

CHAPTER 1

Exposing a 50-Year-Old Myth

Dictatorship is like a big proud ship—steaming away across the ocean with a great hulk and powerful engines driving it. It's going fast and strong and looks like nothing could stop it. What happens? Your fine ship strikes something—under the surface. Maybe it's a mine or a reef, maybe it's a torpedo or an iceberg. And your wonderful ship sinks! Now take democracy. It's like riding on a raft, a rickety raft that was put together in a hurry. We get tossed about on the waves, it's bad going, and our feet are always wet. But that raft doesn't sink . . . It's the raft that will get to the shore at last.¹

A Yankee Businessman in New Hampshire

This book makes the case that democracy does a better job raising living standards in poor countries than does authoritarian government. At first, you might think the claim sounds a bit trite—What decent person would argue otherwise? The truth is that for the past half-century or so, the bulk of academic literature, United States policymakers, and Third World leaders have done so. While America's support for selected dictators across Latin America, sub-Saharan Africa, and Asia has been primarily based on Cold War calculations, this has been further justified by the conviction that democracy in poor countries breeds economic stagnation and civil unrest.

Today, it is politically incorrect to extol publicly the virtues of autocracies—countries where leaders are not popularly elected nor subject to meaningful checks and balances. Nonetheless, the view that these governments do a better job of promoting economic growth and stability among poor countries remains firmly entrenched in the minds of many world

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leaders, economists, national security advisors, business executives, political scientists, and international civil servants. According to this perspective, promoting democracy in poor countries is naïve and potentially dangerous.

Which side wins this debate matters, a lot. Acknowledging a democratic advantage for development—that is, a nation's social and economic progress—opens the door to a major rethinking of political and economic policy toward the developing world. The case for the United States and other industrialized democracies to back unstintingly democratization throughout the Third World becomes overwhelming. This would mark a sharp turnaround from current, tentative measures, where meaningful support for the emergence of democracy often falls short of the rhetoric lofted in its name.

Many readers are no doubt wondering at this point, “What about China?” China's rapid growth over the past 25 years makes it the contemporary poster child of authoritarian-led economic development. Doesn't it pose a major obstacle to our claim about the superiority of the democratic over the authoritarian model? Although a complex and still unfolding phenomenon, we will argue that, paradoxically, China's stunning economic performance helps make our case by highlighting the exceptional and fragile nature of economic growth in autocratic systems. First, however, let's take a look at the contours of China's economic boom.

Starting with market reforms in 1978 giving peasants incentives to boost agricultural productivity, China has experienced a nearly uninterrupted expansion of its economy. Income per person, adjusted for inflation, has risen more than six-fold over the past 25 years, to \$940 from \$151. In just the past decade, China has grown to the sixth from the eleventh largest economy in the world, with a gross domestic product (GDP) of \$1.2 trillion.

Like other East Asian countries, China rode an export-led development strategy to economic stardom. Trade makes up 50 percent of its economy and 5 percent of world exports. Lured by cheap labor and the prospect of gaining access to a market of 1.3 billion people, international investors have flocked to China, pouring some \$40 billion a year into its economy in recent years, or about 5 percent of GDP. Building on one of the highest savings rates in the world—40 percent of GDP—China has upgraded its communications technology and modernized its roads, ports, bridges, dams, and irrigation systems. In a single generation, farmers have switched from using donkeys to tractors. Television now reaches almost all city dwellers and the Internet connects with more than 12 percent of them.² To facilitate its transition to a market economy, China established experimental capitalist enclaves known as Special Economic Zones that were free of many of the legal and bureaucratic restrictions that were typical of China's command economy and that hindered trade, foreign investment, and technology transfers.

As China's economy has grown, the quality of life of its people has improved. More than 90 percent of children attend primary school and 50 percent make it through high school. Life expectancy has reached more than 70 years, comparable to that of the United States and Europe. Malnutrition rates plummeted by nearly 50 percent in the 1990s, and untold millions of people have risen above the poverty line. In short, China has become an economic dynamo.

The Argument for Authoritarian Rule

China's experience is refueling the long-running debate about which type of political system is better able to boost economic development. Doesn't China's performance validate the conventional assertion that autocratic governments are better at mobilizing economic growth in poor countries? Is our instinctive desire to see democracy flourish in the developing world simply a projection of Western values? If we were genuinely honest with ourselves, wouldn't we acknowledge that there really is a "cruel choice" between democracy and development?³ If so, shouldn't we be pragmatic and support authoritarian governments in the world's poorest countries in order to reduce the misery of their citizens? Then, after material needs were addressed, as part of some Maslowian hierarchy of priorities, we could focus on the more ethereal issues of freedom and self-governance.

In other words, after taking a good, hard look at China, shouldn't we adopt the view that has prevailed among foreign policy experts almost since the end of World War II? Popularized by Seymour Martin Lipset, this perspective holds that democracies can flourish only if they are grounded in a literate and urbanized middle class. In poorer societies, its adherents argue, democracies can be manipulated by opportunistic leaders who will make populist promises to get elected but pursue their selfish priorities once in office. Unrestrained by adequate counterweights, these unscrupulous politicians are likely to abuse their power and rig the system to maximize their interests. The economy stagnates. Social conditions deteriorate. Alas, the disciples of Lipset argue, while democracy is a desirable goal, it is one that can best be achieved after a sequence of economic development and social maturation occurs. Democracy should be seen as the crowning achievement of a long process of modernization.

To spur development in poor nations, they assert, authoritarian⁴ governments are better able to marshal the limited resources available and direct them toward productive activities that will increase economic output. Because of the superior organizational abilities inherent in their hierarchical structures, only authoritarian governments can match resources to the urgent tasks besetting them of increasing savings and investing them

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in public works like highways and dams, building up a disciplined military, enforcing the rule of law, and creating a functional educational system. Authoritarian governments can undertake all of these things more efficiently than can lumbering democracies. And, as the labor force becomes more skilled, more sophisticated technology can be employed and productive capacity further improved.

It was with this reasoning that Samuel Huntington, in his still influential 1968 classic *Political Order in Changing Societies*, touted the advantages of one-party states for low-income countries. Dominant political parties, particularly those backed by the military, were seen as unifying institutions.

