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# Economic security and democratic capital: Why do some democracies survive and others fail?[☆]

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ABSTRACT

We develop a theoretical framework where the chance of any given democratic society maintaining its democratic status is determined by two key factors: *economic security* and *democratic capital*. Our model predicts democracy breakdown is more likely (1) the lower the level of democratic capital, (2) the lower the anticipated growth in democracy, (3) the greater the anticipated growth after democracy breakdown, and finally, (4) the smaller the difference between anticipated growth in continued democracy and after democracy breakdown. We test the model using a newly constructed data set and the Polity IV data. We find that if expected economic growth under democracy is greater than anticipated economic growth under the alternative regime then the probability of breakdown is lower. Moreover, an increase in democratic capital decreases the probability of democracy breakdown. The country's most recent own democratic experience appears to have a more important impact on democracy survival, while the effect of foreign democratic capital cannot be distinguished from the time-specific shocks that are common to all countries in the world.



## 1. Introduction

Even before the extensive economic and political changes of the 1990s and recent rebellion movements in the Middle East, many questioned the factors which make a democratic regime sustainable. Ongoing debates surround the issue of how economic performance is related to democratization. Some papers focus on the 'modernization' hypothesis, where greater levels of urbanization and wealth are associated with a greater degree of democratization, and where higher incomes are expected, if not to induce democracy, then at least to make democratic regimes more stable (Barro, 1999; Lipset, 1959; Przeworski et al., 1996, 2000). In contrast, Acemoglu et al. (2008) argue that the observed positive association between income and democracy stems from common factors that determine both variables. Persson and Tabellini (2009) link economic performance and democratization by suggesting that democracy may entail higher returns to investment, which in turn will determine expectations of future economic performance under democracy and thus, beneficially affect both current economic performance and democracy consolidation.

Despite the wealth of literature linking democracy to economic performance, no studies examine the impact of relative (as opposed to absolute) economic performance on the likelihood of democracy breakdown. We address this literature gap. Specifically, we argue that even though some societies may generally be less wealthy and less inclined to support democracy due to historical reasons, their chances for democracy consolidation are nevertheless better if a democratic regime is expected to produce higher levels of wealth when compared to the possible alternative of a non-democratic regime.

We begin by developing a theoretical framework that formalizes a trade-off between economic security and ability to affect governing institutions; a trade-off that is present in all democratic societies. We then formulate testable hypotheses about how the likelihood of democracy breakdown is related to the degree of attachment to democratic values and principles, and about expectations of future economic performance under democratic and non-democratic regimes. Our theoretical framework implies that

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the risk of democracy breakdown declines not only when the degree of attachment to democratic values increases, but also when the difference between actual growth in democracy and expected growth after democracy breakdown becomes larger.

To test the implications of our theoretical framework, we construct a new data set that covers all currently independent countries in all years during the period 1800–2006 (see Noguera, 2007a for details). As a robustness check, we also test our theoretical predictions using the well-known but more limited in coverage Polity IV data.[1] Employing traditional duration (survival) analysis, we find that general patterns observed in both data sets are consistent with our predictions. Anticipated growth difference has the expected negative effect – if expected economic growth under democracy (proxied by the country's past GDP growth) is greater than anticipated economic growth under the alternative regime (proxied by past GDP growth in 'peer' countries), then the probability of democracy breakdown, conditional on no breakdown so far, is lower. Moreover, an increase in accumulated democratic capital is negatively related to the probability of democracy breakdown. We find that democracy breakdown is more likely to occur during the first few years of a democracy episode, with the likelihood of breakdown declining over time.

While it may be tempting to also consider the switch from non-democracy to democracy, we refrain from doing so. Modeling the reversion from non-democracy would necessitate developing a different model, especially if taking into account the wide variety of cultural, institutional, economic and historical factors characterizing non-democratic regimes. Moreover, from the empirical point of view, information on the start of non-democracy episodes is unavailable in many instances (especially early ones), which makes it difficult to properly account for duration dependence.

