

Economic Development and Democracy

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When the former Soviet Union and China, the two communist giants, set on their courses of reform, they chose different routes, which have led to different results. In China, great progress has been made in reforming its economic system, but its political realm ^{realm} remains a highly authoritarian one. In the former Soviet Union, however, while significant democratization has occurred, its economy has been experiencing a real decline. The striking contrast raises to a question: Could democratic institutions and economic welfare flourish together in the course of transition from authoritarian state socialism?

My presentation is divided in to two parts. The first part discusses the Chinese experiences in contrast to the experience of the former Soviet Union. I will focus on the Chinese experience, because you don't need me to tell you what you have achieved and what problems you are facing. The second part tries to answer the question I just raised by reviewing theories and empirical studies on the relations between political development and economic development. I end up with a pessimistic but realistic conclusion: the relationships between democratization and economic development is neither linear ^{linear} nor constant, but is rather contingent and variable. It is naive and harmful to believe that any variant of democracy is able to facilitate economic transformation and that economic development always brings about democratic change.

Let me first ~~introduce~~ talk a little bit about

1. Economic Reforms and Its Achievement in China

In the last decade, China has made great headway in reforming its economic system. The changes are so manifest and so fast that the China of today is unrecognizable to those who last visited the country in the late 1970s and early 1980s. Deng Xiaoping calls China's post-Mao reform programs as the "second revolution." He is certainly right, except on one point: the "second revolution" doesn't intend to succeed Mao's "first revolution," rather than it has been heading the opposite direction, moving

toward a market capitalism. Although still far from a free-market economy, the role of the market in China by the late 1980s had vastly increased compared with the China of the 1970s. Except for a few crucial commodities that remain under ^{state} price control. China has gradually allowed the market to determine all other commodity prices.¹ More significantly, non-planned sectors are growing, and have been, for a number of years, at many ^[sprung] multiples the pace of the planned sector. Private businesses have ^[sprung] sprung up like mushrooms. Currently, over 20 million people are employed in the private sector now.² Another important aspect of development of non-planned sectors has been the very high rate of growth achieved by rural enterprises. Owned by townships, villages, groups of households and individuals, those enterprises cover all economic areas, e. g. manufacturing, mining, construction, trade, transport, and service. The rates of growth of this sector have been so high that many have used terms like "phenomenal" or "spectacular" to describe them. By the end of the 1980s such enterprises were playing an important role not only in the rural economy, but also in the economy of the country as a whole.³ Moreover, China has attracted a considerable volume of foreign investment. From 1979 through 1991, China has attained about \$21.3 billion from direct foreign investment in more than 17,000 joint ventures of various kinds.⁴ Thus, everyday a large share of the Chinese economy is subject to market forces, and a large share of resources is being allocated outside of the planning mechanism.⁵ The market-oriented reform has improved China's economic performance. The economy grew at a rate 9 percent per ^{year} annum for the decade of the 1980s. During much of the 1980s, China's problem was not economic stagnation but super-fast economic growth which created excess demand and inflationary pressures. Although the growth rates have slowed down somewhat in 1990 and 1991. China still is one of the fastest growing economies in the world.

¹ By 1990, only less than 30 percent of consumer goods have remained subject to price control. World Journal October 25, 1991

² World Journal, April 16, 1991

³ In 1991 the industrial output of China's rural enterprises is estimated to be more than one trillion yuan (\$185.19 billion), accounting for one third of China's annual industrial production. Washington Post Journal, December 27, 1991

⁴ World Journal, December 16, 1991

⁵ The figure for 1990 shows that the formal state sector's share of industrial output was only 49%. See Geoff Raby "Economic Reform in China Continues despite the Rhetoric" Australian Foreign Affairs, (Summer 1991), p 5

In other words, the Chinese growth record is as good as anything achieved by Japan, South Korea, Taiwan, and Brazil during their post-war "miracles".

