

Do the Poor Need Democracy ?
Tracing the Debate on Democracy and
Pro-poor Development.

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1 – Introduction.

Development is the primary objective of the vast majority of nations. The idea it embodies, of an improvement in individuals' well-being, is widely accepted and desired. The challenges around development strategies and goals have dominated the debate among scholars and policy makers for the last 50 years. This debate has departed from a focus on economic growth as a proxy for development to more holistic approaches trying to capture the multiplicity of factors that the idea of development incorporates.

The aims and strategies of development have recently gone beyond improving the quality of life for all (whatever proxy is utilised), to focus specifically on those who are excluded from mainstream society as a result of poverty, gender discrimination, unemployment, racism and other forms of inequality and discrimination. Governments and international organizations alike have placed poverty alleviation at the centre of global efforts to advance economic and social development. In a series of international conferences, and most recently at the United Nations Millennium Summit, they have committed themselves to the international development goal of halving the proportion of people living in extreme poverty by the year 2015.¹

Such objectives can be defined as part of a pro-poor development agenda. Pro-poor development policies aim -among other- to create a pro-poor policy environment, to increase resource flows to the poor, to generate social capital and institutions enhancing the poor's access to knowledge, information and opportunities and to empower the poor and their communities. Such an agenda focusing specifically on the poor can be justified adopting John Rawls' "Theory of Justice" perspective which argues that all social primary goods - liberty and opportunity, income and wealth, and the basis for self-respect – should be delivered in an equitable way unless an unequal distribution of any or all of these goods is to the advantage of the least favoured.

The traditional development policy debate – which has dominated the discussion for the last half a century - has focussed more narrowly on economic and allocative issues which can be classified into four main categories (Udry and Bardhan, 1999): Firstly, connecting economic growth and poverty alleviation, which advocates a strong correlation between economic growth and a decrease in poverty. Secondly, favouring government intervention in the form of direct redistributive policies as the best way to alleviate poverty. A third argument stresses the need to

¹ Extreme poverty here being defined as an income of 1 USD/day.

pursue government policies to increase “positive externalities”, e.g. by investment in education and health. Finally, to realign the government structure in order to make the policies against poverty to become more efficient.

The adoption of one of those strategies does not necessarily imply the exclusion of another - in most cases, they have been viewed as complementary rather than as disputing policies. However, the “pro-market” policy makers have stressed the importance of economic growth policies and they have been more suspicious of the effectiveness of redistributive policies. The “pro-state intervention” policy makers instead have stressed the relevance of government direct and indirect action to combat poverty and correct market imperfections and unequal outcomes. Both of them have agreed that a *growth strategy* is the central pillar of development. However, as a number of scholars have pointed out, these perspectives of development are too narrow. For example, Stiglitz (2002: 164) notes that growth and government intervention “may be necessary conditions (and even that has been questioned), but they are far from sufficient”.

A broader definition of development - that goes beyond only income characteristics – has been increasingly discussed for around twenty years. More recently, the widespread utilisation of concepts such as *human development* (with the *Human Development Index*² being highly popular) or the discussion around *sustainable development* has given incentive to incorporate other elements in the definition of development. Such a broader conceptualization of development has also stimulated the debate around the effect of different political regimes, namely democracy and autocracy, on development. A more intense discussion about the role of democracy for pro-poor development also seems relevant nowadays considering the fact that the 1980s and 1990s have seen a strong rise of democracies around the world and especially in developing countries, what has been termed the “third wave” (Huntington 1991) of democratization.

The purpose of this paper is to trace the theoretical and empirical debate connecting democracy and pro-poor development. Is democracy a necessary condition to improve the well-being of the poor? Or does it even harm pro-poor development? It has not been an easy task to address these questions. The literature surveyed varies according to the proxies for democracy and development utilised, the sample of countries and time periods used and the causal relations assumed in the relation between democracy and development. Given this complexity and the range

² For a more detailed account of the Human Development and the Human Development Index see the Human Development Report (UNDP, various).

of possible relations, the main goal of this paper is to review the debate, presenting and evaluating the main arguments that try to answer the question of whether the poor need democracy.

The paper is divided as follows. Part two provides a conceptual framework addressing definitions and measurements of democracy and development which are used in the literature covered. Part 3.1 gives an overview of the arguments linking democracy and economic growth. Part 3.2 presents the debate on democracy's effect on inequality. Part 3.3 introduces the argument that democracy as an instrument for development, but also an indicator of development itself. Finally, some conclusions are presented in part 4.