The efficiency of authoritarian systems also supposedly lies in their perceived longer-term planning horizon. Spared of the arbitrary deadlines imposed by elections, they can identify long-range objectives, decide on the best policies for achieving them and implement these policies without deviating from the master plan. And there is no need to waste time and energy in endless negotiations with special interest groups, as democratic governments must do. These groups can be safely ignored, and unhappy though they might be at their impotence at first, they will ultimately realize they also benefit from the modernization efforts of a benign dictatorship.

In other words, by banishing politics from its economic policymaking, an authoritarian government is able to focus on the bigger picture. And it will seek to find solutions that benefit the society as a whole, rather than this or that favored group.

By dint of the same freedom from competing interest groups, the reasoning goes, authoritarian governments are more capable of instituting a fair, consistent rule of law, better able to establish and protect the property rights that form the basis for investment and asset accumulation, and in a stronger position to enforce contracts—thus assuring firms that enter into agreements that they will be paid.

The appeal of this perspective extended beyond the Cold War mindset in the West that the ideological battle against communism necessitated supporting friendly authoritarian governments. The orthodoxy of this view was captured in the World Bank's 1993 report *The East Asian Miracle*⁵ in which the global development bank endorsed the notion that authoritarian governments were better able to generate economic growth in the early stages of their development. Indeed, it was the meteoric growth of the East Asian Tigers (South Korea and Taiwan) that seamlessly bridged the Cold War moorings of the authoritarian advantage thesis to its persistent post-Cold War resonance. Although the East Asian financial crisis of the late 1990s caused the buoyancy of this view to lag somewhat, the underpinnings of the mentality remain strong. This is reflected in a 2002 report

to the Asian Development Bank that concludes, “. . . whereas democracies have been slow in grappling with poverty, the authoritarian regimes in the miracle economies achieved spectacular success . . . In a democracy with a thriving civil society, the process of policy consultation, adoption, and execution is much more time-consuming and involves many more procedural formalities than under an authoritarian regime.”⁶

A 2003 best seller by Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad*, picks up these themes in a contemporary restatement of the Lipset–Huntington argument. Coupling the perceived superiority of the authoritarian growth record among poor countries and the notion that democracies have never regressed to authoritarianism once they’ve surpassed per capita income levels of \$6,000, Zakaria argues that the goal should be to support “liberal autocracies” in the developing world.

Authoritarian governments in poor countries supposedly have another huge advantage over democracies. They are insulated from the demands of the poor. In a system of one person, one vote, democratic governments in developing countries are pressured to respond to the population’s desire for costly entitlements like free schools, decent health care, minimum wage laws, labor rights, and generous pension plans.⁷ Not only would caving into these demands break the national budget, it would also discourage savings and investment. What foreign business would want to pour serious money into a country with so many extra costs attached, when it could move it instead to low-wage countries like China and Vietnam? Democracy’s ever-looming electoral cycle puts great pressure on politicians to extend fiscal commitments to particular constituencies that undermine a nation’s long-term economic health.

The argument further claims that the firm hand of an authoritarian government is required to maintain order and stability in backward nations in which tribal loyalties, economic disparities, social tensions, and regional conflicts are rife. Just look at Africa, Asia, the Middle East, and parts of Latin America, especially the former colonies. Too often, the people living there lack a real sense of national identity. In such places, only a strong national government can provide the security needed for people to go about their daily lives and safeguard the highways, bridges, and dams from insurgents. In other words, only a monopoly of power in the early stages of a country’s economic development can prevent anarchy.

This is the recurrent theme in Robert Kaplan’s widely read articles on democratization in the post-Cold War era.⁸ An unabashed Huntington revivalist, Kaplan challenges the West’s liberal instincts to promote democracy in the developing world. Lacking the Western traditions of tolerance and multiculturalism, efforts to encourage democratization in other regions of the world are likely to be highly destabilizing. Rather than advancing

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democracy, civil conflict and the emergence of neo-autocrats is the more likely result. A realist-based strategy of supporting authoritarian governments that can consolidate the authority of the state is what is needed.

According to this school of thought, democracies in ethnically diverse societies are highly vulnerable to social fragmentation. Each tribe or clan will be reluctant to cede any authority or share power with rival groups, leading to hair-trigger tensions and the constant threat of civil conflict. State policymakers are left wringing their hands at the near impossibility of coordinated action to alleviate national ills. More ominously, weak politicians will have obvious incentives to stir up ethnic divisions in order to cast themselves as defenders of their own cultures against the machinations of rival groups. Such a stance might win them public office, but it can also unleash violent passions. In fact, it is argued, the very act of staging democratic elections in the diverse societies of much of the developing world can trigger conflict.⁹ Single-party rule, by contrast, can channel a profusion of interests into a central political apparatus that can minimize ethnic divisions and clamp down on troublemakers who would attempt to exploit them.

In another best-selling book from 2003, Amy Chua, in *World on Fire: How Exporting Free Market Democracy Breeds Ethnic Hatred and Global Instability*, argues that the global spread of “free-market democracy” has been a principal cause of ethnic instability and violence throughout the world. Her concern is that by increasing the political voice and power of the majority, democratization has fostered the emergence of demagogues who opportunistically whip up mass hatred against the wealthy minority elite found in most societies. The result has been ethnic confiscation, authoritarian backlash, and mass killing.¹⁰

In short, the tenets of the authoritarian advantage doctrine continue to resonate in contemporary debates over prosperity and peace. This directly factors into policy over what international actors should do in regions of the world facing political or economic transition: the Arab world, the former Soviet Union, Africa, Asia, and Latin America. The bottom-line policy question remains—should the international community promote democratization in poor countries?

The experts who favor authoritarian rule for poor nations, to be clear, are not disavowing the goals of freedom and democracy. They are not friends of tyranny. Rather, they say, they are realists and their pragmatism is a surer path to economic prosperity and democracy than the principled, though idealist notions of democracy proponents.

In their view, the key is timing. Once a society has reached some middle-income level of development, a transition to democracy becomes viable. Education and literacy levels will have risen to a point that political charlatans

can less easily dupe the general population. With economic development comes urbanization, a precondition for the formation of genuine political parties with broad popular support.

