

Economy, Politics, and the Debate of Democracy

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Abstract

Political scientists debated the causal relations between democracy and the economy, and conventional wisdom suggests that democracy and the economy have a causal relationship in that positive economic conditions should foster the likelihood of democracy because positive economic conditions account for the states of modernity, whereas negative economic conditions should undermine the likelihood of democracy because they account for a country's backwardness (Lipset, 1959; Deutch, 1964; Dahl 1971). According to conventional wisdom, positive economic conditions bring about the possibility of a transition to democracy; however, this wisdom has been criticized by several political scientists, who suggest that democracy and the economy are not related in terms of causal relationships (Przeworski and Limongi, 1997). The characteristics of political institutions and the roles and decision of political elites are among the factors that political scientists have argued are causally related to democratic transition.

Keywords: Economic conditions, democracy, causal relation, political elites, political scientists

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เศรษฐกิจ การเมือง และการถกเถียงเกี่ยวกับประชาธิปไตย

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บทคัดย่อ

นักรัฐศาสตร์ถกเถียงเกี่ยวกับความสัมพันธ์เชิงสาเหตุระหว่างประชาธิปไตยกับเศรษฐกิจ ความเชื่อถึงเดิมแนะนำว่าประชาธิปไตยกับเศรษฐกิจมีความสัมพันธ์เชิงสาเหตุในลักษณะที่สภาพเศรษฐกิจที่ดีช่วยประคับประคองประชาธิปไตย เพราะสภาพเศรษฐกิจที่ดีนำไปสู่สภาวะความเป็นสมัยใหม่ ในขณะที่สภาพเศรษฐกิจตกต่ำบ่อนทำลายประชาธิปไตย เพราะสภาพเศรษฐกิจตกต่ำนำไปสู่ความกดดอยของประเทศ (Lipset, 1959; Deutch, 1964; Dahl, 1971) จากมุมมองของความคิดดังเดิม สภาพเศรษฐกิจที่ดีนำไปสู่ความเป็นไปได้ของการเปลี่ยนผ่านไปสู่ประชาธิปไตย อย่างไรก็ตาม ความคิดดังเดิมถูกวิจารณ์จากนักรัฐศาสตร์ว่าประชาธิปไตยกับเศรษฐกิจไม่ได้มีความสัมพันธ์เชิงสาเหตุ (Przewroski and Limongi, 1997) ลักษณะของสถาบันทางการเมืองและบทบาทและการตัดสินใจของผู้นำทางการเมืองเป็นปัจจัยสำคัญที่นักรัฐศาสตร์เชื่อว่ามีความสัมพันธ์เชิงสาเหตุกับการเปลี่ยนผ่านไปสู่ประชาธิปไตย

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I. Introduction

One of the most prominent debates in political science is the causal relation between economic development and democracy. The main argument is whether economic development (i.e., growth of the national income and domestic consumption) contributes to the stability of democracy. On the other hand, economic crisis and poverty can undermine a democratic system because people do not trust in the government concerning whether it can solve the problem. Modernization theory, one of the most influential theories in political science, proposes the argument of causal relation between economic development and democracy. Nonetheless, economic growth flourishes and supports the authoritarian regimes in China and Singapore. Meanwhile, negative economic conditions undermine the dictatorship regimes in Chile and Indonesia.¹ Remmer (1996) has argued that democratic regimes could be durable even if they face an economic downturn, whereas authoritarian regimes could be destabilized when their economy was in decline—it depends upon how economic dislocation affects the people's way of life. According to Remmer's argument, there seems to be no consistent relationship between democracy and the economy.

Political scientists have attempted to find a causal relationship the other way round, however; they have argued that economic conditions do not encourage democracy, but democracy positively fosters economic performance. From their study of 141 countries from 1950 to 1990, Przeworski and his co-authors (2000) asserted that there are not any strong empirical results that show that economic growth fosters democracy. However, democracy is more likely to survive in affluent societies than poor countries (Przeworski et al., 2000). Nonetheless, Przeworski et al. (2000) did not conclude that democracy accounted for economic development because they found that authoritarian regimes with middle-level income did better than their democratic counterparts (Przeworski et al. 2000). Therefore, the causal relationship between economic development and democracy is still debatable.