2 – Definitions of Development and Democracy.

There is little controversy about the general idea of development as the enhancement of living conditions. Problems arise when one starts to look for the right measure which would translate the full meaning of such an improvement in well-being. As pointed out by Sen (1988: 20) “one of the difficulties in adequately characterizing the concept of development arises from the essential role of evaluation in that concept. What is or not regarded as a case of ‘development’ depends inescapably on the notion of what things are valuable to promote.”

The literature on development and, in particular, the literature connecting democracy with development, which is surveyed in this paper, has looked at development from two different perspectives. On the one side, development is evaluated in terms of the *means* which may achieve an improvement of living conditions, without being concerned about the actual outcome of the development process. This perspective focuses on indicators which permit people to improve their living conditions, but does not analyze how successful they are in using these means to achieve certain ends. On the other side, development is evaluated in terms of its actual outcomes or achievements (Sen, 1988). This perspective sees development not only as the means available to individuals to afford a better life, but the achievements of a better life itself.

One of the most widely used indicators to measure development from the means perspective has been income or, more specifically, Gross Domestic Product (GDP). Earlier writings on development economics concentrated to a great extent on these means of achieving better living conditions. While there is no doubt that an expansion of opulence - as measured by GDP per capita,

employment or income - can positively affect people's living conditions, the translation of the idea of development into such a narrow indicator as is GDP has been heavily questioned.

Major criticism of the utilization of GDP as a proxy for development is related to: (1) the exclusions of questions regarding externalities and non-marketability, i.e. GDP measures do not capture those means of living which are produced or consumed outside the market, by leaving out benefits and costs that do not have prices (for example related to the environmental issues) (2) GDP does not take in account the changes in income of a single person during her life time nor her life period.³ (3) the relation GDP per capita and development leaves out the question of distribution of that GDP among the population. These are important concerns that undermine the value of GDP per capita as a proxy for development.

The other approach to development considers it more useful to measure development by its outcomes. Since many of the *achievements* (or "non-achievements") are easily observable and independently measurable, such an approach can provide a better basis for identifying the problems that a nation must tackle in its development efforts (widely accepted *physical* symptoms of underdevelopment and thus non-achievements are for example high incidence of malnutrition, low life expectancy at birth, high infant mortality rates, low literacy rates, and various other direct indicators of the health, educational, and nutritional status of different parts of the population). A country's performance regarding income per capita or even income inequality may differ substantially from the story told by these basic indicators. The achievement approach, thus, has been seen as an attempt to better specify development and inform policy makers as well as to overcome the limitations of an approach purely based on the means-perspective.

There have been widespread attempts to capture these different indicators of development achievement into a single index. The United Nations Development Programme (UNDP) has probably been most successful in this with the so called *Human Development Index* (HDI), published in the *Human Development Report* since 1990.⁴ The HDI has three components: life expectancy at birth (indirectly reflecting infant and child mortality), a measurement of the educational attainment of the society, and per capita income. There is a vast debate about the validity of creating composite indices made up of different indicators such as life expectancy and

³ This can be illustrated by looking two countries with the same GDP per capita but with different life expectancy. One could –erroneously- consider them to be at the same level of development.

⁴ This has not been the first index that tries to put together socio- economic indicators. A forerunner is Morris' "physical quality of life index" (Morris, 1979) based on infant mortality, literacy and life expectancy.

literacy. According to Ray (1998:28), it “is a bit like adding apples and oranges”. He argues that a better approach should be to observe different indicators and then judge the overall situation for one self. It is not our intention to enter into this discussion on the best basket of indicators to measure the development of a country, but to stress that they have been - *de facto* - utilized quite successfully as a measure of the level of development.

These two approaches – *means* and *achievements* - to development open up a range of possibilities to approach and analyze the relation between democracy and development. While there are good arguments both for and against the utilization of any of these approaches, it was not our intention to enter into a debate over these arguments. Therefore, we have oriented our analysis on what most of the existing literature has been dealing with – and our review has shown a strong bias towards a “means-approach” to development, i.e. a focus on the relations between democracy and economic growth, as well as between democracy and income inequality. However, as will be further discussed below in part 3.3, particularly for the analysis of democracy’s effect on pro-poor development, Sen’s broader view of development can be helpful as it does not reduce “the poor” to an income group (such as the bottom income quintile) but to human beings with multiple development needs.