A country that has achieved a middle-income level of development is also more likely to have an established middle class that by its nature is a moderating political force. If poor people are forced by necessity to strive for short term gain, the middle class is concerned about economic stability and the prospects for steadily improving their lot. The middle class has more incentives to work within the political system than against it, and greater fondness for pragmatic politicians than for fiery radicals.

As an economy develops, the attitudes of a nation's elites also mature. They will find common interest with the middle class on many issues. And with the threat by populist politicians to their wealth and status receding, they will become more amenable to sharing power. Little by little, they will come to accept the concept of political equality, even to the point of giving the poor a voice in the nation's affairs.

This whole process arguably characterizes the transition to democracy by the southern European dictatorships of Spain and Portugal and certain of the East Asian Tigers (South Korea and Taiwan).¹¹ In all those countries, political participation was restricted to a single party for decades after World War II. Sound economic policies were pursued that facilitated rapid and stable economic development. Though Franco's Spain and Salazar's Portugal had fascist features, none of these states was totalitarian, enabling a private sector to develop and flourish. Some independent civic and associational life was allowed, fostering a degree of popular participation, provided it was not politically oriented. Over time and with varying degrees of political turmoil, transitions to more pluralistic political systems were successfully undertaken once these countries reached a fairly comfortable range of middle-income development. For Portugal and South Korea, this was a per capita income of roughly \$6,500.¹² The level was \$10,500 for Spain and Taiwan.

Democratic Disappointment in Latin America

The "development first" school also invokes Latin America to buttress its position. Latin America began its democratization process in the late 1970s and 1980s. Virtually every country in the region took steps away from military rule, eventually establishing competitive multi-party political systems. The average per capita income in Latin America was roughly \$1,800, ranging from around \$650 in countries like Honduras, Nicaragua, and Guyana to just under \$7,000 for Argentina when it moved to civilian rule in 1983. The late 1980s and early 1990s were subsequently a period of

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robust, rapid growth for Latin America, raising hopes that democratization and prosperity could grow hand-in-hand.

However, the results in a number of Latin countries have been much more subdued since then, with growth slowing and poverty rates on the rise.¹³ The region's notorious economic disparities appear to be as acute as ever, and corruption is widespread. Nine of the 20 countries in the region were ranked in the bottom 30 percent of countries around the world by Transparency International, a leading nonprofit advocacy group, in its 2003 corruption perception survey. It is little surprise therefore, that political tensions have been boiling over. In 2003 and 2004, Venezuela, Ecuador, Bolivia, Paraguay, Argentina, and Peru have all had political protests resulting in violence and deaths.

Perhaps nowhere are these tensions more evident than in Venezuela. The economy has been steadily contracting there since 1980, with per capita incomes shrinking from \$4,400 to \$3,300. Railing against the sharp income disparities within Venezuelan society, populist Hugo Chavez, a former junior army officer who had led a failed coup attempt in 1992, was elected in 1999, promising to improve the lives of the country's poor. Chavez has undertaken high-profile programs to address poverty such as Plan Bolivar. This mobilized military personnel to construct various infrastructure projects including highways, schools, and hospitals as well as to provide various social services. Conditions have only seemed to worsen, however.

Concurrently, Chavez took actions that weakened Venezuela's long-established democratic institutions, including amending the constitution so as to centralize power in the presidency,¹⁴ stacking the courts with his allies, politicizing Venezuela's armed forces, removing civilian checks on the military, attacking the credibility of the country's political institutions, and bypassing the legislature through referendums. Despite the controversy created by such actions, Chavez maintains widespread support among the 30 percent of the population living under the poverty line, keeping him in power. Thumbing his nose at his political opponents who have not been able to displace him at the polls, he boasts of his revolutionary ideology and intention to stay in power until 2021.¹⁵

A short-lived coup against Chavez in April 2002 vividly demonstrated the strains between social classes in Venezuelan society. While many from the middle and upper echelons of society and even important elements of organized labor backed it, the poor rose up in Chavez's defense. Clashes resulted in the deaths of at least 12 people. This resistance, the ineptitude of the coup leaders, the uneasiness of the general population with the autocratic nature of the coup plotters, and widespread condemnation by the international community resulted in a sudden evaporation of support for the coup. Chavez was returned to power within two days. A subsequent three-

month strike in late 2002 and early 2003 again brought the country to a standstill and exposed the depth of Venezuela's division. To their credit, both the government and the strikers sought to curb violence. However, once the strike was broken, Chavez had a number of the strike leaders, led by executives from the state oil company, arrested.¹⁶ In 2004, a referendum to recall Chavez failed—perpetuating Venezuela's political impasse.

All of this turmoil hurt the economy. Venezuela experienced a contraction in real GDP per capita of 27 percent between 1998 and 2003. The social, political, and economic cleavages of Venezuelan society appear destined to pull the country into still deeper malaise. It thus represents the worst of both scenarios—deteriorating economic performance and hardening dictatorial rule. It is the prospect of such a democratic reversal that many fear will engulf the entire region.¹⁷

The divergent experiences of China and Venezuela compel us to ask, as the conventional school would have us do: Is supporting democracy the right thing to do in the developing world? Doesn't it actually hinder economic development? In the process, are we ultimately undermining the likelihood that these countries can establish sustainable democracies?

Defying the Predictions, Democracy Works

We answer these questions emphatically: supporting democracy in developing countries is the right thing to do. It does not hurt their pursuit of prosperity and peace. It helps it.

Before proceeding further, let's take a moment to clarify what we mean by democracy since this gets to the heart of the debate. When we refer to democracy we mean those governance systems in which national leaders are selected through free and fair elections, there are institutions that foster a shared distribution of power, and citizens have extensive opportunities to participate in political life.¹⁸ This explicitly requires a high degree of basic political freedoms, civil liberties, and political rights. Countries that hold flawed elections or technically fair elections where opposition political parties cannot campaign freely or an independent press does not exist are not democracies. The notion of an "illiberal democracy," which some writers have propounded, is an oxymoron that only muddies the waters.¹⁹ Clearly, a state does not become a democracy overnight but rather reaches this threshold only after a period of political evolution. As such, a wide spectrum of governance systems, from the most oppressive authoritarian to the most liberal democracy, exists. However, when we refer to democracies, we include only those countries that have been determined to meet the robust criteria of democratic governance (see Appendices A and B for lists). Others that may not have reached this threshold, though are making progress along the spectrum are considered democratizers. Those in the

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lower tier of this governance spectrum are categorized as autocracies. With that said, let's take a look at the evidence.

