernizing consequences, plays no privileged role. For instance, some countries democratized because of wars (Weber, 1950; Therborn, 1977), some because of the organization of agriculture and the intensities of feudal legacies (Moore, 1966), some because of the death of a founding dictator (Londregan and Poole, 1996; Przeworski and Limongi, 1997), some because of foreign pressures (Przeworski and Limongi, 1997), and some former colonial countries because of settler mortality and latitude (Acemoglu *et al.*, 2001). At this point, the dictatorships are equally likely to die and democracies to emerge at any level of development. The democratic transition or dictatorial breakdown is exogenous to economic development rather than endogenous.

However, on the other hand, it is a stylized fact that democracy is highly correlated with economic development. How, then, can this hypothesis explain the fact that there are more democracies among wealthy countries than among poor ones? An interesting rationalization is provided by Przeworski *et al.* (2000) (hereafter referred to as PACL), who claim that the development or an increase in income is not a causal factor in the process of democratization. By contrast, the positive association between income and democracy results from the reduced likelihood of democracy sliding back into autocracy once a country has "randomly" become democratic. They take Lipset at his own word - "*the more well-to-do a nation, the greater the chances it will sustain democracy.*" Even if the transition to democracy (autocratic breakdown) is exogenous and independent of the level of income, the probability that such a democratic regime will survive is greater if it has been established in a rich country. One will thus observe the fact that democracies appear randomly with regard to levels of income, but they die in the poorer countries and survive in the wealthier ones. "*History gradually accumulates wealthy democracies, since every time a dictatorship happens to die in an affluent country, democracy is there to stay. This is therefore no longer a modernization theory, since the emergence of democracy is not brought about by development. Rather, democracy appears exogenously as a deus ex machina. It survives if a country is modern, but it is not a product of modernization* (PACL 1997, p. 159)." They thus assert that their findings represent the "exogenous" theory of regime change.

As indicated by Epstein *et al.* (2006), the finding of PACL has been treated as received wisdom by the literature. However, it requires two hypotheses to be proved correct. The first one is that a democratic country is increasingly likely to stick with democracy as its per capita income grows. The second one is that a dictatorship is not more likely to die as the economy grows.² Boix and Stokes (2003) graphically illustrate these two hypotheses in Figure 1, which depicts per capita income on the horizontal axis and the probability of regime transition on the vertical axis. Statistically, Figure 1 indicates that the probability of a democratic breakdown is negatively correlated with income and that the probability of an autocratic breakdown is independent of the level of economic development. In one the status quo is democracy; in the other the status quo is dictatorship.

² Here, it means the rise in per capita income. See Boix and Stokes (2003, p. 520) for details.

In the former case, the literature has widely recognized the fact that income growth indeed increases the stability of a democracy, but it has strong doubts about the latter (Boix and Stokes 2003; Epstein *et al.* 2006).

In actual fact, Figure 1 is consistent with the stylized fact that the probability of democratic breakdown in a country with an income of over \$7,000 is “zero”, compared with 12.5% of that in a country with an income of under \$1,000 (PACL, p. 161). Besides, the literature also shows that a positive rate of economic growth promotes a stable democracy. For instance, Haggard and Kaufman (1995) report that in a collection of 462 country-year observations of positive economic growth between 1960 and 1990, democracies survive 97% of the time. Economic growth thus has a beneficial effect on the survival of an already-existing democracy by reducing the frustrations and conflicts resulting from inequality or other social cleavages. However, when the status quo is dictatorship, the proposition of PACL that autocratic regimes do not transition to democracy as incomes rise has been vigorously challenged in the literature. For instance, Boix (2002) and Boix and Stokes (2003) argue that PACL’s findings are subject to both sample selection and omitted variable biases. The correct causal relation should be that economic development increases the likelihood of autocratic breakdown. Epstein *et al.* (2006) also point out that the findings of PACL are incorrect in the classification of political systems.

C. Purpose of This Article. Since the first proposition of PACL that democracy survives in affluent countries has been widely accepted by the literature, it does not need any specific confirmation. This following thus instead explains that a dictatorial regime is not more likely to experience a transition to democracy as it reaches higher levels of income per capita.

III. Relationship between Democratization and Income

A. Relationship between Income and Democratization Might be Nonlinear

There might exist a critical threshold such that some level of development is a prerequisite for a transition to democracy. In the early stage of development, an increase in income tends to strengthen dictatorship because the dictator may make use of his good economic performance to consolidate his power and more easily rule the country by providing more basic needs to the people. Provisionally, the dictator may benefit from the short-run effect of growth by keeping himself in power. The growth of income can ensure that the authoritarian regime proceeds successfully, and thus the dictatorship can survive its tumultuous youth. However, on the other hand, the dictatorship will sow the seeds of its own dissolution. Once the society has already achieved a moderate level of living, each increment in the level of the economy may raise the odds of autocratic breakdown. As indicated by Pennar *et al.* (1993), this is because continually rising incomes make democracy become a luxury good. A better-fed population tends to demand political freedom and civil rights and hence further increases in income impair an autocratic regime in the long-run. The interaction of the long-run and short-run effects of development on democracy thus results in a nonlinear relationship between these two variables.