Just as development is a difficult concept, so is democracy. Democracy, literally meaning rule by the people, according to Encyclopedia Britannica (2003) has two contemporary usages: (1) “a form of government in which the right to make political decisions is [...] exercised by the whole body of citizens, acting under procedures of majority rule”⁵ and (2) “a form of government in which the powers of the majority are exercised within a framework of constitutional restraints designed to guarantee all citizens the enjoyment of certain individual or collective rights, such as freedom of speech and religion, known as *liberal*, or constitutional, democracy.” This shows that democracy in its narrow definition refers to a specific form of government and in particular the process by which it is elected, while in a broader definition, it additionally includes other principles such as certain political and civil rights. In the narrow definition, one can also speak of *procedural*, *electoral* or *formal* democracy, while the broader concept of democracy is also referred to as *substantive* democracy (while the term liberal democracy usually describes a western form of substantive democracy).

⁵ This right can either be exercised directly (in a *direct* democracy) or indirectly (in a *representative* democracy).

When speaking of democracy today, most people have a western-style liberal democracy in mind, and indeed democracy has its origins in the West.⁶ However, in the context of the developing world today, democracy does not necessarily refer to this western concept. In this context it thus helps to define democracy not in terms of certain, sometimes even categorical, measures which make a country a democracy or not, but to think of democracy in terms of democratic governance principles. The UNDP in its *Human Development Report* (2002:51) as principles of democratic governance mentions freedom, participation, accountability, inclusiveness, equality and responsiveness.⁷ As no democracy today or in history has ever fully and comprehensively satisfied these principles, they can be conceptualized as describing an ideal, against which real democracies can be benchmarked. The fulfilment of the different principles is then measured only *by extent*.⁸ From this perspective, the “third wave” of democratization would have to be analyzed also with regard to whether it is democratization in the substantive meaning of the word or whether the rise is attributable mainly to the strong increase of *hybrid* forms of government showing characteristics of both autocracies and democracies.

The diversity of definitions and concepts of democracy also translates to the criteria used to measure democracy empirically. There is no general consensus in the literature on how to measure democracy. According to Laut/Pickel/Welzel (2000:11) there are a number of disputes around which are the necessary and sufficient characteristics for measuring democracy.⁹

Political scientists tend to use more narrow/procedural measures of democracy, such as the one employed by Przeworski et al. (2000), which defines democracy as the political system in

⁶ While democracy was originally founded in the city states of ancient Greece, the emergence of modern liberal democracies started with the practices of medieval European kings to seek approval of their policies -such as the right to levy taxes- from major interest groups within their territory (compare Greif/Milgrom/Weingast 1994) and was strongly shaped by Enlightenment and the American and French revolutions in the 18th century. However, universal suffrage even in Europe is a rather recent idea. For example, “only some 10 percent of adult male Italians, Dutch and Belgians had the right of vote as late as 1880.” (Flora, Kraus and Pfenning 1983, cited in Gradstein and Milanovic 2002:4)

⁷ This list is derived from the work of major scholars on democracy. For example, Dahl (1999), lists as principles which constitute an ideal democracy (1) effective participation (2) voting equality (3) enlightened understanding (about alternative policies and their consequences), (4) control of the agenda and (5) inclusion of all adults.

⁸ It should be noted that this view is challenged by some prominent authors such as Huntington (1991) who, using a minimalist definition, see democracy as a dichotomous variable and thus make clear-cut distinctions between democracies and non-democracies. For a critique of this approach, compare for example Welzel (2000:131).

⁹ In addition to the dispute already mentioned about whether democracy shall be measured as a continuous or dichotomous variable, further issues raised by them are whether it makes sense to measure democracy objectively or subjectively, and whether it can be measured universally or whether it is always specific to the cultural environment. In addition, there is dispute about whether democracy shall be measured as a longitudinal (i.e. a country’s experience with democracy) or a cross-sectional (existence of democracy at a single point in time) variable. Measuring differences with regard to this may be responsible for some of the different outcomes of the analyses on the link between democracy and redistribution, as will be shown below in part 3.2.

which key government offices are filled through contested elections¹⁰.¹¹ The concept most widely used by political scientists is the POLITY measure (compare Gleditsch/Ward 1997, Gurr/Jagers 1995).¹² This is a subjective measure which focuses on the competitiveness and regulation of political participation, the competitiveness and openness of executive recruitment, and the constraints on the chief executive.¹³