Several political scientists have argued that the likelihood of democratic transition does not depend upon the causal relationship between democracy and

¹Chile faced economic downturn in the 1980s during which the country was governed by the military regime. The military was pressured to launch financial reform programs which were criticized in that the programs caused economic hardship for Chileans. Nonetheless, some argued that the reform in the 1980s contributed to economic growth and later free election in 1989 (Wayland, 2004). Meanwhile, Indonesia faced the Asian Economic Crisis in 1997 during which the country was governed by Suharto.

economy. Rather, these political scientists assert that the likelihood of transition to democracy depends upon the roles of the dominant political actors and the effectiveness of political institutions. Karl and Schmitter (1991) argued that transition to and from democracy relies upon the decision of the involved political actors and the political strategies they choose to react to other players' strategies. Further, Remmer (1996) argued that the performance of political institutions (i.e., providing social protection and security for citizens and encouraging growth) could encourage democratic regimes. She asserted that the performance of political institutions explained why economic crises have a different impact on political transitions in different places and times.

In this paper, I shall investigate the debate of economic development and democracy. To me, the debate has moved from the effort to find a causal relationship between economic development and democracy to an examination of the roles of the political actors and the effectiveness of political institutions and actors (which I shall call the 'Institution and Decision Camp'). The changing direction derives from the differences in the hypotheses which political scientists raise and the differences in the sample selection. While the first section introduces the direction of the debate, the second section reviews the main arguments of modernization and endogenous democracy. The third section reviews arguments from political scientists in the institutional and decision camp. The fourth section concludes the article.

II. Modernization Theory and Endogenous Democracy

Modernization and endogenous theorists argue that the stability of democratic regimes is associated with economic development² in that democratic regimes and economic development support and maintain each other. A democratic government creates universal literacy and provides a good educational system and access to mass communication. When fully developed, these social conditions will in turn maintain the survival of the democratic regime because literate citizens demand to know what is going to happen in their societies. In his classical article on the social requisites of democracy, Lipset (1959: 75) asserted that industrialization and urbanization will support the legitimacy of democratic political systems if a democratic government

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can improve the economic life of its citizens so that they believe in the regime's economic efficiency. Karl W. Deutch (1961: 494) argued that the social mobilization process, which "can be defined as the process in which major clusters of old social, economic, and psychological commitment are eroded and broken and people become available for new patterns of socialization and behavior," is associated with Western and developed countries.

Robert Dahl also believed that socioeconomic development favors the growth of democracy and that it encourages the rise of democratic transition. Seemingly, he affirms Lipset's conclusion—that the higher the socioeconomic level of countries, the more possible it is that their political regime will become democratic. Dahl (1971: 76-80) asserted that socioeconomic development makes countries' political regimes more inclusive or close to polyarchy.

Also, socioeconomic development refers to the increase of a capitalistic or market economy which is not definitely centralized by governments. Dahl (1998) insisted that a polyarchical democracy endures only in countries with a predominantly market capitalist economy, and it has never endured in a country with a predominantly nonmarket economy.³ Because in market-capitalist economies the economic entities are either individuals or enterprises that are privately owned by individuals and groups, they are motivated by incentives to develop their businesses (Dahl, 1998: 167). In other words, people will stand against authoritarian governments which usually monopolize or centralize a country's economy in the hands of the families of the political elite. The self-motivation of individuals and private enterprises leads to economic growth and a culture of competitiveness and anti-authoritarianism. In a market-capitalist society, due to a competitive economy which prefers popularly-elected governments to appointed ones, governments can hardly ever monopolize the economy by central planning or allocating capital or natural resources. When governments are not allowed by individuals and groups to centrally plan a country's economy, private enterprises and individuals in turn help maintain the democratic institutions and economic development which favor the

³For Dahl, a state of polyarchy causes social conditions such as competitiveness and inclusiveness, which favor the democratization or the stability of a democratic regime. See the characteristics of polyarchy in Robert Dahl, *Polyarchy: Participation and Opposition*, (New Heaven: Yale University Press, 1971) p.17-33 (Does Polyarchy Matter?).

growth of their businesses (Dahl, 1998: 171).⁴ Economic development and democracy are causally related in that economic development provides the conditions which support the stability of democratic regimes, while a democratic regime helps maintain economic development by preventing the centralization of the economy.

