

# The Economic Determinants of Democracy and Dictatorship

How does economic development influence the democratization process?

# A Brief Overview of Modernization Theory

Most economic explanations for democracy can be linked to a paradigm called **modernization theory**.

Modernization theory argues that all societies pass through the same historical stages of economic development.

## Modernization Theory



Modernization theorists in political science argue that political change often accompanies economic development.

Underdeveloped Country		Developed Country
Large Agriculture Sector	→	Small Agriculture Sector
Small Industrial Sector	→	Large Industrial Sector
Small Service Sector	→	Large Service Sector
Dictatorship	→	Democracy

Dictatorial rule and predatory behavior will be common in underdeveloped agrarian societies.

But as societies develop, the **balance of power** between the ruler and the people *can* change.

Economic development, and the societal transformation it produces, makes it more likely that rulers will need to bargain with, and seek the consent of, the people to govern.

In this way, economic development promotes the emergence and survival of democracy.



Modernization theory doesn't say that economic development is *necessary* for democracy.

Systems in which rulers seek the consent of the people to govern can exist in societies with low levels of economic development.

- Example: Early democracy.

What it does say is that democracy, especially the more inclusive modern democracy, is more likely as societies develop economically.

Agrarian states are likely to be characterized by dictatorial rule and predatory behavior on the part of state elites.

People who work the land often lack valuable exit options.

As a result, rulers can appropriate crops and hence the revenue they require to stay in power without having to bargain with the people or seek their consent.

Economic development can change the balance of power between the ruler and the people by increasing the value of people's exit options.

Fewer people are tied to the land, and some begin to obtain financial, educational, and other assets that are more mobile and less legible to the state.

It becomes harder for state elites to monitor the economic activity of these people and appropriate their assets without their cooperation.

*If rulers are dependent on these people*, they may feel they have to bargain with them and seek their consent in order to access the revenue they need to stay in power.

Institutions like assemblies facilitate this process by providing a convenient location for information gathering and bargaining.

When granted power, such institutions also make it harder for rulers to renege on any negotiated agreement that's reached.

The result is a political system in which some people are able to constrain the behavior of the ruler and other state elites.

The inclusiveness of the political system is expected to grow over time as economic development increases the number of people with mobile assets and, hence, credible exit options.

Modernization theory doesn't say that economic development always produces democracy.

Certain conditions need to be met and even then, the relationship between economic development and democracy is probabilistic.

Two conditions are required for economic development to promote democracy:

1. The ruler must be dependent on the people.
2. Economic development must increase the value of people's exit options enough that dependent rulers feel compelled to seek their consent to govern.

# Income and Democracy

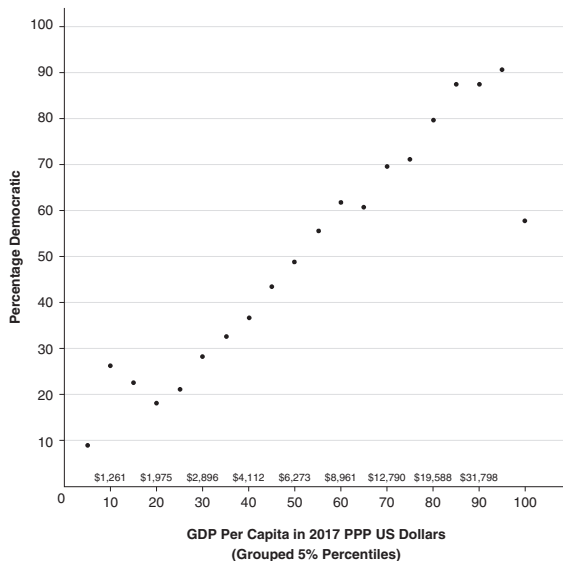


One of the central implications of modernization theory is that there should be a strong positive relationship between economic development and democracy.