Most economists on the other hand employ the index developed by Gastil/Freedom House.¹⁴ It defines democracy in terms of the extent of (1) political rights, such as free and fair elections, opposition power, freedom from domination and self-determination of minorities, as well as (2) civil liberties, e.g. free media, freedom of religion, assembly and political organization, existence of independent judiciary, rule of law, freedom from war, personal autonomy, secure property rights, right to establish private business, gender equality, equality of opportunity. This list shows that the underlying concept of democracy is more substantive than those mentioned above. The Gastil index may be the index which comes closest to measuring classical liberal democracy, since it covers not only the political but also the personal and economic sphere. However, the aggregation of diverse principles is –besides other problems-¹⁵ a main reason why this index is sometimes criticized. For example, the principles of freedom and equality may oppose each other, e.g. when income equality is sought by taking money away from the rich to redistribute it to the poor. In this case, the aggregation within the index would prevent it from capturing any prioritisation the democracy may have on either freedom or on equality.

Finally, UNDP (2002:57) is using the voice and accountability indicators developed by the World Bank as measure for democracy. It seems that this approach, while clearly relying on a substantive concept of democracy, departs to some extent from the liberal concept and the methodological shortcomings of the Gastil index. By relying on governance indicators instead of defining democracy as such, it also stresses the importance of universally accepted principles which are not (to as strong an extent) biased towards a western-style democracy.

¹⁰ “Key government offices” are defined as executive and legislature, and “contested” means that more than one party has the chance of winning offices through elections.

¹¹ Przeworski et al.’s data is available at <http://pantheon.yale.edu/~jac223/Research.htm>

¹² The POLITY data is available at <http://weber.ucsd.edu/~kgledits/Polity.html>.

¹³ Another index similar to these is the one by Bollen (1980), which is employed by Muller (1988) - compare also part 3.2 below.

¹⁴ The Gastil/Freedom House rankings are available at www.freedomhouse.org

¹⁵ It has been criticized that Freedom House does not reveal the raw data, makes adjustments to the data and effects methodological changes to the index periodically. According to Munck and Verkuilen (2002:28, cited in Vreeland 2003:5), the index thus exemplifies “problems in all areas of conceptualization, measurement and aggregation.”

Given the above conceptual framework, in the next chapter, we are going to survey the theoretical and empirical literature on democracy and pro-poor development. Three main streams of arguments have been identified: the relation between democracy and economic growth, democracy and income inequalities, and democracy and development conceptualized from the perspective of achievements.

3 – Democracy and Development

We would like to stress that in this paper we limit our analysis to the effects of democracy on development, not taking into account an analysis of the effects in the opposite causal direction, i.e. between development and democracy: What has come to be known as the “Lipset hypothesis” suggests that the viability of democratic regimes rests upon the level of economic development.¹⁶ This raises the question of what prerequisites democracies would need to function well, or –to put it in other words- whether *democratization*, i.e. the introduction of democracy in a previously autocratic country, is generally advisable. Such questions relating to the conditions for a transition to democracy are thus out of the scope of this paper.¹⁷

3.1 - Democracy and Growth: is there any Trade-off?

The post World War II debate on Democracy and Development, according to Bhagwati (2002), moved around a “cruel dilemma” hypothesis: Democracy comes at the expense of development, so that one has to choose between doing good and doing well. Paul Samuelson in his famous textbook (Economics, 1956), for instance, mentioned the existence of such a trade-off between democracy and growth. The classical example utilised in favour of the existence of such a trade-off was the impressive rates of growth experienced by the undemocratic Soviet Union when

¹⁶ This hypothesis, i.e. that the level of development determines the success and stability of a democracy, is empirically quite widely accepted (compare for example Diamond 1992).

¹⁷ Scholars have argued that in countries which are characterized by certain adverse conditions, democratization can lead to substantial instability - with potentially even more adverse effects for the poor than during autocracy. Examples for such prerequisites for democracies to be stable and function well which, besides a relatively high degree of economic development, have been cited in the literature are: the existence of social capital or a civic culture (Diamond 1993); a certain extent of income equality (Boix 2000) as well as of ethnic homogeneity (Easterly and Levine 1997). If such prerequisites are not at all existent in a country, introducing a full democracy may be highly dangerous. Further analysis is thus needed on whether in such a situation it is wise to start introducing at least some of the democratic principles which as we will argue below positively influence development and in particular pro-poor development, and if yes, which ones.

compared with the western democracies. More recently, the success of East Asian economies – none of them full democracies – has been utilised to reinforce the argument that democracy is inconsistent with development.¹⁸