The comparison of the institutions of developed and underdeveloped countries is one of the research methodologies used by modernization theorists in order to distinguish democratic regimes associated with the state of modernity and authoritarian regimes associated with primitive conditions. Lipset (1959) found that the European and English-speaking countries, which have greater *per capita* income, are more democratic than their Latin American counterparts. Using seven indicators of modernization, such as urbanization or literacy, Deutsch (1961) also divided his samples of countries into more-developed and less-developed countries. By employing this research methodology, they asserted that developed and advanced countries are governed by democratic regimes, whereas less-developed countries are mostly governed by authoritarian regimes. Or, even though less developed countries are governed by democratic regime, the level of democracy of less-developed countries is less than that of more-developed countries.

However, their research methodology has disadvantages. First, it merely shows that democratic countries are associated with modernized societies. It does not show the causal relation between positive economic conditions and the likelihood of democracy. If endogenous theorists argue that economic development generates democracy, do modernized socioeconomic conditions account for democratic transition?

Moreover, modernized socioeconomic conditions did not generate democratic transition in South Korea during the 1980s,⁵ or in China, Singapore, Malaysia, Indonesia (before 1997), or Vietnam. Secondly, the comparison of institutions of developed and undeveloped countries is biased by endogenous theorists in that they choose developed and underdeveloped countries which are already governed by democratic and authoritarian governments. Therefore, we do not know when and how developed countries become a democracy, and when and how underdeveloped countries become authoritarian.

⁴However, Dahl thinks that a capitalistic and market economy can destabilize democracy in that the capitalistic and market economy leads to the social disorder of severe competitiveness among private entrepreneurs and political inequality between employers and employees. See Robert Dahl, *On Democracy*, (New Heaven: Yale University Press, 1998) p.173-179.

⁵South Korea had a first free election on 16 December 1987 after the military had controlled the general election (Nohlen, Grotz, and Hartmann 2001)

Endogenous theorists have inspired some political scientists, however. Their arguments are that the good economic performance of countries encourages the stability of democratic regimes, whereas the bad economic performance of countries impedes democratic transition and even destabilizes democratic regimes. According to his cross-national research (55 nations), Edward Muller (1988) argued that democratic stability is not correlated with economic development but with income inequality. He found that during 1961-80, newly-democratic regimes, which had experienced income inequality, were replaced by authoritarian regimes, while established democratic regimes were able to reduce the rate of income inequality. John Londregan and Keith Poole (1990) indicated that economic backwardness is likely to encourage a successful coup, and when democratic institutions collapse, the countries will take several years to be democratized since economic backwardness impedes the likelihood of democratic transition. Susan Stokes and Carl Boix (2003) have argued that economic development generates democratic transition and the stability of democracy because growth induces ruling factions to democratize and maintain the democratic regime. Based on the game theory model, ruling factions have incentives to maintain democracy because in dictatorships, if they lose, they will get nothing, whereas in democracy if they lose, they will get a smaller portion.

III. Politics Matters: Political Agents, Strategies, and Institutions and Transition to Democracy

Groups of political scientists do not believe that democracy is endogenous to social and economic development. First, the occurrence of social and economic development does not encourage transition to democracy. Samuel Huntington (1968) pointed out that social or political modernization can bring down new democracies because they have not institutionalized their political institutions or administrative processes. Guillermo O'Donnell (1973) argued that the modernization of bureaucratic agencies brought down the political democracies in Latin American countries in the 1970s.

Second, political scientists have argued that social and economic developments stem from the decision of political elites or their political strategies to implement economic development policies. Although we have seen the likelihood of democratic transition and its stability in intermediate-developing countries such as

Argentina, Chile, South Korea, or Taiwan, the democratic transition during the 1980s and early 1990s stemmed from the decision of dictators or juntas to liberalize their economies, which brought about the rise of labor unions, the middle class, or social movements (Haggard, 1992). Hence, the transition to democracy rather depends upon political decisions and the strategies of current incumbents concerning whether to accept election or hold power.

