The Relationship Between Democracy And Economic Growth

Regime type and its effect on economic growth has been a vastly studied topic. Despite the lack of unanimity between scholars over what type of, if any, relationship exists. However, there is evidence of convincing academic work showcasing that the presence of a relationship between democratic frameworks and economic development is present, either as a direct or interactive effect. Scholar's arguing for the positive relationship of democracy with economic growth argue that democracy as a framework of checks and balances is able to establish and ensure protection of individual rights, institutions geared towards public welfare, and invest in growth-stimulating activities such as education. Moreover, as the political freedoms offered by systems of democracy enhance levels of inclusion of different segments of society, it also allows for the market to end up allocating itself better suited to the needs of the society it operates in.

According to Olson, democracy enforces upon the elites to negotiate on how to share power, and it is this power-sharing between segments of society such as labor unions, politicians, and business elites that enables for the better development of political institutions while augmenting the economic institutions of a given country. In comparison to an autocracy where power and public welfare is disposed of only until it serves the interests of the few that are benefiting from it, democracy pushes to provide a mutually advantageous position for all in society. As a by-product of the open system of democracy, the ruling economic and political elites are forced to take into consideration the interests of other segments in society in order to remain in power. Intuitively, one can argue that democracy being a system that focuses on strong provision and implementation of individual rights, it secures property rights and facilitates its communities to become economically dynamic participants of the workforce. This encourages cooperation at both a micro and macro level, such as interest groups, and inter-state relations.

Moreover, this can encourage innovation, but also reduces the barrier of entering technologically advanced sectors. Therefore, if not evident in the short term, the long-term investments by a democratic system can yield high and sustained levels of economic growth. Once a system is solidified, and state apparatus has strengthened itself, the encouragement of economic growth is reinforced. The open nature of the democratic system can contribute to countries having a higher propensity to enable an even more efficient system of market allocation.

It can also be said that democratic norms and systems develop good and efficient political institutions better capable of enduring shocks enabling a kind of growth that may be slow but exhibits strong resistance to market volatility. As a result, economic growth in democracies may take longer because of the provisions of rights, an open market, political power-sharing, and encouragement of technological innovation. The payoffs from these democratic investments occur in the long term but generate sustainable growth prospects. Therefore, economic booms may not form as rapidly as say they have in countries such as China, or Taiwan, however, democracies overall are better able to avoid economic meltdown in the global or local financial markets. A large-scale meta-analysis of over 200 studies from the 20th century to now highlights that "democracy does affect growth even if the effect is small… thus confirming, at least from an economic perspective…" The relationship between democratic systems can

facilitate the enhancement of economic growth and growth-focused policymaking (to different degrees in different types of democracies).

A cross-country examination of economic interdependence between democratic countries states “that economic development of a country is not only stimulated by improved own-country institutions but also by better institutions across regions.” Therefore, showing that at a country-level, democracy can positively influence domestic and global economic relationships. It plays an “anchoring role in promoting interdependence in economic growth” which also plays a part in building, growing and strengthening mechanisms of economic growth in the long-term. Stronger domestic institutions that promote a high level of education, minimal or no political repression, and assist for technological advancement and innovation can further stimulate economic sectors across countries for more economic growth. This pattern also extends beyond its border if surrounding countries also develop in a democratic manner, therefore raising the propensity for growth at the individual, country, region, and even at the global level.

One can argue that even when it comes to economic freedom and growth, the level of democracy and its relationship with economic growth is an important caveat to consider. The degree of positive influence a regime type can have on economic growth varies depending on the level of consolidation of the regime. A consolidated strong democratic system can enhance levels of economic freedom allowing its market and political institutions to enact policies that invest in physical and human capital investment. Whereas, weak or infant democracies can face more serious challenges because their institutions are underdeveloped and unable to carry out the same level of power-sharing that can assist in credibly carrying out the political and economic negotiations between parties. Therefore, when coming to a conclusion on whether democracy as a framework can facilitate economic growth, it is important to consider the aggregate results of a regime type may inaccurately reflect the effect because of strength/consolidation differences in a given type.