These arguments have flourished in the midst of the cold war and were heatedly debated. Apart from the political context that this debate took place in, the widespread acceptance of the Harrod-Domar as the benchmark growth model in the early post World War II period, provided a strong economic rationale for believing in the existence of such trade-off. The Harrod-Domar model considers development (measured by economic growth) in terms of two parameters: the productivity of capital and the rate of investment. The first was considered as exogenously given and fixed for the time period looked at, which meant that there was no way of improving the productivity of the economy. The rates of investment and savings were the only relevant variables for policy makers to focus upon to achieve higher economic growth. Thus, considering productivity as a given, it appeared as if authoritarian regimes were better positioned than democracies to extract a surplus¹⁹ from the population in order to raise domestic savings and investment. A democratic regime, in contrast, was thought to have to court voters to pay the necessary taxes and was believed to be more willing to make sacrifices (Bhagwati, 2002).²⁰

This proposition, built on the Harrod-Dommar model, has been proven false over the years. Firstly, it could not be shown that authoritarian regimes necessarily achieve higher savings rates than democratic ones. Secondly, there has been no proof that higher savings are translated into higher investment rates. In addition, even if authoritarian regimes were shown to save and invest more than democratic regimes, the *quality* of such investment is crucial for explaining growth. The path breaking works of Sollow (1956) and Swan (1956) have shown that factor accumulation *per se* is not a sufficient condition to explain a high-growth path in the long-run.

These works -and more recently the literature on endogenous growth- have stressed that technological change and innovation are key elements explaining long-run economic growth. Taking the Sollow-Swan Model and the Endogenous Growth Model as a basis, Bhagwati (2002) argues that democracies are more likely to accelerate innovation and technical change than

¹⁸ For instance in the declarations of the former Singapore's prime Minister Lee Kuan Yew: "I believe what a country needs is discipline more than democracy".

¹⁹ This would be achieved through taxation or other means.

²⁰ A "modern" version of this argument in favour of autocracies has been advanced recently (Varshney 1999), arguing that autocracies tend to favour indirect (e.g. macroeconomic stabilization) over direct (e.g. public goods) public policies, which is assumed to lead to higher growth rates.

authoritarian regimes and, thus, grow faster and better. The reason is that democracies, with their ideology and legal structures favouring civil and political rights, put fewer restrictions on acquiring and diffusing knowledge and thus create an environment for higher quality investments.

It should be noted that there are a number of other theoretical frameworks which at least implicitly are based upon the endogenous growth model, but focus on different aspects of political economy. An important example is Olson (1997:53), who considers democracy's positive effects on property rights, arguing that "although an autocracy cannot over the long run provide secure property and contract enforcement rights, a lasting democracy can do this." He explains this with the "encompassing interest" democracies have in society as well as the expectation that democracies overall last longer.

Another part of the literature has tackled the relation between democracy and growth from an empirical perspective - mostly as part of a broader research agenda dealing with the relation of political systems and economic growth. As the amount of this literature on the correlation between democracy and growth is vast and diverse, it has already been surveyed by a number of authors (e.g. Allesina and Perotti, 1994; Helliwel, 1994; Przeworski and Limongi, 1993; Brunetti, 1997; and Przeworski et al. 2000). Results of these surveys are striking: Firstly, there is a large variation in the results concerning the democracy-growth relationship. Secondly, and related to this, measurements and specifications used are highly heterogeneous. Brunetti's (1997:167) survey of 17 empirical studies²¹, most of which are relying on the Gastil index for measuring democracy, found that "9 studies report no, 1 study a positive, 1 study a negative, 3 studies a fragile negative and 3 studies a fragile positive relationship between democracy and economic growth". This seems typical for surveys on democracy and growth: The more significant the result, the more disputable the assumptions (in terms of region, time period or definitions of democracy), putting into question or at least limiting the findings.

As a result, according to Brunetti (1997:172) from an empirical perspective "it can be safely stated that there is no clear relationship between democracy, at least as measured in these studies,

²¹ The papers surveyed are: Dick (1974), Huntington and Dominguez (1975), Kormendi and Meguire (1985), Weede (1983), Landau (1986), Marsh (1988), Pourgerami (1988), Scully (1988), Grier and Tullock (1989), Barro (1989), Dasgupta (1990), World Bank (1990), Alesina et al (1996), Barro and Lee (1993), Helliwel (1994), De Hann and Sierman (1995) and Levine and Renelt (1992).

and economic growth."²² Besides, this result does not seem to vary with different concepts of democracy employed, as Przeworski and Limongi (1993) as well as Przeworski et al. (2000) -one of the most systematic and comprehensive studies conducted to date- using a more procedural definition of democracy (compare part two above) arrive at the same conclusion.