Defying the predictions of the “development first” perspective, some 70 low-income countries have made marked advancements toward democracy over the past two decades. More than half of these countries, 43 in all, had fully authoritarian governments before they started their transition. According to the conventional theory, this shouldn't have happened. Poor countries were not supposed to be able to undertake, much less sustain, democratic reforms. Yet, the quest for freedom and citizens' desire to gain greater control over their destiny has been unrelenting. In Africa, Asia, Eastern Europe, Latin America, and the former Soviet Union—all regions long considered resistant to democratic governance—societies have demonstrated the universality of this aspiration.

Not only were these low-income countries supposed to be unable to democratize, however, they were expected to stagnate economically. And yet the opposite happened. As we examine in detail in Chapter 2, low-income democracies and democratizing countries have outperformed their authoritarian counterparts on a full range of development indicators. Whether we consider life expectancy, literacy, access to clean drinking water, agricultural productivity, or infant mortality, democracies at all income levels have typically achieved results that are 20 percent to 40 percent superior to those of autocracies. Moreover, contrary to the concerns of some economists, they accomplished this without generating larger fiscal deficits than nonrepresentative governments. These differences in development performance, based on data for the past 40 years, have grown wider over recent decades.

Here, then, is the crux of our argument: Despite the enduring theoretical underpinnings to the authoritarian-advantage thesis, the evidence for it has always been weak. Not only can poor countries democratize, poor democracies can develop quite effectively. As a leading scholar in this field, Adam Przeworski, and his colleagues have succinctly put it, “There was never any solid evidence that democracies were somehow inferior in generating growth—certainly not enough to justify supporting or even condoning dictatorships.”²⁰

Notice that we are not saying that all democracies enjoy sterling development experiences. In fact, some democracies have struggled in their economic performance. Indeed the movement of more poor countries toward democracy has sharpened the relevance and the stakes of the democracy and development debate. Nor are we saying that certain autocratic governments haven't realized rapid economic growth. As the experience of China shows, in some cases they have. What we are saying is that when one looks at the experience of developing countries as a whole, those with more representative and pluralistic political systems have typically developed signif-

icantly more rapidly, broadly, and consistently than those with closed systems. This record is persistent and striking, even for the least developed countries. In percentage terms, two-thirds of developing country democracies exceed the growth medians for their regions over the past 20 years.

It is the experience of this solid majority, rather than the exceptional cases, that should guide our understanding of democracy's role in sustaining development. This is what is most relevant for policy guidance. The handful of instances where authoritarian governments have overseen spectacular growth hold important lessons. But to attempt to generalize these cases to the entire developing world is a mistake.

Low-income democracies exhibit another feature that runs counter to the conventional theory about how they ought to behave: resiliency. Even in the face of economic setbacks and social unrest, the majority of countries on the path to democracies has not backtracked into authoritarianism, but has held onto its newfound freedoms (a phenomenon we review in Chapter 3). And as they have stayed the course, their numbers have swelled. This momentum continues to the present. There are more low-income democracies and democratizing countries today than there were five or 10 years ago.

The change has been momentous. As recently as 1988, two-thirds of the world's states were nondemocratic. By 2002, the proportion had reversed. Some two-thirds of all nations, accounting for 70 percent of the world's population, were on the democratic path.²¹ Indeed, the trend marks a turning point in human history. Starting in the 1990s, for the first time a

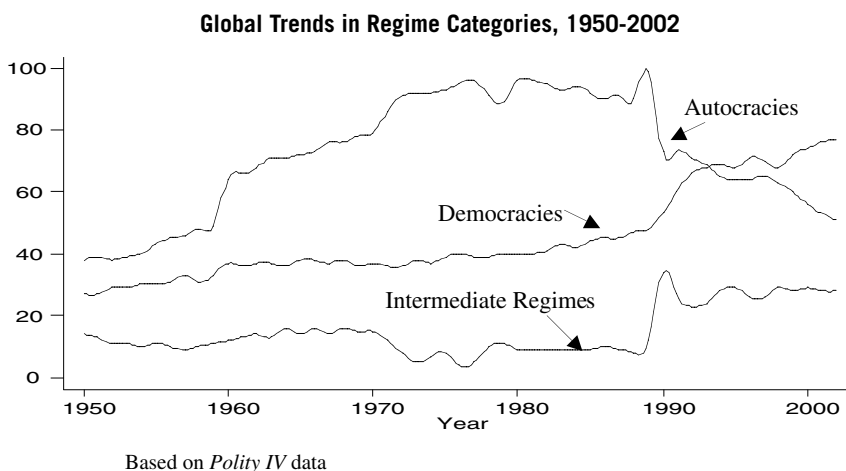


Figure 1.1 There has been a dramatic shift toward democracy since the mid-1980s, transforming global governance patterns.

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majority of the world's people were living under some form of self-government (see Figure 1.1).²²

“Democratic Peace”

That might sound like a positive development, but is it? Some experts remain skeptical. After all, poor democracies are weak democracies, inherently unstable and fertile ground for conflict. Luckily for the world, that truism turns out to be not so true, either (something we discuss in Chapter 4). Low-income countries undergoing political pluralization are no more likely to be engaged in conflict than other low-income countries. And contrary to the claims that democratization increases fragmentation in ethnically diverse societies, the record shows that democracies do a better job of developing broad social coalitions and balancing multiple, competing interests in diverse cultures. In other words, global security hasn't been thrown into disarray since substantial numbers of new democracies have been created. Rather, in the early years of the twenty-first century, the gravest threat to international security is global terrorism. And the terrorist networks undertaking these nefarious acts are virtually all based in politically closed societies.

Counter to the expectations of the prevailing school, a great deal of research in the 1990s on the political dimension of conflict has revealed a powerful pattern of a “democratic peace.” Democracies rarely, if ever, go to war with each other. This pattern has held from the establishment of the first modern democracies in the nineteenth century to the present. As an ever-greater share of the world's states become democratic, the implications for global peace are profound. Indeed, as the number of democracies has been increasing, major conflicts around the world (including civil wars) have declined sharply. Since 1992, they have fallen by two-thirds,²³ numbering just 13 as of 2003.