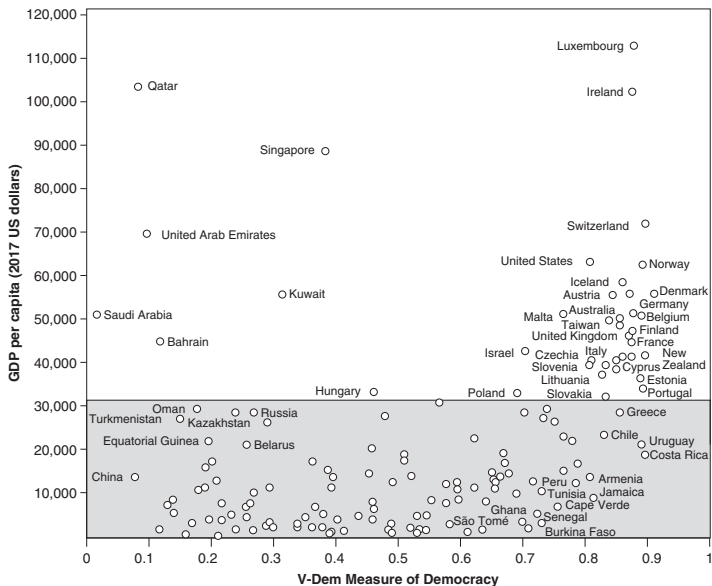
Economic development is often operationalized in terms of a country's level of income.

We often measure a country's level of income in terms of its GDP per capita.

# Percentage of Democratic Country-Years by Income, 1950-2019



# Income and Democracy in 2019



Does this empirical pattern support modernization theory?

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Modernization theory predicts that economic development promotes both the emergence and survival of democracy.

**But** we could find the same empirical pattern we've just seen if economic development *only helped democratic survival*.

Why might increased income help democratic survival?

## Why might increased income help democratic survival?

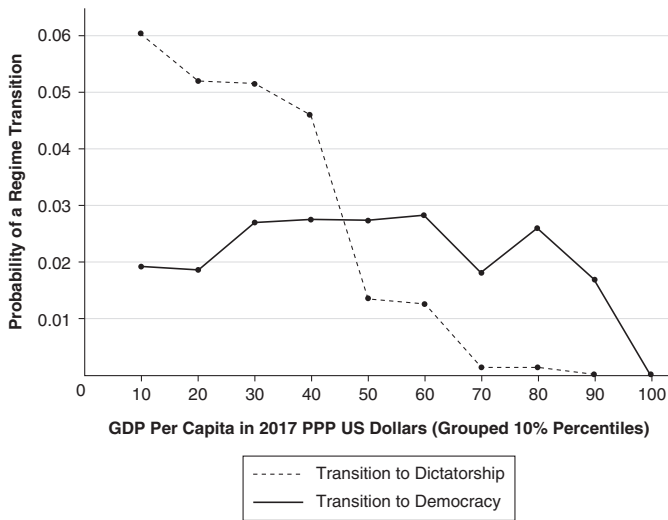
Suppose you're a rich person living in a democracy.

- Autocracy is a big gamble.

Suppose you're a poor person living in a democracy.

- Autocracy is less of a gamble.

## Probability of Transitions to Democracy and Dictatorship by Income, 1950-2019





# Income and Democratic *Survival*

Strong evidence that higher income helps democratic survival.

No democracy with an income above \$15,869 in 2017 PPP US dollars has ever collapsed into dictatorship.

About 61% of the world's democracies in 2019 had income levels above this threshold.

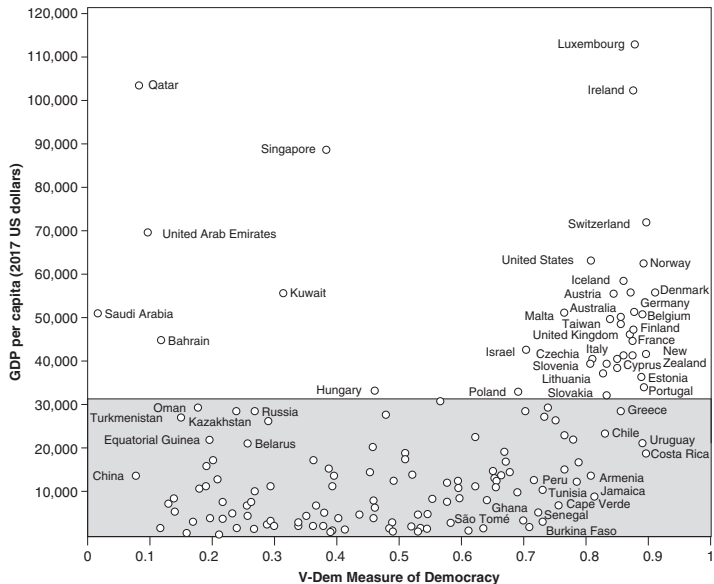
# Income and Democratic *Emergence*

Weaker evidence that higher income helps democratic emergence.