In summary, from a strictly theoretical point of view, democracy leads to two opposites conclusions depending on the growth model utilized. However, the more recent and acceptable growth model shows a positive relation between democracy and growth (so that the cruel dilemma hypothesis could not be supported). The results of the empirical analysis are disputable and have shown different results.

3.2 – Democracy and Inequality.

The relation between democracy and inequality has received less attention compared to the literature on democracy and growth. From the Rawls pro-poor development perspective mentioned in the introduction, this can be justified only if the poor benefit from growth more than the rest of society which has however been questioned repeatedly. Similarly, Sen (1988) argues that not taking in consideration the question of distribution may lead to serious misjudgment of the development process, as an expansion of overall GDP can be accompanied by the deterioration of the income of poorest part of the population.²³

On the theoretical side of the democracy–income inequality relation, Lipset (1959) presents the classical argument that democracy leads to elections which serve as an expression of class struggle. Political competition in industrial societies would thus lead politics to favor those without property. Lenski (1966) argues that democracy legitimates a greater redistribution of political power in favor of the majority. More recent versions of this argument (such as Alesina and Rodrik, 1994 and Persson and Tabellini, 1994) mostly draw upon Meltzer and Richard (1981) who have presented a model explaining why democracy should lead to redistribution: They argue that the tax and transfer level in a democracy depends on the median voter (*median voter theorem*). At the same

²² Barro's (1996) study may modify this view, arguing that at low levels of democracy, more democracy has a positive effect on growth while at high levels of democracy, more democracy has a negative effect for growth. As no other study has confirmed this result, we will not however analyze it any further.

²³ Note that this argument does not question the relevance of income consideration (as discussed in part 3.1) as such, but argues against taking into account only an aggregate view of the income.

time, there is an inverse relation between income level and tax preferences: Groups with higher income would vote for lower taxes. The poorer a household, the higher the preferred level of taxation (proxy for redistribution). As democracy (understood here as voting franchise) is expanded to encompass the poorer strata of the society (i.e. the median voter becomes poorer), redistribution mechanisms would be triggered through higher taxes. As a consequence, the income distribution of a democracy would tend to become more egalitarian over time.

In the further analysis of the empirical literature, redistribution is considered not only through direct transfers, but also by social spending on the provision of public goods. Studies related to the effect of democracy on social spending, as well as the literature on income inequality in democracies (which thus refers to the outcome of redistribution efforts) will be covered.

With regard to the effect of democracy on social spending, the evidence presented is contradictory. Baqir (2002:5) claims to empirically support the models of voting, finding that “democratization, as measured by subjective indices of democracy, is significantly and positively associated with the within-country variation in social sector spending.”²⁴ Baqir (2002:9) also cites studies by Husted and Kennedy (1997) as well as Snyder and Yackovlev (2000) which support his views, finding that welfare spending rises as the decisive voter moves down the income distribution and that social spending grows under democratic rule (respectively). This rather positive view of the effect democracy has on social spending may be further supported by Sen’s (1989) often-cited note that no democracy has allowed famines to take place –showing that democracies at least provide a minimum of social spending in catastrophe situations. However, Mulligan/Gil (2002:27), challenging models of voting, do not find -based on a dataset with emphasis on Latin American countries- any “systematic evidence that democratic governments spend a larger share of GDP on social programs, or differently adjust their total social spending to economic and demographic trends.” Moreover, they cite a previous empirical study by Easterly and Rebelo (1993:436) which “found no relationship between democracy and a number of government tax and expenditure items.” Overall, from an empirical perspective it must thus be concluded that democracy’s effect on social spending is unclear.

²⁴ With regard to the pure cross-sectional variation in the full sample of countries, he (2002:5) points out that is difficult to identify the effects of democratization on social sector spending because of the “presence of time-invariant country-specific factors [such as per capita GDP, government spending as percentage of GDP and population size] which are potentially correlated with the determinants of social sector spending.” However, when controlling for these factors, he gets the same result as above.

Another part of the literature deals with the relation between democracy and income inequality (usually measured by the Gini coefficient)²⁵. This research, which is discussed in Sociology, Political Science and Economics is highly relevant for our question if poverty is defined not in absolute terms but relative to the income of the rest of society. While the social spending literature looks at how and how much government redistributes to the poor, here one looks at the overall distribution of income in the society, which may at least partly be an outcome of government redistribution (but other actors, and especially the private sector, certainly play a major role, too). Based on the theoretical model presented above, a more egalitarian distribution of political rights through democracy should be expected to over time lead to a more egalitarian distribution of income.