Why Democracies Do a Better Job

What explains the consistently superior development outcomes of democracies? We outline the conceptual underpinnings of democracy's superior developmental performance in Chapter 2. The reasons are many and varied, but boil down to three core characteristics of representative government: shared power, openness, and adaptability.

Although holding free elections is what commonly defines democracy, what makes it work is the way it disperses power. Consequently, in contrast to most autocratic governments, a broader range of interests are considered on a more regular basis. This increases the likelihood that the priorities of the general public will be weighed. Indeed, the argument that authoritarian

governments can ignore special interest groups and therefore make decisions that are for the overall good of the society is based on a series of highly dubious assumptions. One is that the unelected leaders in these systems actually have the interest of the public at heart. The behavior of Fidel Castro in Cuba, Kim Jung-Il in North Korea, Alexander Lukashenko in Belarus, and Hassan Ahmad al-Bashir in Sudan, to say nothing of former Iraqi dictator, Saddam Hussein, would strongly suggest otherwise.

Another assumption is that authoritarian governments don't have to satisfy their own special-interest constituencies. In fact, most authoritarian systems are built on the foundations of extensive patronage networks upon which they rely to stay in power. Although typically shielded from public view, these networks have enormous impacts on economic opportunity and development. The separation of powers inherent in a democracy acts as a constant reminder to the public that the central government's powers are limited. Thus, it encourages the expansion—and the independence—of the private sector. This, in turn, fosters a climate of innovation and entrepreneurship, the engines of economic growth.

The multiplicity of influences on the decision-making process in democracies also leads to more moderate and nuanced policies. This moderating influence contributes to one of the most distinctive qualities of democratic development—its steadiness. The ups and downs of economic growth in low-income countries are smaller in democracies. Rather than experiencing alternating bouts of boom and bust, economies in democracies are more likely to undergo a stable pattern of moderate gains and small declines. For poor democracies, that quality of steadiness is exceedingly important, for it means that they are more able than countries run by dictators to avoid economic and humanitarian catastrophes. For broad segments of their populations, this is the difference between life and death.

Consider this remarkable statistic: 95 percent of the worst economic performances over the past 40 years were overseen by nondemocratic governments. Similarly, virtually all contemporary refugee crises have been wrought by autocratic governments. Although shared decision-making is frequently slower, this process is more likely to weigh risks, thereby avoiding calamitous policies. When something is going wrong, leaders hear about it and are forced to take action.

Interest groups in democratic societies not only have greater influence over decision-making, they are also better informed for the simple reason that democracies generally guarantee basic civil liberties like freedom of speech and association. The resulting free flow of information, including assessing and disseminating ideas from abroad, discourages insular thinking and stimulates vigorous debate. That in turn increases the likelihood that a broader range of options and concerns will be taken into consideration than

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would occur in a more narrow political structure. Rather than being concealed, society's shortcomings are exposed and the seeds of a solution to them are sown. The end result is better and more informed decisions. Freewheeling discussion of a society's problems also acts as a curb on corruption, both public and private. Finally, it promotes efficiency, not only by preventing the misuse of resources, but also by facilitating a more informed allocation of investment and by deepening confidence in market systems.

Democracies also realize superior developmental performances because they tend to be more adaptable. Our catch phrase to characterize this is "democracies are learning organizations." That is, people who live in them are continually engaged in gathering more information, making adjustments to their positions, and reassessing progress. The mindset is: If something isn't working, you change it, and if something is working, you do more of it. Thus, through trial and error, democracies find the most suitable route forward. Typically, the policy adopted is a nuanced, middle-of-the-road one, reflecting numerous, and sometimes conflicting, points of view. The right course will vary from country to country, depending on its economic, political, and cultural circumstances. In other words, democracy does not guarantee that you will get the policy decision right. However, it does guarantee you the right to change it when you've got it wrong. Structurally, democracies' "horizontal networking"—that is, the flow of ideas back and forth between the public, private, and civic sectors—allows for greater versatility, timeliness, and capacity for adjustment in the adoption and implementation of a policy than the hierarchal structures typical of authoritarian systems.

Finally, democracies' adaptability allows them to get rid of corrupt or ineffective leaders. This reduces the amount of long-term damage they can inflict. It also provides a process of perpetual renewal. New actors with different ideas and priorities can come into power. Problems can be approached from fresh perspectives. In such a climate, innovation flourishes and deadwood—whether in people or systems—that builds up in public bureaucracies shrivels.

That a process for removing leaders is built into the structure of democracy provides a systematic mechanism for succession that minimizes political crises. This feature of democratic politics lessens the likelihood of civil conflict stemming from challenges to political legitimacy. Thus, the disruptions of war are avoided and the energies that would be spent in conflict are preserved for economic development. The resulting political stability in democracies, esteemed economist Mancur Olson observed, contributes to greater investor confidence, facilitating economic continuity and incentives for long-term asset accumulation.²⁴

Our point is that the type of political system a country has in place affects its rate and type of economic development. To many readers this may seem like common sense. However, international development agencies have been designed to ignore a country's political orientation when making funding decisions. The rationale is that this would detract from making these allocations on hardheaded, technical economic criteria. By overlooking democracy's developmental contributions, however, the effectiveness of many internationally funded development initiatives is muted. Worse yet, ignoring the political dimension can at times cause international development efforts to inadvertently undermine nascent democratization efforts—a subject we focus on in Chapter 5.

Accounting for Democracy's Shortcomings

None of this is to say that the mere establishment of a democracy is going to solve all of a nation's problems—far from it. The process of democratization is rarely smooth and straightforward. And even in the established democracies, there are competing and conflicting interests. A number of low-income democracies maintain growth rates that are below the median for their regions. Often, the slower pace is a legacy of their authoritarian pasts. For instance, after inheriting societies torn by acute inequality and corruption, a number of new democracies in Latin America have struggled to find the right path forward. Similarly, while elections have been held throughout Africa over the past decade, in far too many cases strongman regimes are reemerging with no accountability to the people. In parts of the former Soviet Union, democracy has been stillborn. In others, elected leaders have used the powers of the state to suffocate free speech or any public criticism of their rule. Whatever the cause, slow growth is demoralizing for citizens of an emerging democracy who had pinned their hopes for a better life on their new freedoms.

