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Democracy and Development

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ABSTRACT

Is democracy inherently a good thing? And do democratic institutions facilitate economic development? It appears reasonable to answer the first question affirmatively: democracy is a good thing because it facilitates free human choice and it furthers the good of political participation.

Keywords: *Democracy, Development, Economic, Social order.*

I. INTRODUCTION

Democracy is a good thing, both intrinsically and instrumentally. Intrinsically, it is a necessary component of the ability of individuals to live freely and autonomously. Instrumentally, it is an institutional guarantee that the policies and laws created by a government will have a reasonable fit with the fundamental interests of the people. Thus democracy is a central determinant of the quality of life, and a central element in the ability of men and women to live freely and autonomously as human beings.

Democracy thus pertains to the self-rule of a politically constituted social group—a state or provincial authority, or a city or town. Several elements distinguish a political group from other forms of association: the fact that the political unit is empowered to coerce its members through the collection of taxes, restrictions on the use of property, and the imposition of regulations and laws; and second, that the authority of the unit does not depend upon the continuing voluntary consent of the individual for the exercise of its authority.

The citizen may sometimes vote with his or her feet (by departing the jurisdiction); but while resident within the jurisdiction of the political unit, the citizen can be compelled to act according to the laws, policies, and decrees of the political authorities. And laws have the invariable characteristic of restricting freedom; that is, they inevitably work to prevent people from acting on choices they otherwise would have made.

The relation between democracy and development could be considered one of controversial topics in contemporary political debate. What makes it controversial are the inconclusive results, particularly about the causal relation between the two. Some findings argue that the level of development is likely to promote democracy while others show differently. Przeworski

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et al. (2000), Ming-Chang Tsai (2006), Robinson (2006), and Mainwaring and Perez-Linan (2003) are among those who acknowledge the positive relationship between democracy and development. This claim is highly reasonable if we consider that several developed countries e.g. the US and the UK are politically still democratic for a long period of time. However, countries such as South Korea, Taiwan and Singapore exhibit different cases. They keep experiencing economic growth but are considered to have less political democracy (Bagchi, 1995). This seems similar with Durham's argument (1999) and Roemer (1995) who point out that authoritarianism is more favorable for development than democracy. This controversy has led to an important question about of how important is democracy for development?

I will answer the question of how important is democracy for development by examining the role of democracy in development. I argue that democracy has important roles in development since democracy promotes productivity and order in society. Democracy also offers a developmental trustee in terms of secure, credible, autonomous, and legitimate government.

In investigating the roles of democracy in development, firstly, I will review the idea of modern development. The understanding about this concept will lead us to the important concept about 'trusteeship'. From here, I would draw a theoretical explanation on how democracy, as a form of trusteeship, relates to development. This theoretical relationship between the two will not automatically answer the question of how important is democracy for development, but by using an analytical framework built on the concept of modern development and trusteeship, I will examine the roles of democracy in enhancing productivity thus promoting sustain economic development through property rights protection and capital attraction, at the same time maintaining equality and stability which eventually establish order in society.

II. THE ROLE OF DEMOCRACY IN DEVELOPMENT

(A) The idea of modern development and trusteeship

Simply put, the idea of modern development is an intentional effort of maintaining the positive while rectifying the negative impacts resulting from human progress. The logic underlying this idea is that progress, which is viewed as an unlimited improvement of human effort, also brings with it unwanted impacts to the societies. These negative impacts emerge in the form of unproductive and disorder conditions such as unemployment, slums, and social conflict. Several thinkers like Saint-Simonians, Comte and Mill propose the idea where progress, in terms of productivity, should be reconciled with order. This concept is then known as the idea of modern development (Cohen & Shenton 1995). This idea brought us to the question of who would bring and guide the process of development. Although suggesting different actors, those thinkers

propose the same concept of trusteeship. In this concept, who is chosen as the trustee must have the capacity to guide the societies in bringing the development? Currently, who and how the trustee is chosen vary among countries, however, it can be divided into two general forms: authoritarian and democracy. In this regard, how a democratic government as trustee brings about development is the central discussion in this paper.

Based on the review on theory of modern development and trusteeship above, we can draw a conclusion that a trustee plays important roles to bring about two main elements of development: productivity and order. By referring a democratic government as a form of trustee, the role of democracy in development would be examined within the frame of these two elements.