However, here again the empirical tests do not clearly confirm this result. Gradstein/Milanovic/Ling (2001), referring to previous studies note that “the existing evidence [...] does not find any robust relationship between democracy and inequality in a cross-country regression analysis.” Their own analysis suggests that the direct effect of democracy on inequality is very weak and that it indirectly helps to reduce inequality only depending on the religious context (i.e. in Judeo-Christian societies).

On the other hand, Justman and Gradstein (1999) argue that there is a negative, i.e. inequality-decreasing, effect of democracy, but that it takes place only if the income of the decisive voter is lower than the average income. At a lower extent of democracy, only the above-average-income part of society is assumed to participate in political decisions, which would even lead to redistribution from the poor to the rich. This implies an inverse U-shaped relationship between democracy and inequality.

Finally, Muller (1988) argues that democracy has a significant negative impact on income inequality. What makes his research stand out in a way is that he is using a longitudinal measure for democratic experience (measuring both the time period that democracy has existed in a country and the stability of it), thus taking into account that redistribution takes time to affect the poor - he notes that “at least approximately 20 years of democratic experience are required for the egalitarian effect to occur” (1988:59).²⁶ From our perspective, this makes his research somewhat more plausible than

²⁵ There are a number of difficulties in measuring income inequality, which lead Gradstein and Milanovic (2002:10-11) to conclude that “a good proportion of the observed country differences in equality may simply reflect measurement artifacts.”

²⁶ This finding has again be put into question by Weede (1990), whose propositions -because they are dealing only with industrial democracies- will however not be followed further here.

the cross-sectional studies which do not find a relation between democracy and income inequality. This perspective is in line with Gradstein and Milanovic (2002:12) who point out with regard to cross-sectional studies that “a reason for the failure to find a significant negative effect of the level of democracy on income inequality could be the confounding influence of new, inegalitarian democracies, with old and settled democracies.”²⁷ In this context even more important may be their note that Lundberg and Squire (1999), based on a further expanded data set including also Eastern-European transition countries, find that the “expansion of democracy benefits the lowest quintile of income distribution thus reducing poverty.” (Gradstein and Milanovic 2002:20)

Here again it may be interesting to know whether different choices of the definition of democracy influence the effect on social spending and redistribution. Our hypothesis is that substantive/liberal democracy would have a stronger redistributive effect than procedural democracy alone. This is in line with the UN (2002:57) arguing that without “uncensored public criticism [...] rulers can act with impunity. Without a free press the suffering from famine in isolated rural areas can be invisible to rulers and to the public.” Other possible reasons for substantive democracies to care more about redistribution than procedural ones are that civil liberties give the poor the freedom to fight for their rights, while the principle of equality which is also a characteristic of substantive democracy is likely to put pressure on governments to take redistributive action.

However, the definitions employed in the literature do not help to find any definite answers regarding this hypothesis, as those two²⁸ authors who find positive effects of democracy on equality, Baqir (for social spending) and Muller (for income equality), use rather narrow concepts of democracy: Baqir employs the Polity IV index, while Muller employs an older index developed by Bollen (1980) which also focuses on a procedural concept of democracy (with the exception of freedom of speech).²⁹ The different results they get (i.e. a positive effect of democracy on equality) may however be due other factors than their concept of democracy (such as their research design). A more thorough analysis of the effect the choice of different concepts of democracy has on income inequality would therefore be necessary.

²⁷ Besides, more recent studies still relying on the cross-sectional measure of democracy, but using an improved inequality data set (Deininger-Squire), according to Gradstein and Milanovic do “cautiously suggest the existence of a negative relationship between the two [democracy and inequality].” (2002:20)

²⁸ The democracy definition of the third proponent of democracy in this respect, Lundberg and Squire (1999) could not be categorized.

²⁹ The Bollen index according to Muller (1988:54) assumes that for “a functioning democratic regime to be established, (1) the executive must be elected or be responsible to an elected assembly in (2) at least two consecutive free and fair competitive elections in which (3) at least approximately a majority of the adult population has the right to vote, and during which (4) the rights of freedom of speech and assembly are respected“.

From a theoretical point of view the arguments presented in our paper are in favour of a strong association between democracy and a more egalitarian distribution of income and social spending. The empirical analysis to some extent also supports the existence of a negative relation between democracy and inequality, but fails to show such a relation between democracy and social spending. In addition, the limitations and quality of the data remains a problem.