While studies find little evidence that higher income promotes democratic emergence in the post-1950 period, they do find evidence if we look over a longer period of time.

No dictatorship with an income above \$28,233 in 2017 PPP US dollars has ever become democratic.

# Income and Democracy in 2019



# Modernization Theory and Democracy

Rising income doesn't really capture the causal story linking economic development to democracy that we started with.

Our story was more about how the changes in the socioeconomic structure of a country accompanying economic development alter the balance of power between the ruler and the people.

Economic development is expected to increase the number of people with mobile assets and hence valuable exit options.

Rulers who find themselves dependent on these people are forced to bargain with them and seek their consent in order to access the revenue they need to stay in power.

If the ruler becomes dependent on enough people with valuable exit options, the state takes on the features of modern democracy.

According to modernization theory, all societies move through a series of stages.

Specifically, we see a shift from a focus on agriculture to a focus on manufacturing and services.

Some scholars have argued that these changes in early modern Europe played a crucial role in the creation of representative government in England. Why?

Structural changes in the economy produced a shift in economic power away from traditional agricultural elites who controlled easily observable assets to a rising class of wool producers, merchants, and financial intermediaries who controlled assets that were more difficult to observe.

The key point is that the state can tax or predate only on those assets they can observe (or count).



The increased ability of the gentry to hide their assets from state predation changed the balance of power between modernizing social groups and the traditional seats of power such as the Crown.

The Crown now had to negotiate with the new economic elites in order to extract revenue.

In return for paying their taxes, the economic elites demanded limits to state predation.

This resulted in the supremacy of Parliament over the Crown.

The Glorious Revolution of 1688.

But why bother to create or strengthen an institution like parliament?

One answer is that an assembly provides a convenient location in which societal actors can air their grievances and demands.

It's a place where the ruler can efficiently gather important information about their subjects' views on various issues and potential sources of resistance.

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But assemblies can also help solve credible commitment problems.

A **credible commitment or a time-inconsistency problem** occurs when (1) an actor who makes a promise today may have an incentive to renege on that promise in the future and (2) power is in the hands of the actor who makes the promise and not in the hands of those expected to benefit from the promise.

The establishment of a strong parliament is designed to solve a credible commitment problem by keeping power in the hands of the recipient of the promise.

This is a form of power-sharing agreement.

The introduction of a more constrained state occurred earlier and more definitively in England than it did in France.

This was because of the unique structure of the economy that early modernization had produced in England.

## Exit, Voice, and Loyalty Game

In the prehistory of the game, the Crown has confiscated the assets of a segment of the elite represented by Parliament.



The Parliamentarians have three options.

1. *Exit*: Disinvest from the economy.
2. *Voice*: Petition the Crown for protection against future confiscations in exchange for a promise to continue investing in the economy.
3. *Loyal*: Keep investing and paying taxes.