It is important to note that democracy can be understood in different ways by different people. To provide a simple and clear understanding, a definition from Bagchi (1995) seems appropriate since his definition provides a vertical and horizontal explanation of democracy. Democracy, according to him, can be understood in two respects: democracy in society and democracy in politics. Democracy in society refers to equal citizenry and opportunities while democracy in politics refers to a democratic state institution. This division of democracy explains why countries like India and Brazil count as democratic countries in terms of political institutions but less democratic in terms of citizenry. This paper largely uses the term democracy as a political system.

(B) Democracy and economic development through property rights and capital

From the perspective of neoclassical economics, property rights and capital are essential in promoting economic development. Property rights, in terms of secure ownership and enforcement of contract, would reduce the costs and risks of doing business. Thus, a well-defined property right provides incentive to make a long-run investments without any doubt of being expropriated by the third parties. Likewise, the relation between property rights and economic development is convincingly explained by Leblang (1996) through three respective ways: reducing transaction cost, providing security on assets and creating incentive of doing exchange. Then, the central issue is whether democracy or autocracy is more secure in protecting property rights and why?

Democracy is more secure than authoritarianism in protecting property rights for the following reasons. Firstly, the nature of democracy itself highly respects individual rights including property rights. DeMesquita, Downs and Smith (2005) argue that democracy improve human rights protection. They demonstrate that political participation and accountability appears to be

‘the critical feature that makes full-fledged democracies respect human rights’. These features, which are likely absent in most non-democracies, provide control over democratic government for depriving its own citizen’s rights of properties. Besides of the presence of control, property rights and also other human rights are also protected by independent institution, i.e. court. This would reduce the possibility of being deprived even by the state itself. Authoritarians might be powerful in protecting property rights as well, or they might also have judicial system. However, it would not be the case if the state itself has interest on the property rights since autocratic power by definition can overrule any power in society including the judicial power (Olson 1993). The unbalanced power opens opportunity for the state to impose reverse policies against property rights at some time in the future.

Secondly, time horizon and consistency are another explanation why democracy is more secure in property rights protection. Autocracies might have the capacity to protect property rights however, in the longer-term, they are more likely inconsistent in doing so. In autocracies, commitment of the state is highly relied on the behavior of the autocrat and the change of autocrat might produce different policies which might have an effect on undermining property rights. In contrast, a democratic country institutionalizes the state mechanism so changes of person in the office is unlikely to alter the state’s commitment in protecting property rights. Thus, property rights would be permanently respected and everyone feels secure to make long-run investment. The importance of secure government institutions is emphasized by Olson (1993) who argues that individuals need a secure government, referring to the democratic one, to protect their property rights and to secure long-term contracts and investment. He also concludes that conditions that are needed to have long-term investment are the same with the conditions that are required to have a lasting democracy, which are the same court system, independent judiciary and respect for law and individual property rights, even when the administration changes.

In regard to capital, the relation between democracy and capital will be analyzed through Foreign Direct Investment (FDI) behavior. The roles of FDI in promoting economic development are quite obvious, such as capital accumulation, employment, and at some degree transfer of technology to host countries. From the neoclassical economic perspective, all of these are the key factors in accelerating economic growth. Why FDI is favorable to democratic countries can be explained by the effect of country political risk on FDI.

Democratic institutions diminish political risks that negatively affected FDI. Several arguments are offered by writers on this issue such as rent-seeking behavior and the rule of law argument (Jacobsen and Soysa 2006). Here, I would offer an argument that political risk affects a

country's credibility for investment. FDI is very sensitive about political risk in the host countries as once privates make an investment it will be costly to withdraw. Democratic countries seem have less political risks since they offer more consistent policies. Pressures from voters and high level of accountability in democratic system have constrained the government to impose a sudden reversed policies that might affect the FDIs severely. As it is the nature of investment to find an acceptable risk environments, stable political conditions (this will be discussed shortly) and credible government's policies are the necessary conditions for investment to present. Democracies offer more certain investment climate since, as Jensen (2003) argues, democratic government have more credible policies compare to dictatorship.

On the contrary, several studies challenge the claim that Multi-National Corporations (MNCs) favor democracy, e.g. from Li & Resnick (2003). The conventional argument is that authoritarian offers a better deal to MNCs, lower wages of labor and less constraint to investment (such as barrier to entry from domestic business groups) as the government holds a full control of the state without any significant pressure from societies. These reasons seem to be convincing for the short-run time frame. However in the long term, which most investment are planned within this horizon, uncertainty are likely to increase, particularly when there is shift in political leader. Moreover, the absence of control on government's actions provides no guarantee that an authoritarian would not break 'the deals' which had made in front. Now, let's turn to how democracy promotes economic development through an indirect channel of social order.