These groups of political scientists are likely to investigate the political characteristics of significant political actors in developing democracies in terms of decisions, strategies, group formation, and ideologies. In “Transition to Democracy: Tentative Conclusion,” O’Donnell and Schmitter (1986) argued that the success of democratic transition depends upon those that are currently the most influential leaders among the current elites during the transitional period and whether popular the mood is moderate. They believe that the transition to democracy happens when the most influential leaders are soft liners that believe that it costs less to accept democratic rules than to hold an authoritarian regime because they can have a chance to return to power by getting elected. The process of democratic transition will be stabilized if the liberal elites cooperate with the middle class or professional associations, which they call a ‘pact,’ in order to prevent extreme movements, such as Communist or labor parties (O’Donnell and Schmitter, 1986). Studying the path to democracy and autocracy in India and Pakistan, Tudor (2013) argued that the decision of independence movements’ elites to ally with social classes has an influence on the path to democracy (or autocracy) in the long run.

The hypothesis is that democratic transition is likely to be destabilized if hard line elites are the most powerful among the elites and social movements opposing the regime militarily. Peru, Bolivia, and Central American countries in 1960s-90s are examples in O’Donnell and Schmitter’s model because these countries’ elites were extremely conservative and anti-democratic while social movements such as nationalist or populist movements opposed the regime. Inspired by O’Donnell and Schmitter (1986), Karl and Schmitter (1991) also argued that ‘transition by pact,’ which refers to the cooperation among current incumbents, encourages restricted political democracy, which according to Karl and Schmitter is the best choice for newly-established democracies.

Nonetheless, these political scientists do not conclude that a regime change in developing countries will bring about democratic transition because it depends

upon the political strategies of each political elite group and the popular mood toward the regime change. O'Donnell and Schmitter (1986) indicated that the soft liner elites can reverse their choice to cooperate with the hard liner ones if the newly-elected government has policies negatively affecting their economic interest, such as nationalization. Karl and Schmitter (1991) did not conclude that 'transition by pact' will bring about liberal democracy in transitional countries.

There is problem, however. On the one hand, there is no concrete pattern of democratic transition since democratic transitions can vary according to the variety of elites' strategies. On the other hand, these political scientists have suggested that transition by pact of soft liner elites with the cooperation of the middle or professional class will encourage democratic transition and its stability. The problem is that they investigated Latin American countries during the 1960s-70s and the 1980s-90s; the former period represented the democratic breakdown whereas the latter period represented the democratic transition period. Without separating those two periods, these political scientists suggested a tentative pattern for democratic transition.

Therefore, some political scientists have argued that the transition to democracy and its stability stem from the characteristics of political institutions. A democratic regime will be stable if its political institutions are designed to aim at protecting private property rights, encouraging people's participation, and preventing political abuse by government officials from citizens. Remmer (1996) asserted that a democratic regime outperforms an authoritarian regime in terms of resolving economic crises because democratic institutions are structurally flexible. According to the Latin American experience, the democratic governments there allowed people to participate in resolving economic crises. Using Argentina and Brazil as examples, Remmer (1996) pointed out that when the two countries were governed by military regimes, the economic crisis more deeply worsened, whereas after two years of a democratic transition, the economic performance of the two countries improved in terms of growth rate and the reduction of debt. She argued that the democratic transition in Latin America during the 1980s survived because the political institutions played democratic roles, such as encouraging political participation and electoral competition. It can be seen in Latin American countries during the 1980s that the democratic governments tried to play democratic roles, such as promising to interrogate political abuses during the authoritarian regime or allowing labor unions or social movements to have freedom of demonstration (Collier 1999). Remmer

(1996) argued that the democratic regimes were overthrown by juntas during the 1960s-70s because they had authoritarian characteristics, such as nationalizing private corporations or implementing socialistic policies, which were against the democratic rule of private property rights. On the other hand, since some authoritarian regimes in Latin America played democratic roles, such as accepting referenda or allowing social movements to speak, they were likely to survive because the authoritarian governments declined their iron rule and accepted a democratic rule (Remmer 1996).

Her argument of the democratic roles of authoritarian governments can be applied to explain survival authoritarian governments in China, Singapore, or Malaysia in that these governments guaranteed the protection of the property rights of investors and citizens and allowed their citizens to vote at a limited level. In other words, these authoritarian countries tried to reduce political pressure from the people by creating some restricted political freedoms.

