

Relationship between Democracy and Economic Development:

Although in the various spheres of social life - political and economic - the connection and relations of democracy and economy (the two fundamental forms of social reality) are almost inseparable. According to Schumpeter democracy is “institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the peoples vote”. Economic development is a process by which nations improve the economic, political and social well-being of their people.

Democracy and Economic Development- Theoretical view:

Democracy, as the most common social system in the modern world, favours economic development because: 1. stabilizes economic policy, 2. offer a better long-term protection of property rights as well as individual and collective freedoms, 3. promotes the rule of law and free selection, 4. reduce corruption thanks to the stronger rule of law, 5. lowers fiscal deficits and inflation, 6. favours foreign investments, 7. makes development aid effective, 8. is more successful in managing social conflicts (or preventing politically powerful groups from monopolizing lucrative economic opportunities), 9. ensures political stability and preventing social disasters such as famine; 10. enhance technical innovation and development of entrepreneurship.

It is believed that countries with low levels of corruption, strong property rights, independent judiciaries and greater transparency and political accountability grow faster. Democracy can increase economic growth due to its positive effect on political stability, by reducing transaction costs, commitment constraints, and information asymmetries of political organization.

By observing the developed countries of the West, it can be concluded that democracy is a valid economic regime. So democracy is not sufficient condition for a successful market

economy, but it can be considered desirable from the standpoint of establishing a prosperous economic order.

For a long time, it was generally believed that the economic development of a country depends on the degree of democracy that governs it. According to this theory, democracy guarantees political and civic freedoms and enables citizens and entrepreneurs to take the initiative, and these are important factors of development. It has, however, been shown that there are many examples of countries like China with an authoritarian regime that for a long period of time recorded significant economic growth. The key to success lies in political stability that provides a safe basis for economic development.

Democracy and Economic Development- Mutual Effects:

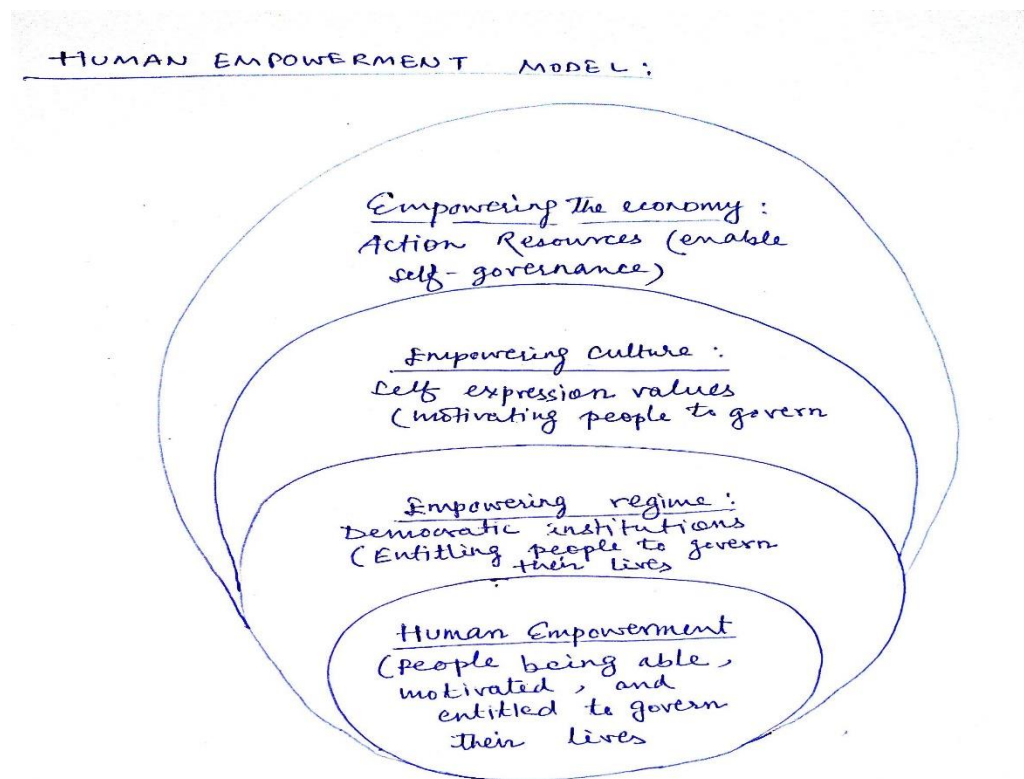
The relationship between democracy and economic growth is not axiomatic and there are **central three schools of thought** when it comes to discussing the interrelationship between democracy and economic development-

1. The **“conflict school”** - due to insufficient maturity of democracy state operations will be ineffective, undermining economic growth and development. Within the framework of the conflict school, it is particularly pointed out the possibility of the proliferation of interest groups who then lobby for their own interests, thus slowing down the decision-making in the interests of society as a whole and causing stalemates in the political sphere. Examples of the confirmation of the theoretical attitudes of the conflicting school stand out from present-day China and other Asian countries (so called “Asian tiger states”) that record extremely high economic growth rates in conditions of low level of democracy.
2. The **“compatibility school”** - within this theoretical perspective it points to system relationship on a relation politics-society-economy, and political pluralism in the sphere

of governance results in economic pluralism that encourages growth. Through the affirmation of political and economic freedoms democracy guarantees property rights and market competitiveness, creating conditions for dynamic economic growth.

3. The “**skeptical school**” - within this school, emphasizes is that there is no relationship between democracy and economic growth, and that economic growth depends on whether economic policy measures are adequately designed or not. The skeptical school considers that the relation between democracy and economic development is not at all simple and it’s hard to measure it.

In order to consider the relationship between democracy and modernization (economic development), Welzel and Inglehart (2008) have emphasized the Human Empowerment Model whose core is the claim that democracy can only be effective if power is given to people.



This note for 5th semester student (Sibsagar College, Joysagar, Autonomous) is compiled by Mr. Bidyutt Bikash Hazarika, Assistant Professor, Department of Economics, from the a paper entitled- “The Relationship between Economic Development and Democracy: Lessons for Transition Countries” [Žarko Đorić, PhD Student, Faculty of Economics, University of Niš]. Student may go through the original paper for better understanding of the topic. The link is the following:*

<https://scindeks-clanci.ceon.rs/data/pdf/0350-8501/2019/0350-85011983251Q.pdf>