China has demonstrated tremendous capacity to produce manufacture goods for world markets. In volume terms, China's export growth rate rose from 6% per annum in 1968-1980 to 13.1% in 1981-1990, despite the fact that this was a period of great difficulties in world trade.⁶ In 1991, China becomes a country which, after Japan, has the second largest trade surplus in the world. Its trade surplus with the United States had exceeded \$10 billion in 1990 and reached about \$12 billion in 1991.⁷

All this has been reflected in real improvements in living standards. Few nations, let alone those of China's size, have experienced such an improvement in living standards in such a short space of time as that which occurred in China in the 1980s. Chinese data show a doubling of average real material consumption per person between 1978 and 1987. According to a world Bank report "the speed and scale of the improvement is probably unprecedented in human history."⁸

After the Tiananmen incident of June 1989, many foreign observers developed a "mind-set" that China was moving away from economic reform policies and rolling back to central planning. Indeed, China implemented policies of austerity in the last two years of the 1980s but it was not a result of the political shift in June 1989. In fact, the policies of austerity were made in September 1988, because the confluence of the stresses and strains of overheated economy and poor macroeconomic management had lead to a situation which threatened hyper-inflation. Those measures may have seemed to some at the time to have been heavy handed, but they were justified and necessary. The austerity program has proved to be effective in stabilizing the economy. In December 1991, the government declared its three-year retrenchment program successfully completed. According to a foreign observer, China's economic planners could claim at least four substantial successes over the past two years. First, and most important, they brought inflation under control (from 25% in the first half of 1989 to 2% in 1990 and less than 3.5% in 1991). Second, they achieved the largest harvest ever in 1990, and the second largest harvest in 1991 despite the fact that the nation suffered one of the worst floods in a century. Third, they increased foreign exchange holdings through the trade surplus. Fourth, they

⁶ Outlook, March 25, 1991 p 7

⁷ The Economist, November 23-29, 1991

⁸ World Bank, China: Long-term Development Issues and Options (Washington, D C.: World Bank, 1986), p 30

eased bottlenecks of the national economy by giving priority to investments in infrastructures.⁹

Contrary to widespread expectation, economic reform has kept going on despite political change after the Tiananmen incident. In the last two years, the government has taken steps toward further economic reform, such as devaluating its currency, adopting a more flexible exchange rate policy, phasing out export subsidies, adjusting the prices of many important consumer and producer goods, and the like. All those are measures that the World Bank and the IMF had been urging on the reformist leadership prior to June 1989, but which had been steadfastly resisted. Ironically, it was so-called "hardliners" who put those politically very difficult reform measures into practice. As the three-year austerity program was drawing to the end, the government announced recently that it would assume politically even more difficult reform measures in 1992, among which are the reduction of subsidies to consumers and the closing of inefficient enterprises.

to close the gap between planned price and market price

For 1992, economic prospects are fairly good. We may witness a more vigorous economic growth in China.

[vigorous]

However, the economic liberalization ^{has} ~~is~~ ^{been} ~~not~~ accompanied by a political liberalization. The Chinese Communist Party still monopolizes the power. After the Tiananmen incident, the regime has purged ^{some} reformist leaders, closed liberal publications, silenced opposition views, stepped up surveillance against dissenters, and above all put hundreds of activists of the 1989 protest movement behind the bars. Although far short of a revival of full-blown totalitarianism, China nevertheless is still under an authoritarian rule, while the former Soviet Union and the former state socialist countries in East Europe are experiencing political freedom for the first time in decades.

[surveillance]

But the freedom seems to have a price tag. The former Soviet Union and new democracies in East Europe all are facing profound economic crises. A number of them have witnessed a dramatic decline in production, massive unemployment, and skyrocketed inflation. The people of those countries are told that, in the course of transition from state socialism, things are bound to get worse before they get better, but many are wandering how long they have to tramp in the tunnel before seeing light.