(C) Democracy and social order through equality and stability

Another idea of modern development is that development should maintain order in societies. How democracy sustains the order in societies can be explain in two respects: democracy endorses equality and maintains stability.

A simple but strong argument for democracy could reduce inequality is that democracy provides channel for every people to political power so the lower and middle class can use this channel to vote on a more redistributive public resources. As democratic governments have orientation to win support from these classes, they are likely to adopt redistributive policies such as welfare program, subsidies, progressive income tax, and public services such as health and education.

Several studies have been carried out to examine the causal link between democracy and equality. However, the evidence is not convergent. Reuveny and Li (2003) point out that democracy firmly reduces income inequality. However, Gasiorowski (1997) concludes an insignificant relation. Chan (1997) shows a mixed finding, while Simpson (1990) demonstrates

opposite result. Apart of the different results of those studies, in my view, a democratic institution is more likely to reduce inequality since democracy provides check and balance mechanism to ensure the state's action keep in-line with majority's interests. Multiple pressures from different groups avoid democratic governments from being captured by particular interest or as Evans (1995) describes it 'embedded autonomy', leading to more equal development outcomes.

Another argument of why democracy is important in development is the stable effect of democracy. Stability, both socially and politically, is important not only to sustain the achieved progress but also to set up a necessary condition for further development. How democracy could promote stability can be explained through its ability in reducing volatility that might happen in certain moments or events. In social context, conflicts and instabilities potentially come up to the surface when inequality widen (as discussed earlier). Similarly, political instability tends to occur particularly in the event of transfer of power. Let's just focus on the later.

In relation to the political stability, democracy offers a more stable process in government succession. Political parties have equal opportunity to participate and to contest in suffrage. The winner would be highly legitimated while the others ensure the winner always in check by acting as opposition to the ruling party. This regular successive mechanism reduces instability since parties have a chance to re-compete in the next election. Parallel with this, Feng (1997) provides evidence that 'democracy will increase the probability of major regular government change and lessen the chances of irregular government change'. A regular government transition suggests a more stable political condition with a legitimate government in power. On the contrary, non-democracies are characterized by irregular governmental changes without a fair mechanism and with unlimited period on power. With regard to this, Feng also presents evidence that the irregular process of successive engenders great amount of political uncertainties and slow down or even turn around the economic growth.

III. CONCLUSION

In summary, it is clear that democracy has important roles in promoting development. Using two basic elements drawn from the idea of modern development – productivity and order – this paper demonstrate that democracy enhances those elements of development. With respect to productivity, democracy convincingly promotes economic development through its positive interaction with economic institutions in terms of property rights protection and capital attraction. At the same time, democracy also promotes social and political order in the sense of equality and stability.

The arguments also demonstrate how democratic government exhibit characteristic as developmental trustee. A democratic government offers a secure institution for protecting property rights, credible policies for guarantying long-run investment, an autonomous government for acting on majority interest, and legitimate state for maintaining political stability. All of these features qualify a democratic government, as a trustee, to bring development. Non-democracies might also have this qualification, indeed some countries have such as Japan, China, Singapore, etc. As long as authoritarians meet those qualifications that are offered by democratic government, they would be developmental trustee as well.

- Noting this controversy, Rueschemeyer et al. (1992) come out with two classifications; the first is the quantitative cross-national approach which tends to acknowledge a stable positive relationship between democracy and development while the second is the comparative historical approach which refuses a reliable and theoretically possible relationship between the two.
- Cowen and Shenton (1995) discuss the idea of development as spontaneous and intentional process. Spontaneous development is a progress that is achieved through uncoordinated actions (i.e. invisible hands of the market) while intentional development is a progress that is achieved through planned actions.
- Saint-simonians propose bank and banker as the trustee while Comte proposes sociologist (Cohen & Shenton, 1995; pp. 34-35)
- Evans (1995) describes this kind of the state as ‘predatory state’. The state tends to prey its citizen and providing little way of public service in return of citizen’s tax.
- Jacobsen and Soysa argue that democracy is preferred than autocracy since rent-seeking behavior of domestic business groups will be lower in democracies than in autocracy. This is because countries preferences are largely dictated by the broader populace rather than by narrowly-based (business) groups.
- Democracy strengthens the rule of law, thus reducing the potential for arbitrary government intervention in the affairs of Multi National Corporation.

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