Several political scientists have argued, in accordance with Remmer, that some institutional qualities lead to the stability of political regimes, which can be either democratic or authoritarian regimes. Raising the question of why some democratic countries have not been able to encourage economic development like some of their authoritarian counterparts, Danni Rodrik et al. (1997) pointed out that institutional qualities, which they refer to as the protection of property rights and the rule of law, foster economic development. They gave a comparison of Russia and China in that although Russia is governed by democratic countries while China is governed by the Communist party, China, where the government guarantees the property rights of investors, performs far better than Russia, where the government cannot guarantee property rights to investors in terms of economic growth (Rodrik et al., 1997: 22). Przeworski et al. indicated that wealthy democracies perform better than wealthy dictatorships in terms of technological progress and human development because democratic institutions invest in human capital development and allow laborers to bargain collectively (Przeworski et al., 2000). As a result, democratic regimes are stable in wealthy countries because democratic institutions must provide economic incentives and social welfare for the citizens as a political duty.

However, institutionalist political scientists have not answered how authoritarian regimes such as China or Singapore are associated with democratic institutional qualities. According to institutionalist political scientists, people are supposed to be politically oriented toward institutionalized norms of property rights

or complete political freedoms. However, in the cases of East Asian countries, why do the people not demand democratic transition even though they have experienced some political freedoms, such as owning some property? Although institutionalist political scientists show us that different institutional designs account for different levels of democracy; they do not show us why people in some contexts such as that in East Asia can tolerate authoritarian regimes while they enjoy restricted political freedom.

IV. Empirical Application: the Military Coup in Thailand in 2006

The military coup in Thailand is an example of how the political actors' decision contributed to democratic breakdown in 2006. The democratic breakdown resulted from the implementation of populist policies made by the political incumbents (i.e. the Thai Rak Thai party (TRT) led by Thaksin Shinnawatra and his party members) and the demand of military intervention in politics made by the political opponents (i.e. People's Alliance for Democracy: PAD). On the one hand, the elected government led by Thaksin Shinnawatra implemented several populist policies that were aimed to distribute public resources to the party's constituencies and political supporters (Phongpaichit and Baker 2004). For instance, the government implemented rice-pledging scheme which set the guaranteed price of paddy rice much higher than the market price (Laiprakobsup 2012). Politically, the scheme appealed rural farmers who were the TRT's main constituents because it shored up the price of paddy rice. In other words, the farmers benefited from the policy because they were subsidized by the government.

On the other hand, the opposition movement led by the PAD accused the government of abusing power and committing in corruption and fraud election (Phongpaichit and Baker 2014). The movement wanted the Prime Minister Thaksin Shinnawatra to resign and retire from politics. The movement's leaders demanded for military intervention in politics and interim government that was not led by politicians in order to initiate political reform. Seemingly, the opposition movement accepted the military to overthrow the elected government and to use extra-constitutional measures for governing.

Economic condition did not play a role in democratic breakdown because Thailand's economy was not in decline in 2006. According to the Bank of Thailand

(2007), Thailand's economy slightly grew from the previous year. The export volumes expand from the previous year. The government's revenue also grew which means that the government was able to accrue revenue from economic sectors. As a result, economic conditions did not have much influence on democratic breakdown in Thailand.

VI. Conclusion

In this paper, I examine and review the debate of causal relation between economy and democracy. Further, the current debate is about the impact of institutional qualities on democratic transition and its stability. First, political scientists believe that positive economic conditions account for democratic transition. However, they do not show when or how positive economic conditions encourage democratic transition. Furthermore, the relationship between the economy and democracy should rather be reversed in that democracy encourages positive economic conditions. The failure to find a causal relation between democracy and the economy has encouraged political scientists to study the characteristics of political actors and their strategies.

These political scientists believe that the roles of the political elites and their strategies have an impact on whether democratic transition can be stabilized or overthrown. However, the problem is that their argument seems to be inconsistent in that they do not conclude which political decisions or strategies really encourage democratic transition, and they also suggest that transition by pact is likely to encourage democratic transition. The current debate is now that some institutional qualities and designs should foster political democracy and economic development. Although some developing countries are governed by authoritarian regimes, the governments play the democratic roles of protecting property rights and allowing some political freedoms. As a result, these authoritarian countries have been able to survive and develop their economies. However, institutionalist political scientists have not answered why the citizens of these countries have not demanded democratic transition even though they have experienced some political freedoms.

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