The paper is organized as follows. Section 2 reviews the previous theoretical and empirical literature on democracy consolidation-breakdown. Section 3 develops a theoretical framework that emphasizes the role of preferences for and trade-offs between an individual's economic security and ability to exercise control over governing institutions. Section 4 describes the data and estimation strategy used to test the hypotheses generated by the model. We discuss the empirical results in Section 5, and offer concluding remarks in Section 6.

## 2. Previous literature

A substantial empirical literature investigates the link between democratic consolidation and economic well-being, typically finding this link to be positive (Bernhard, Nordstrom, and Reenock, 2001; Bernhard, Reenock, and Nordstrom, 2003; Epstein et al., 2006; Przeworski and Limongi, 1993, 1997). While proponents of the modernization hypothesis suggest a causal effect of income on democratization, others cast doubt on the causality in these correlations (Acemoglu et al., 2008; DeHaan and Siermann, 1995). Persson and Tabellini (2009) propose an alternative explanation: democracy may have an indirect effect on current performance through the expected returns to investment under a democratic regime in the future. In societies where returns to investment are expected to be higher under democracy, greater levels of investment in both economic development and democratization occur, which lead to better current economic performance and greater likelihood of democracy survival. They argue that because of the described incentives, countries sort themselves into autocratic and democratic regimes. Based on the comparative statics derived from their model, Persson and Tabellini suggest that exit from democracy should be negatively related to income, while the probability of exit from autocracy should not be responsive to income. Their empirical results are consistent with the comparative statics predictions.

In other strands of the democracy consolidation-breakdown literature, the survival or failure of democratic regimes is empirically linked to country history, country affiliations, and regional or global trends. Country history typically is measured in terms of the country's previous experience with democracy and commitment to democratic values (see, for example, Diskin, Diskin, and Hazan, 2005; Peffley and Rohrschneider, 2003; Sullivan and Transue, 1999). Country affiliations are measured in terms of participation in networks and international organizations (Mansfield and Pevehouse, 2006; Pevehouse, 2002). Regional and global political trends measure the relative share of democracies (Brinks and Coppedge, 2006; Bunce, 2001). Persson and Tabellini (2009) incorporate a country's previous democratic experiences in their model by introducing the concept of 'democratic capital,' which they also use in their empirical analysis, finding that the chance of democracy survival is positively linked to democratic capital.

In our theoretical framework 'democratic capital' impacts the decision to maintain a democratic regime not only because democratization may be associated with higher income, but also because individuals learn to appreciate democratic values and thus may derive direct benefits from living in a democratic environment. Moreover, we extend the existing literature by empirically analyzing the link between the likelihood of democracy breakdown and the difference in economic performance under democratic and non-democratic regimes.

## 3. Theoretical framework

In developing the framework to formalize our investigation we first consider a static setting in which the main intuition for the trade-offs that people face is established. We then present a dynamic extension that generates the propositions investigated in our empirical analysis.

Since our focus is the incidence of democracy survival and democracy breakdown, we begin by considering a democratic society. Members in a democratic society care not only about their economic security, which is influenced by macroeconomic conditions, but also about their ability to implement governance choices, which is influenced by the strength of democratic institutions.

In a democratic society, the fact that both economic security and ability to influence the governing institutions are important implies the existence of a willingness to engage in trade-offs between the two. Agents are willing to forsake their right to control decision-makers, provided that they achieve a sufficiently large increase in economic security. Since economic security is the more fundamental need, the trade-off between economic security and the ability to influence the governing institutions is not constant, but depends upon the existing level of wealth and the degree of commitment to democratic values in the society. Thus, the greater one's wealth, the greater the marginal rate of substitutions between wealth and democratic values, and the more willing one is to sacrifice material resources for the attainment of higher levels of democratization. Conversely, poorer individuals are less able to sacrifice material resources, and therefore have a decreased marginal rate of substitution, making them more willing to give up their ability to influence

[1] Numerous papers focusing on democracy questions express concerns about readily-available data and corresponding democracy measures, and consequently develop new data sets and democracy measures (see, for example, Cheibub, Gandhi, and Vreeland, 2010; DeHaan and Siermann, 1995; Gasiorowski, 1993; Potrafke, 2012; Treisman, 2010). Few consider multiple measures and use multiple data sets to check for robustness.