These are all serious problems and require concerted attention. Meeting the material aspirations of newly democratic societies is crucial to consolidating democratic gains across the world—the achievement of which remains uncertain. It is important to place the struggles of these newly democratic regions in context, however. Economic growth in both Latin America and Africa in the 1990s exceeded their respective performances during the 1980s, when most still had autocratic governments. Similarly, the median proportion of Latin American populations living on less than \$1 a day (in inflation-adjusted terms) has declined steadily under democratic governance (dropping to 11 percent in 2001).²⁵ And the increased attention given to corruption in these regions does not necessarily indicate that corruption has become more prevalent. More likely, it reflects the

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increased willingness of people in these societies to talk about it. And despite the economic and political struggles in a number of Latin American and African countries, public support for democracy remains robust.²⁶

We contend, therefore, that shortcomings in a country's economic development are often explained by too narrow, rather than too much democracy. And yes, there are degrees of democracy, because democracy is about more than elections. As we have already pointed out, democracy's contribution to economic development comes through its creation of structures of shared power. Putting checks on the power of the chief executive, separating the party from state decision-making, establishing a merit-based civil service, fostering an independent private sector, facilitating the free flow of ideas, and creating expectations that a country's leadership will adhere to the rule of law—all of these are hallmarks of a democratic political structure that augments the prospects for social and economic development. Democracies at every income level that have established stronger mechanisms of checks and balances grow more rapidly than those that have not. To address the shortcomings of economically struggling democracies, therefore, requires broadening these structures of shared power.

It is possible, of course, for dictatorships to create checks on power. A number of the East Asian dynamos did so. Fearing the emergence of communist insurgencies like those that ultimately seized power in China, North Korea, and Vietnam, they certainly had a powerful incentive to spur broad-based economic development.²⁷ They also began their drive to develop with relatively egalitarian societies, diminishing the pitched social battles encountered in other regions. And they did a good job of it, reinvesting the assets created from their initial economic gains in education, health care, and job training. But the fact remains that, unlike democracies, dictatorships have no built-in inclination to create a system of restraints on government.

The Flaws of the Authoritarian Growth Model

The two overarching views we have described—authoritarian advantage versus democratic development—portend dramatically divergent visions of the way forward for low-income countries. We have already discussed some of the risks if the democratic-development position is misguided. Indeed, concerns over the anticipated political instability that would accompany “premature democratization” have been folded into the development-first argument. But let's examine the downside implications if the authoritarian-led development theory is off the mark.

They assert that the chances for poor countries to make the transition to democracy improve once they reach some middle level of development. Until then, they say, authoritarian governments are best suited to lift up

these countries' economies. But why is this? A strong case can be made that they are the worst suited. Since they are narrowly based, the economic growth that is realized is likely to be confined to a sliver of the population. Lacking transparency, autocratic governments tend to encourage patronage and corruption. Their repressive nature also makes them susceptible to internal conflict. Far from nudging their economies to that magical middle-income threshold, autocratic government may actually impede the process. We believe that a policy strategy dependent on autocratic-led economic development is thus perpetually caught in a vicious circle. Since these societies rarely develop, they are never considered "ready" for democracy.

It is a sort of "catch-22" of economic development: A poor society can't go democratic until it becomes relatively prosperous, but it can't become relatively prosperous until it goes democratic. The contradiction highlights another conspicuous flaw in the authoritarian thesis first noted by political scientist Guillermo O'Donnell: It does not specify at just what level of economic development an autocracy becomes ready to make the big leap to democracy.²⁸ In fact, we see that among the handful of authoritarian governments that have grown steadily over an extended period of time (such as Singapore, China, Soeharto's Indonesia, Tunisia, and Egypt), most have been no more willing to share power after decades of growth than they were at early stages of development.

Furthermore, this transition theory does not take into consideration the social and cultural dimensions involved. As one observer noted, it treats political systems like coats. It assumes that a society can just take an autocratic system off and put a democracy on.²⁹ The reality, of course, is that political systems affect the culture, values, incentive structure, and economy of a society. Nations that have lived with authoritarian rule undergo a persistent deterioration of societal values and cohesion.³⁰ The breakdown in order following the toppling of Saddam Hussein in Iraq and the lawlessness and perceived moral vacuum in Russia after decades of communism are contemporary manifestations of the decay that builds up under the shell of autocratic stability. The further down an autocratic path a society has gone, the longer and bumpier is the road to democracy.

And the greater is the risk, by far, of human misery, even catastrophe. Over the past 40 years, autocracies have been twice as likely to experience economic collapse as democracies.³¹ When that happens, the danger of mass starvation looms. In contrast, Nobel laureate Amartya Sen has observed, there has never been a democracy with a free press that has experienced a famine.³² Autocracies are also more prone to conflict. Eighty percent of all interstate conflicts are instigated by autocracies.³³ Furthermore, they are more vulnerable to civil wars. And since civil wars

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have a 30 percent chance of spilling over into neighboring countries, the consequences of this instability must be considered in the context of the broader region.³⁴ In short, a development strategy based on supporting autocracy is akin to picking one's way through a minefield.

A review of the weak empirical support for an authoritarian growth advantage, coupled with the high probability of risk, prompts us to revisit the question of why this conceptual framework has had such resonance. The fact that this thesis gained currency during the Cold War certainly had some bearing on the outcome. The West was obsessed with the communist threat. Cooperation from anticommunist authoritarian allies was highly valued. Moreover, at the time the groundwork for this theory was laid in the 1950s and 1960s, there weren't many low-income democracies in existence; 70 percent of the world's states were nondemocratic. Most of the new states of this era were rightly seen as possessing limited levels of human, financial, and infrastructure capacity. Concerns over how they could be held together shaped an acceptance of the need for hierarchal political structures. Moreover, the superpower alliances that divided the world and propped up many of these authoritarian governments seemed highly durable. Therefore, for scholars writing during this period to imagine successful democratic transitions, much less a wholesale shift toward democratic governance, would have required exceptional vision. Finally, development thinking at this juncture was still dominated by the belief that purely technocratic solutions could address poverty and stimulate economic growth around the world. Many of the prevailing theories (for example, industrialization, investment to fill the finance gap, forced savings, and import-substitution) focused on top-down approaches. These strategies were well suited to hierarchal political structures. The belief was that if the correct technocratic development formula could be found and adopted by the leadership in the developing world, then rapid development would result. In other words, the appeal of the authoritarian-led approach has always had at least something to do with its expediency, in comparison to the messy and time-consuming procedures typical of democracy.