O1: Unconstrained state,  
stagnant economy  
 $E, 1$

*Exit: Disinvest*

**Parliamentarians**

*Loyalty: Invest*

O2: Unconstrained state,  
growing economy  
 $0, 1 + L$

*Voice: Demand  
constraints*

**Crown**

*Respond: Accept  
constraints*

*Ignore: Reject  
constraints*

O3: Constrained state,  
growing economy  
 $1 - c, L$

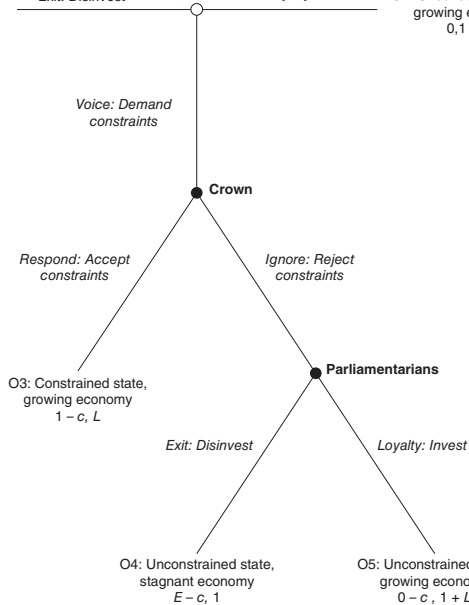
**Parliamentarians**

*Exit: Disinvest*

*Loyalty: Invest*

O4: Unconstrained state,  
stagnant economy  
 $E - c, 1$

O5: Unconstrained state,  
growing economy  
 $0 - c, 1 + L$



The Crown was dependent on economic elites for tax revenue in both England and France.

However, economic development had given the English economic elites more mobile assets and hence more credible exit options than their French counterparts.

This meant that the English Crown was forced to bargain with their economic elites whereas the French Crown was not.

## Summary of Outcomes in the EVL Game

	Crown	
Parliamentarians	Is autonomous $L < 1$	Is dependent $L > 1$
Have a credible exit threat (mobile assets) $E > 0$	Poor dictatorship (unconstrained state, stagnant economy)	Rich democracy (constrained state, growing economy)
Have no credible exit threat (fixed assets) $E < 0$	Rich dictatorship (unconstrained state, growing economy)	Rich dictatorship (unconstrained state, growing economy)

Representative government and a constrained state are more likely to emerge and survive when rulers depend on a segment of society that comprises people holding mobile assets.

We often think of those people who have mobile assets as the middle class.

The existence of a strong middle class is often viewed as a necessary condition for democracy.

A constrained state isn't necessarily equivalent to a modern democracy.

The key feature of a constrained state is that the elites who control violence have their power checked by someone. But that check on power can be other elites or the masses.

In the 1688 Glorious Revolution in England, the power of the Crown was constrained by other economic elites, not the masses.

Economic development, though, often increases the number of people in society with credible exit threats over time.

One way in which it does this is by promoting the importance of education and making human capital an increasingly critical component in the production process.

Thus, dependent governments become responsive to, and constrained by, larger and larger sections of society over time, and we see a shift towards modern democracy.

# The Conditionality of Modernization Theory



Two conditions are required for economic development to promote democracy:

1. The ruler must be dependent on the people.
2. Economic development must increase the value of people's exit options enough that dependent rulers feel compelled to seek their consent to govern.

## Condition 1: Are Rulers Dependent?

Natural resources and foreign aid influence the extent to which rulers are dependent on the people.

How do natural resources influence the democratization process?

According to the **political resource curse**, countries that depend on revenue from natural resources, such as oil, diamonds, and minerals, will find it difficult to democratize.

They're also more prone to corruption, poor governance, and civil war.

Natural resource revenue reduces both the citizens' demand for democratic reform and government responsiveness to that demand.

Resource revenue means that taxes are low and governments are autonomous from citizen demands.

Natural resource revenue also increases the capability of leaders to consolidate their hold on power and resist democratic reform.

Resource revenue can be distributed as patronage to coopt opposition groups or used to repress them.

When it comes to the political resource curse, **resource dependence** is more important than resource abundance.

The political resource curse is about the **emergence of democracy**, not the survival of democracy.

How does foreign aid influence the democratization process?



**Aid optimists** think that foreign aid can spur democratization efforts.

**Aid pessimists** think that foreign aid has a negative effect on democratization reforms.

## Foreign aid can hurt democratization efforts.

By freeing governments from the need to raise taxes and providing them with access to 'slack resources' that can be strategically used to reward supporters and coopt opposition groups, foreign aid increases the autonomy of recipient governments from the demands of their citizens.

Is there a foreign aid curse?

- Click [▶ here](#) (9:39-16.48)

Foreign aid can help democratization efforts, but only if:

1. the recipient country is dependent on foreign aid;
2. the aid donor wants to promote democratic reform;
3. the aid donor can credibly threaten to withdraw the aid if its demands for reform are not met.