B. Positive Duration Dependence - Accumulated Effects of Rotten Dictatorship.

There are various factors may affect the hazard rate for each dictatorship, and more importantly, there exists a positive duration dependence between democratization and the time span of autocracy. This means that the hazard of dictatorial breakdown is upward-sloping over time. For a particular dictatorship, the instantaneous rate of being overthrown increases with the duration of the dictatorship. This result implies that the transition to democracy is deeply affected by historically persistent weaknesses of dictatorship.

The numerous weaknesses of centralization under authoritarian rule, such as a tendency toward absolute corruption, a distorted distribution of wealth, and a limited capacity of the center to handle problems in the periphery of society, will be accumulated over time as the regime’s burden and hence will stimulate a surge of demands on the part of previously quiescent and perhaps even actively repressed groups.³ While the dictators can repress their opponents in the short-run, such discontent from below would grow and finally culminate in a tremendously destabilizing factor in the long run. One could reasonably expect that the longer the autocracy has lasted, the more likely it is that it will end. *The core insight is that institutional effects unfold over time, sometimes a great deal of time, and that these temporal effects are cumulative* (Gerring *et al.*, 2005). It is the accumulated negative effects of these historically rotten legacies that ought to be of central concern if one wishes to understand the duration of an autocratic regime as well as its causal effect on a variety of current outcomes – political, or economic.

C. Autocracy Breakdown May Depend upon Previous History.

Regimes do not begin again *de novo* each year. Today’s regime transition depends upon yesterday’s history. Dictatorship constructs deep legacies, spanning several decades, perhaps even centuries. One has to look

³ These groups include lower classes, excluded ethnic and racial groups, and some other categories of out-groups.

backwards and even forwards in time to understand the path of democratization of a country. In particular, the result of positive duration dependence means that one has to investigate the democratization through the accumulated effects of rotten dictatorship, rather than through the level of development at a particular moment in time. More importantly, this article emphasizes that this kind of time-dependent duration is exogenous to economic development. It is this exogenous duration that has a major impact on autocratic breakdown, but not economic development or income level. PACL emphasize that modernization or an increase in income is not a causal factor in the process of democratization.

Solely depending on a the causal relationship between income and democratization might therefore wrongly attribute to development what may have been just a culmination of random hazards during the “time” of the economic development. As a matter of fact, the dictatorship most likely democratized due to the deaths of the dictators, international pressures from the US, or even geopolitical reasons, and not purely because of economic development (Oyang and Ma, 2011). At this point, even if economic development is significant in explaining the duration of autocracy, its causal power in bringing dictatorships down may be less than the one that modernization hypothesis claims.

V. Conclusion

This article uses duration data to investigate whether or not economic development is the main factor in determining democratization. The result obtained supports the argument that democratization is exogenous. Rich countries tend to be more democratic than poor ones is not by itself enough to resolve the relationship between income and democratization. This is because democracy can be initiated by any exogenous events at any levels of development.

Where does one go from here? I believe that the direction for future research is to investigate the kinds of exogenous events that can contribute to the failures of dictatorships. As indicated by Londregan and Poole (1996), most of these variables fall within the realm of countries’ historical backgrounds and political cultures. However, on the other hand, not only are they difficult to measure, but they are also sufficiently collinear with income to have produced the appearance that democracy is an entailment of a high level of economic development. To address this issue, I believe that the one should go in the direction of discriminating against those factors that bring about the divergent historical/political and economic development paths of various countries. This might be done by adopting a strategy of analytic induction based on a case study method that takes successive individual histories into account. I am not sure what the final conclusion is. However, I firmly believe that any theory that fails to take into account the exogeneity of democratization may lead to biased inferences regarding the causal relationship between development and democratization.

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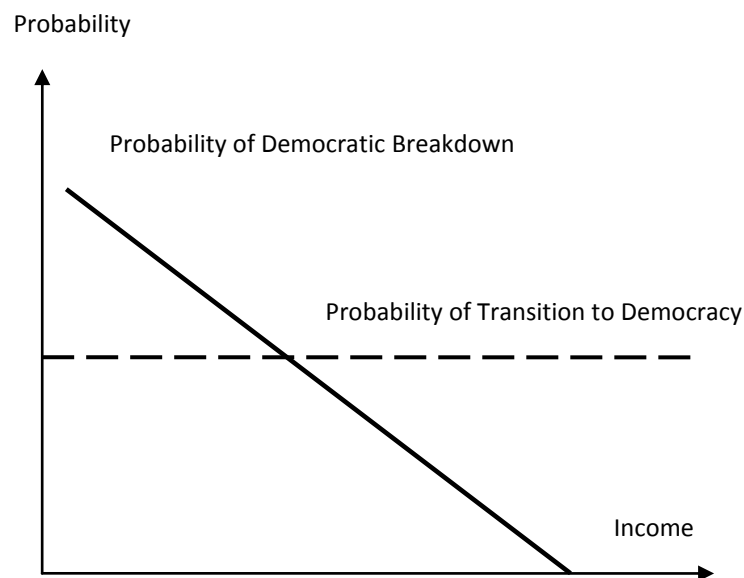


Figure 1 The Exogenous of Regime Change
Source: Boix and Stokes (2003, p. 520)

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