It is really no surprise, then, that the authoritarian advantage thesis enjoyed such support in the decades following World War II. However, revivalist supporters of this view in the post-Cold War era—when the numbers of democracies around the world have been increasing—are in a much more awkward position. From our perspective, they have seized on specific cases of supposed economic successes in dictatorships, compared these to selected democratic failures, and used them to justify the original theory. To sustain this view, they have had to rely on idealized versions of autocratic success. Over the last 20 years, there have only been a handful of cases of sustained growth under authoritarian regimes: Bhutan, China,

Egypt, South Korea, Singapore, Taiwan, Tunisia, and Vietnam.³⁵ However, to hold these up as a model for other developing countries requires ignoring the 60 or so other dictatorships that had sustained sub-par growth during this period. In other words, seven times as many authoritarian regimes had poor growth as had superlative growth. Moreover, 43 had at least one episode of a disastrous economic experience—which we define as an annual contraction per capita GDP of 10 percent or more—during this time. To cling to the notion that autocratic government is required for development among poor countries requires an exceptional degree of selective thinking.

Succinctly put, the autocratic growth model is terribly narrow. The number of countries that have followed it with success is few. Those that have gone on to become democracies are even fewer. Proponents of this model, therefore, are hinging their claims on a few exceptional cases: South Korea, Taiwan, Portugal, and Spain (all of which did move into the democratic camp). How valid are these cases as a template for today's developing countries in Latin America, Africa, Asia, and the former Soviet Union? The political cultures in these regions are generally characterized as personalistic, elitist, and patronage-based—traits that are inimical to promoting economic development. Yet these are the very characteristics that an authoritarian growth model reinforces. Furthermore, the deepening monopolization of political and economic power typical of autocratic government makes the proposition that they are better suited to improving and sustaining living conditions in developing countries even less credible.

For historical perspective, let's consider some of the one-party states of the 1960s touted by Huntington and others as models for development: the Soviet Union, Yugoslavia, Mexico, North Korea, and North Vietnam. Several enjoyed periods of rapid growth over an extended period. In some years, they set the pace for growth globally. However, in none was the early growth sustained into subsequent decades. On the contrary, they all went through disastrous economic ordeals between growth spurts. This volatility is characteristic of growth in authoritarian economies. To repeat an important point: While a small number of countries with closed governments post the most rapid growth rates in the world, a much larger group of them clogs the ranks of the worst performers. In many cases the same country can occupy both positions in a period of a few years. The poor track record of even the historically star performers of the autocratic-growth thesis reveals the sandy ground upon which this model is built.

China vs. India

This brings us back to China. Will it continue on its torrid pace of growth and make a smooth transition to democracy? Or will it begin to shudder

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and eventually endure economic collapse as so many other autocratic governments have before it? In other words, is China more likely to be the next South Korea or the next Indonesia? We are hoping for the former. This would be in the best interests of the Chinese people and the world at large. However, economists point to economic flaws—ranging from insolvent banks, environmental destruction, and soaring unemployment to swooning returns on foreign investments—that could undermine China's future performance.

Whatever the strengths and weaknesses of China's economy, we rivet on two points. First, China's rapid growth began only after it adopted market-based reforms—economic performance flowed from economic policies rather than its form of government. In the previous three decades under an authoritarian government and a planned economy, the economy stagnated. Clearly, authoritarian rule paved no road to prosperity. To the contrary, prosperity came as the dictatorship, copying the example of Japan and the East Asian Tigers, moved away from micromanaging the economy and toward a market system. Second, China faces profound challenges in the years ahead, not the least of which is the task of absorbing workers rendered unemployed by the closure of moribund state-controlled enterprises.

As the Communist Party moves away from its ideological roots, it increasingly becomes primarily a mechanism to maintain power. Its rural base has dwindled, suggesting that its social base is narrowing sharply. While some have applauded the move to accept entrepreneurs into the party as a means of broadening this base, in fact, this is really an elaborate means of consolidating patronage relationships.³⁶ Rather than creating an independent middle class that will serve as a counterweight to the party, the party is co-opting the wealthy entrepreneurs to ensure that it remains the sole power center in society. Entrepreneurs that join the party have privileged access to public contracts and bank loans. Unsurprisingly, levels of corruption are on the rise.³⁷

Even if the Chinese economy continues to grow, it faces daunting challenges. Will the Communist Party allow for a genuine transition to democracy? Or is it racing toward the edge of an economic cliff like so many other autocratic countries in the past that had seemed to be performing economic miracles? The latter is an unsettling—and real—possibility. For Beijing's only claim to political legitimacy today is its ability to deliver economic growth. If it is no longer able to do so, its governance structure will be exposed not only as closed and inflexible but unworkable—and will crumble under its own weight. Should that happen, the consequences for the Chinese people will be severe and foreign investors will be left with the sad realization that their dreams of a big payout blinded them to the economic realities of an opaque system built on a weak adherence to a rule of law.

Whatever happens, China faces a period of great transition in the years ahead. Despite the successful transfer of power to new leadership in the sixteenth Party Congress in late 2002, the lack of a legitimizing process leaves its political structures unstable. The Communist Party's narrowing political base, which now represents a scant 5 percent of the population, only magnifies its alienation from the population. Indeed, a survey of migrant laborers indicates that the prevailing image of the party is that of a self-serving elite.³⁸ Ultimately, therefore, Chinese authorities retain power by their capacity for repression. As Minxin Pei has noted, "the preservation of a one-party state and the implementation of the rule of law are fundamentally incompatible."³⁹ In short, China must establish a legitimate, stable political structure. Until it does, the sustainability of its economic progress remains uncertain.