⁹ Barry Naughton, "The Economy Emerges from a Rough Patch," Current History (September 1991)

Now, let's turn to the theoretical relations between economic growth and democracy

2. Wealth and Democracy

A Germany political scientist recently said

"Man certainly does not live by bread alone, but neither does he, or she, live by democracy, alone."¹⁰ However, we found that while Russians have no censorship which still persists in China, Chinese have consumer goods abundant in their shops which become the envy of Russians. What does this contrast mean? Either unfree or unfed? Behind such a practical concern lies a theoretically intriguing question: Can democracy and prosperity flourish together?

At the first glance, the answer seems obvious. Most wealthy countries are democratic, and most democratic countries are wealthy. The correlation between wealth and democracy seems to suggest that countries achieving high levels of economic development are more likely to establish and sustain democracy, and nations with democratic political institutions are more likely to accelerate economic growth. If democracy and economic development do go together, we should not be bothered by the vastly different routes taken by China and the former Soviet Union, for they would converge sooner or later.

The idea that economic development and democracy facilitate each other is appealing. Indeed, the wealthy democracies in the West presented a powerful alternative to the politically authoritarian and economically stagnated state socialist system for the peoples of East Europe and the Soviet Union in their 1989 revolutions. But we should be cautious about the notion of "All good things to together."

The argument that economic development and political development are mutually supportive implies two directions of causality: from the former to the latter and from the latter to the former. It cannot be true unless we have evidence which sustains the both ways of reasoning. In what follows, I am going to briefly discuss some of the theoretical and empirical literature dealing with the themes of the positive and negative interaction between economic development and democracy. I will discuss the impact of regime type on economic development first and then turn to the impact of economic development on regime type.

The Impact of Regime Type on economic Development

The impact of democracy on economic development has been a much-debated subject.¹¹ Some assert that democracy lays the basis for successful

positive

¹⁰ Ralf Dahrendorf, Reflections on the Revolution in Europe (London: Chatto & Windus, 1990) p 76

¹¹ "Economic development" in this article is narrowly defined as the rate of

long-term economic growth.¹² According to this school of thought, the prevalence of democracy is positively associated with the provision of human rights and political freedom. The long-run effect of democratization is to expand and enhance individual freedom. A competitive political system whose paramount objective is to maximize the self-development of all members of its society thus will enable individuals to seek self-interest and to bring their initiative into full play, which helps promote prosperity.¹³

But many observers disagree. They note a "cruel choice" between rapid expansion and democratic processes.¹⁴ Richard Lowenthal, for instance, goes so far as stating: "Every increase in freedom takes place at the cost of a slowdown of development; every acceleration of development involves less freedom."¹⁵ It is widely believed that higher economic growth would result from higher rates of domestic savings and that, in turn, non-democratic governments would be relatively more likely to limit consumption and boost national savings.¹⁶

It is very hard to find empirical analyses which come out in favor of democracy when it comes to economic growth, though there are a number of studies which argue in favor of democracy in terms of economic development in a broader sense (material equality and welfare rather than growth alone). Based on a comparative study of African regimes, for instance, ~~Dirk Berg-Schossler~~ concludes that democratic systems fare quite well in terms of the improvement of the basic quality of life. But he notes that authoritarian systems have a "strong positive effect on the overall rate of GNP growth."¹⁷ A similar conclusion is reached by ~~Dwight Y. King~~ in his economic growth

¹² For example, see Robert Holt and John Turner, The Political Basis of Economic Development (Princeton, N.J.: Van Nostrand, 1966).

¹³ Abbas Pourgerami, "The Political Economy of Development: An Empirical Examination of the Wealth Theory of Democracy," Journal of Theoretical Politics Vol 3 no 2 (1991), p.192

¹⁴ Jagdish Bhagwati, The Economics of Underdeveloped Countries (New York: McGraw-Hill, 1966), p. 204

¹⁵ Cited from Geory Sorensen, Democracy, Dictatorship and Development (London: MacMillan, 1991), p. 1

¹⁶ B. K. Nehru, "Western Democracy and the Third World," Third World Quarterly, Vol. 1, no. 2 (April 1979)