Any democratic reforms that occur are likely to be limited in scope.

## Condition 2: Are Exit Options Sufficiently Valuable?

The extent to which economic development increases the value of people's exit options depends on the **power of the state**.

Economic development is more likely to promote democracy when the state is weak than when it's strong.

States are powerful when:

1. They play a large role in the economy.
2. State capacity is high.

# Size of State's Role in the Economy

If economic development is primarily state driven, citizens may find themselves increasingly dependent on the state for their material well-being and, thus, that the value of their exit options goes down.

Economic development may therefore increase support for authoritarian regimes and hinder the emergence of democracy.

Many dictatorial regimes in the Middle East, Africa, Asia, Latin America, and the post-Soviet world have large public sectors where the state intervenes heavily in the economy.

The state bureaucracy, public institutions, and state-owned enterprises drive economic activity and provide social mobility and material benefits to the rising middle class.



Rethinking the relationship between a strong middle class and democracy.

It matters whether you work in the private sector or the public sector.

Those in the private sector worry about state predation and so demand that constraints be placed on state behavior.

Those in the public sector, such as teachers, doctors, bureaucrats, and white-collar workers in state-owned firms, depend on the state for their material well-being and their middle-class status.

They are likely to side with the authoritarian state and see democratic reforms as a potential threat to their financial future.

Many dictatorial states seek to establish and protect the state's dominant role in the economy.

They are suspicious of private sector economic activity because of the way it empowers citizens to make demands on the government.

We should expect to see economic development promote democracy more if it happens in a diversified economy in which the private sector plays a significant role.

# State Capacity

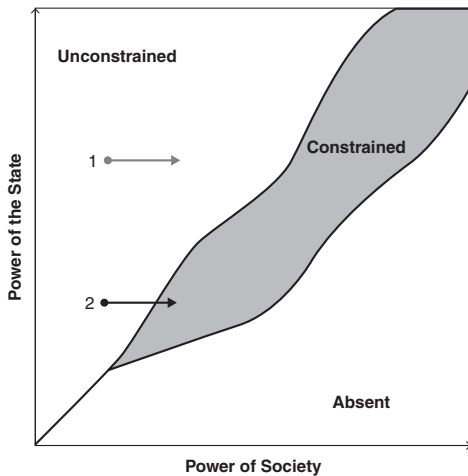
The extent to which economic development increases the value of people's exit options depends on state capacity.

# State Capacity

Rulers in high-capacity states may retain sufficient ability to monitor and control economic activity that people's exit options don't increase enough with economic development to compel the state to bargain with them.

In contrast, rulers in low-capacity states may find that people's exit options are now sufficiently valuable due to economic development that they can no longer engage in predatory behavior and must seek their consent to govern.

## Economic Development and State Behavior



## Two alternative strategies for ruling:

1. **Democratic strategy:** Consult the people to get the information and resources you need to govern through some kind of assembly or council system.
2. **Dictatorial strategy:** Build a strong bureaucracy and have sufficient state force that you don't need to consult the people and can forcibly put down public opposition if it arises.



Examples highlighting the importance of state power:

- China
- Middle East

Temporal sequencing may matter.

Democratization is difficult if rulers are able to build a strong state bureaucracy early on.

Temporal sequencing may matter.

But the creation of a strong state bureaucracy may not be detrimental if it occurs after democratic institutions that can constrain state behavior have already been established.

Recall the possible positive feedback loop in the “narrow corridor.”

# Inequality and Democracy

How does economic inequality influence the democratization process?

It's commonly argued that economic inequality undermines democracy.

The possibility that the poor will expropriate the rich through the ballot box makes democracy appear costly to elites.

As a result, they often step in to block attempts at democratization – right-wing coups.

However, the empirical support for this line of reasoning is quite weak.

Economic elites don't need to worry that the poor will expropriate them if they have credible exit threats.

Economic inequality should only be bad for democratization in those countries where the economic elites don't have credible exit threats.

Recent evidence that land inequality is bad for democracy but that income inequality is not.



Arguments linking the prospects for democracy to the structure of a country's economy aren't popular with democratic activists.

If changes to the structure of the economy are prerequisites for democratization, change is likely to come slowly.