The performance of democratic India, the other Asian behemoth, has frequently been compared to China's as a barometer of the superiority of authoritarian governance to that of democracy. By most measures, over the last two decades, China has dominated. For while India's achievement has been impressive, its doubling of per capital incomes from \$239 to \$496 between 1982 and 2002 falls far short of China's quadrupling of incomes from \$189 to \$940 in the same period.⁴⁰

And yet, the comparison is not as clear-cut as it might seem. While both China and India established their political structures in the aftermath of World War II, it was arguably China that first adopted a capitalist economy. Starting with its economic reforms in the late 1970s, it pursued more liberalized pricing, labor, export, and capital policies than India (at least until 1993 when India seriously undertook economic reforms). In contrast, India borrowed heavily from the Soviet economic model. Consequently, it maintained a significant degree of central planning in its economy into the 1990s (the over-regulated legacy of which, many argue, remains a problem today). India's public sector share of GDP growth increased to 26 percent in the 1980s from 10 percent in 1960.⁴¹ Furthermore, drawing on the development theories that prevailed from the 1950s well into the 1970s, India largely adhered to the import-substitution and industrialization models of development even as China was embracing market-based reform. But as India has adopted a more liberal economic posture, its growth too has accelerated, averaging annual per capita gains of more than five percent in the 1990s.

In short, the China-India economic rivalry is still playing out. And already, India is exhibiting the corrective traits of democratic governance. Its growth is robust, though not exceptional. Nonetheless, it has avoided economic crises and humanitarian catastrophes, something China has not.⁴² India has been more willing to reduce subsidies to state-owned enterprises

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and allow foreign ownership.⁴³ Moreover, India has demonstrated an ability to innovate—as seen by the originality of the high-technology products that have been generated in Bangalore—products that China cannot match, despite the massive state subsidies it lavishes on its technology sector.

As it has moved into an era of competitive party politics, the Indian ship of state is also benefiting from a long-overdue “scraping of the barnacles”—the breaking up of some of the entrenched formal and informal patronage networks that had come to characterize Indian economic life. China, while enjoying the exhilaration of rapid growth—as have other authoritarian systems before it—still has some treacherous shoals to navigate. The encrustation of its one-party monopoly is increasingly burdensome, as seen by the growing levels of corruption. Public outrage and violence against state officials have been on the rise, especially in rural areas. Most seriously, China must yet address how it will negotiate a transition to a more representative form of government, something India has already done. Until then, China’s economic gains are inherently unstable.

The Way Forward

We’ve put forth the argument that democracies perform consistently better on a range of social and economic development indicators than authoritarian governments do. They respond more readily to people’s needs, they are adaptable, and they create checks and balances on government power that discourage reckless policies.

Why is it important to delve into this debate? Because ideas matter—they have consequences. If the “development first” view holds, the international community will pursue one set of policies to spur economic development in poor countries. If instead democracy’s developmental and security advantages are recognized, major shifts in policy would be required. Highlighting some of these changes is the focus of Chapters 6 and 7.

Indeed, frustrated with a long string of development failures, the World Bank, the United Nations Development Program (UNDP), and other development organizations began to focus more explicitly on governance issues starting in the 1990s. Poor governance and its draining by-product, corruption, were identified as root causes to chronic underdevelopment. This led to many new projects aimed at enhancing governance effectiveness by strengthening the capacity of the civil service, judiciary, and anti-corruption agencies. Similar efforts were undertaken to establish and implement more consistent property rights and contract enforcement legislation to make emerging market economies more attractive to private investment. In parallel to these changes, many bilateral donors, led by the

United States Agency for International Development (USAID), established democracy promotion units that focused on a wide range of activities including electoral and constitutional reform, capacity-building for legislators, encouraging civil society, and promoting norms for civil-military relations. Despite this increased attention, the focus on “good governance” has, by and large, not translated into linking development assistance to democracy. Low-income autocracies continue to receive the same level of official development assistance, on average, as democracies. Reorienting United States and other industrialized democracies’ development policies, therefore, would at the very least require gauging how far down the path of democracy a given country has gone before allocating development assistance to it. That may sound like a simple exercise, but in fact it would require major changes in the way countries and multinational organizations divide up the economic-aid pie. At present, certain agencies are legally required to ignore political characteristics of a government to which funding is provided. If a democracy-led development thesis gains acceptance, that mandate would have to be revised.

Policy adjustments in timing and approach are also in order. To accept the role of democracy in triggering economic development compels recognition of the role of coalition building in democratic societies. There are, of course, the broad social compacts between labor and management, rich and poor, rural and urban that establish the norms and parameters that guide a democratic society’s politics. However, democracies also thrive on engaged citizens acting through private associations. They provide an active brake on repressive government, forcing authorities to take proper heed of legitimate interests. Think of the essential role in the West played by coalitions of consumers, small businesses, tax opponents, labor, and human rights groups. Such coalitions take time to build—a process that varies by country. If international donors try to force poor countries into a standardized prescription of economic reforms without taking this into account, they could undercut incipient democratization efforts.

Changes in U.S. national security policy are also required. National security concerns have regularly been invoked to trump democracy considerations in U.S. foreign policy decisions. This Cold War tendency has persisted long after the fall of the Berlin Wall. As American foreign policy leaders come to recognize the nexus between autocracy, poverty, and conflict, they will be obliged to revisit the wisdom of this approach. The long-term downside costs are frequently greater than is recognized when these relationships are initiated. Indeed, the expanding threat of international terrorism is in certain respects a direct outgrowth of earlier instances of U.S.-supported autocratic governance.

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The tensions between the short-term goal of gaining the support of strategically important authoritarian governments and the long-term damage to American policy that such a policy might have are likely to intensify in the coming years. Viewing the issue in this way is a departure in strategic thinking from the often-accepted formula that giving military assistance to dictatorships is a tradeoff between our partiality for democracy and our need for security. In fact, the United States' experience since World War II, made vivid by the September 11, 2001 terrorist attacks, has shown that America's vital foreign-policy interests of promoting democracy and safeguarding national security are not only compatible, they are complementary.

For the past half-century, the United States and much of the industrialized world have supported a strategy of relations with low-income countries built on a mix of false assumptions. In this book, we will hold those suppositions up to the light. In the process, we demonstrate the superiority of democracy over dictatorship in spurring economic development and preserving social stability. We invite readers to walk with us as we review the record and to contemplate the policy dimensions of a democracy-centered foreign policy. Such an approach, we believe, greatly improves the prospects for a safer and more prosperous world.