¹⁷ Dirk Berg-Schossler, "African Political Systems: Typology and Performance,"

analysis of six Asian countries¹⁸, and by Atul Kohli's study of ten countries over the period of 1960-1982.¹⁹ There is only one empirical study known to me that claims to have confirmed a positive interplay between democracy and economic growth.²⁰ But critics point out that the author's ambiguous classification of regimes plays a key role for the result of the analysis.

that study uses a very ambiguous classification of regimes, which plays a key role for the result of the analysis

On the contrary, there have been many cross-national studies supporting the "cruel choice" position.²¹ The perhaps most comprehensive study is Robert March's survey of 98 countries in the period 1966-70. He concludes:

Political competition/democracy does have a significant effect on later rates of economic development; its influence is to retard the development rate, rather than to facilitate it. In short, among the poor nations, an authoritarian political system increases the rate of economic development, while a democratic political system does appear to be a luxury which hinders development.²²

[r. ta:d]

[hindi] [sokritai]

The empirical analyses thus mostly stress democracy's negative effect on economic growth. Of course, economic growth under authoritarian conditions is certain to involve substantial human and social cost. But some argue that every process of development involves sacrifices. The suspension of civil and political rights may be the price for genuine, and fairly concrete, growth.²³ If the "cruel choice" between economic development and political

Comparative Political Studies Vol 17, no 1 (April, 1984)

¹⁸ Dwight Y King, "Regime Type and Performance, Authoritarian Rule, Semi-Capitalist Development and Rural Inequality in Asia," Comparative Political Studies Vol 13, no 4 (January 1981).

¹⁹ Atul Kohli, "Democracy and Development," in John p Lewis and Valeriana Kallab, eds, Development Strategies Reconsidered (New Brunswick: Transaction Books, 1986)

²⁰ G William Dick, "Authoritarian versus Nonauthoritarian Approaches to Economic Development," Journal of Political Economy, Vol 82 (1974)

²¹ Nelson Polsby, ed., Handbook of Political Science, Vol 3 (Reading, Mass: Assison-Wesley, 1975); and Y Cohen, "The Impact of Bureaucratic-Authoritarian Rule on Economic Growth," Comparative Political Studies, Vol 18, no 1 (April 1985)

²² Robert March, "Does Democracy Hinder Economic Development in the Latercomer Developing Nations?" Comparative Social Research, Vol 2 (March 1979), p 244

^(im'parativ)
democracy is indeed imperative, what is its ^{ity}implication for the republics of the former Soviet Union and for China? If democracy is a valued goal, it may be necessary to settle for moderate or even slow growth rates. The problem is that economic fortunes are taking a turn for the worse in the republics of the former Soviet Union. Will these newly emergent democracies be able to impose heavy transitional costs (hyper-inflation, massive unemployment, growing inequality) upon those social groups victimized by their capitalistic reforms while managing to achieve a quick economic recovery? Can these fragile democratic regimes survive a protracted economic crisis? Those are questions that concern many people within the former Soviet Union and without.

Chinese leaders seem to have made their mind about how to deal with the "cruel choice": sacrificing political freedom for economic prosperity. In a recent report about China's human rights situation, the government defends its development strategy by arguing that people's rights of subsistence are more fundamental and more important than their political rights. Ironically, many liberal intellectuals share this conviction. Before the Tiananmen incident of 1989, a group of young economists and political scientists had advocated "neo-authoritarianism" in China. They embraced democracy as the ultimate goal. But it was thought too risky to pass over directly to democracy, especially when the country was committed to replacing its command economy with a market economy. Therefore, at least during the transitional period, it would be better to retain an enlightened (or more precisely market-oriented) authoritarian regime so that the government is able to overcome political resistances from dislocated social groups and keep law and order.

More recently, the disintegration of Soviet Union has astounded even some radical intellectuals and pro-democracy activists in exile. A new current of thought is taking shape in China, which calls itself "neo-conservatism." Also clinging to the belief that economic development should claim precedence over political change, the "neo-conservatives" now come to the conclusion that even economic reform should proceed with great caution. Otherwise, China may end up with neither democracy nor prosperity but chaos.

The Impact of Economic Development on Regime Type

The "neo-authoritarianism" and "neo-conservatism" may be regarded as thoughtful and prudential strategies for bringing about democracy to China.

23 J. Donnelly, "Human Rights and Development: Competition Concerns?" World Politics Vol 36, no 2 (January 1984)

if it can be proved that there is a positive relationship between the level of economic development and democracy.

For many years, the notion has been abroad that there is a cause and effect relationship between economic development and democracy. Seymour Martin Lipset argues, for instance, that a society must reach a certain economic threshold before political modernization can begin.²⁴ Samuel P. Huntington agrees. He believes that poverty is a principal---probably the principal---obstacle to democratic development. In poor countries, democratization is unlikely. Most poor societies will remain undemocratic so long as they remain poor. Only when poor countries develop economically, gradually moving into a "zone of transition", do they become good prospects for democratization. According to Huntington, China has a long way to go before entering the "transition Zone".²⁵ "The current low levels of wealth in China mean that even with annual per capita growth rates of 3 to 5 percent, the economic conditions favorable to democratization would still be long in coming." The Chinese advocates of "neo-authoritarianism" and "neo-conservatism" could read into this statement a warning: "Don't waste your time to strive for democracy now, Chinese; you had better concentrate on economic development."

Why should economic development be more hospitable to democracy? Political theorists have delineated a number of characteristics of industrial economies that may help democracy:

- First --- Industrialization produces wealth, wealth produce leisure, leisure gives people the freedom to learn about and participate in politics, and this freedom makes democracy possible.
- Second --- A wealthy economy makes possible higher levels of literacy, education, urbanization, and mass media exposure, which extend political consciousness, multiply political demands, and broaden political participation.
- Third --- Economic development produces greater economic security, which offers greater rooms for accommodation and compromise, thus reducing the likelihood of extremist politics.
- Fourth --- Increased national wealth tends to enlarge the middle class.

²⁴ Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political legitimacy," American Political Science Review, no 53 (1959)

²⁵ Samuel P Huntington, "Democracy's Third Wave," Journal of Democracy, Vol 2, no 2 (Spring 1991), pp 31-33

which has long been associated in political theory with tolerance and democracy.

Over the past three decades, a great number of quantitative researches have been done to support the thesis of a positive relationship between economic development and democracy; but in the meantime, the thesis has also encountered serious challenges.

First, focusing on the level of economic development, the wealth theory of democracy doesn't pay sufficient attention to the process of economic development. However, while the political consequences of modernity are not entirely clear, it is certain that the process of modernization tends to be destabilizing and anti-democratic.

absolute level

Second, the criterion of modernity or the boundary of the "transition zone" is arbitrary and ambiguous. Huntington, for instance, sets the threshold at the level of GNP per capita \$1,000 (1988). China is excluded from his "transition zone" because its GNP per capita is only \$350 a year. But it is misleading to measure the value of one US dollar in terms of its purchasing power in a society where low prices prevail. A recent special report of Fortune magazine suggests that a more realistic measure of China's per capita income is about \$2500 per year, higher than the Philippines'.²⁶

Third, historically there have been many instances in which democratic governments were replaced by authoritarian ones as their economies were modernizing.

Would an authoritarian regime become more inclined to initiate democratization itself after it has achieved rapid industrialization and economic growth? No necessarily. Some argue that when an authoritarian regime has high confidence on its support from the society, it would become less hesitant in deciding whether or not to initiate political democratization²⁷. But others believe that successful economic development may serve as a useful justification for the continuation of an authoritarian regime. Moreover, the increased volume of economic resources at the government's disposal is also likely to enable it to deal more effectively with its opponents.²⁸

²⁶ "Snapshot of the Pac Rim," Fortune, October 7, 1991. Also, see N D Kristof, "In China, a Little Goes a Long Way," New York Times, December 23, 1991

²⁷ Baohui Zhang, "The Impact of Different Sequences of Political and Economic Reforms on Transforming to Stable Democracy by Leninist Regimes " A paper presented at the sixth annual meeting of the Chinese Scholars of Political Science & International Studies, Inc , University of California at San Diego, August 16-18, 1991.

Nevertheless, the wealth theory of democracy seems true in a negative sense. We are not sure about the general statement that economic development is an "engine" for democracy, but we are pretty sure that a poor economy is a poor foundation for democracy and that a troubled economy is a trouble for democratization. "The forces that give birth to a democracy are not necessarily the same as those that help sustain it."²⁹ Slow or negative growth may help to destabilize an authoritarian regime and bring about a democracy. But if the economic crisis persists, or even worsens under the new regime, it may well cause the fragile democratic government to be ^{replaced} supplanted by a new authoritarian regime, or may tempt currently democratic political leaders to resort to repressive measures themselves.

tend to create troubles

what conclusions can we draw from the preceding discussion?

Conclusion

From the above discussion, we may draw a conclusion that economic and political developments are quite separate phenomena, and usually have only marginal impact on each other. Although sometimes there appears to be a substantial impact, we know no clear pattern as to how economic situation and regime type are related. ~~This should not be a surprising conclusion, for~~ regime type is only one of the many conditions ^{that} influencing economic outcomes, and similarly, economic situation is only one of the many conditions affecting regime type. Surely this conclusion should not be surprising because

If all good things don't go together, what are the practical implications of this observation for democrats in Russia and in China? It means that Russian democrats must start thinking about what is the most suitable form of democracy for their country, suitable not only in the sense of being able to prevent an authoritarianist ^{restoration} restoration, but also in the sense of being equipped with capacities to promote socio-economic development. Arend Lijphart warns:

Once democratic constitutions and basic democratic institutions are in place, they tend to be hard to change. Given this institutional conservatism, the best time to introduce the optimal democratic institutions for a country is when

²⁸ Sung-joo Han, "South Korea: Politics in Transition," in Larry Diamond, Juan J. Linz, and Seymour Martin Lipset, eds., Politics in Developing Countries: Comparing Experiences with Democracy

²⁹ Kohli, p. 167

~~democracy is first established~~³⁰

^{For} Chinese democrats, on the other hand, ^{then} have to keep fighting against authoritarianism, never falling into the fallacy ^{of} that economic development would automatically bring about democracy to their country.

³⁰ Arend Lijphart, "The World Shops for a Ballot Box: A Comparative Perspective on Democratization " A speech at the sixth annual meeting of the Chinese Scholars of Political Science & International Studies, University of California at San Diego, August 16, 1991

YALE UNIVERSITY

MEMORANDUM

Dept.

To

January 20, 1992

Wang--

Thanks for sharing your Moscow text with me. I find it instructive and useful.

On the matter of aggregate studies of democracy and growth (and also equality perhaps) it seems to me that the problem is that there just haven't been any good studies recently. Almost all of what you cite is pretty old (and my own piece, though recent, is only a partial and inadequate analysis, suitable for a textbook--which is where it is--but not a rigorous piece of research reporting suitable, say, for a major journal). This reservation is important, I think, because studies of data a ~~decade~~ decade or more old will pick up the period of bureaucratic authoritarianism in the 70s, when especially in Latin American the military governments came in and, by shifting the balance of state power against the workers, made possible rapid growth and revived foreign investment (low democracy, little equality, but growth). That didn't last, however, especially as the international economic system, with the oil shocks, hammered export-led growth policies for many of these countries. Hence by the 80s the authoritarian growth policies failed, and a snapshot then would show a relationship between non-democracy, little growth, and low equality. The subsequent replacement of many of these authoritarian regimes by democratic ones would show yet another pattern.

In short, I think the relationship you and I are wondering about probably is heavily conditioned by time and international conditions; that one gets a different answer depending on when one looks.

It would be ~~g/god/if/someone~~ good if someone were to check this out systematically.