3.3 – Democracy and Development: The achievements perspective.

The “achievements” approach to development has been increasingly used by the United Nations, World Bank and other International Agencies to assess development issues. In our view, this approach also opens up a useful perspective for the theoretical and empirical analysis of the relation between democracy and pro-poor development. To the analysis of the relation of democracy with economic growth and income inequality, one could add, for instance, an analysis of the relation of democracy with educational, nutritional and health indicators of a country.

The adoption of this broader development perspective to an analysis of the relation between democracy and pro poor development implies to consider the benefit of democracy in two different ways: (1) democracy as an instrument for pro poor development, and (2) democracy as a value or an indicator of development itself. This separation is in line with the Human Development Report 2002 (UNDP, 2002: 52): “Political freedom and participation are part of human development, both as development goals in their own right and as means for advancing human development.” It is important to note that these conclusions are based on a substantive concept of democracy which is focusing on underlying and universally accepted democratic governance principles such as transparency, participation, responsiveness and accountability (compare part 2 above), which make institutions and rules more effective.

Thus, democratic governance principles can be beneficial for pro-poor development as an instrument to contribute to or achieve some of the goals related to such development. The role of democracy here differs from the previous analysis related to growth and income, since it does not consider social and human indicators as derived from only an economic indicator (income), but it assumes that indicators of development can be independently related to democracy.

Various ways in which democratic governance can contribute to development have been stressed by policymakers. For instance, participation³⁰ may empower and mobilize people as actors and overseers of their own development. It involves engaging in deliberative process that can bring people's concerns to the fore and make decision-making work for the poor. When the poor and marginalized participate in development projects, they may acquire skills and develop attitudes which facilitate their integration into the wider society. Besides, participation is expected to improve financial and developmental sustainability of projects, thereby enhancing project performance.

Other manifestations of democratic governance have also been stressed. For example, freedom of speech and thought, freedom of information, free and independent media and open political debate and institutions, have been considered as vital instruments to implement successfully pro-poor development policies³¹ since they allow the poor to be heard in public policy-making. Other principles such as contestation and accountability, supported by the democratic voting system through elections, are also considered important. Competition for political power, for instance, makes politicians more likely to respond to people's demands being voiced in elections. And if the government does not perform in accordance to the needs and desires of the people, they can throw it out of office. As a final example, the principle of equality manifests itself for example in the democratic rule of "one person, one vote".

Another line of analysis is to consider democracy as an achievement itself. Democratic governance from this perspective is an important goal of development, just as is being able to read or write and being in good health. Democracy in its substantive definition more than maybe anything else means *freedom*: freedom to choose one's political system, lifestyle, religion, work etc. This freedom is in itself an achievement - maybe the most important of all. As pointed out by Sen (1988) the difference between starving and fasting is the existence of freedom to choose. Thus, conceptualizing democracy *as* development leads to a more complex definition of development as the expansion of capabilities to widen people's choices and enable them to pursue lives they value.

The acceptance of such a broad perspective on democracy and development affects also what one thinks about the objectives of development. It recognizes that human development

³⁰ Defined in broad terms as the process through which people with a legitimate interest influence and share control over development initiatives, and the decisions and resources which affect them.

³¹ For example: widening access to credit, reforming land ownership, investing in basic social services and addressing the informal sector. Too often, such policies are not implemented because of systematic biases protecting the interests of elites.

indicators such as education and health can be directly raised by democratic governance, as well as that democratic governance principles such as freedom and equality are development ends in themselves.

4 – Conclusion.

The search for a definite answer to the question of the benefit of democracy for pro-poor development has shown controversial results. The answers have changed during the last 50 years according to the political debate, region, and -more importantly- according to the different conceptual, theoretical and measurement perspective adopted. The objective of this paper has been to stress these different outcomes and clarify the underlying conceptual, theoretical, and empirical framework utilized. Thus, our main aim has been to structure the debate around democracy and development

Regarding the conceptual basis, the majority of the papers surveyed refer to democracy either as “procedural democracy” or as “liberal democracy”. As the results and advice for policy makers may vary depending on the concept of democracy utilized, analyzing the relation between democracy and pro-poor development requires a careful reflection on which concept may be most useful. As has been shown, there are good arguments to -at least in this context of pro-poor development- conceptualize democracy as extending beyond the purely procedural process of elections to include also broader democratic governance principles. These do not necessarily have to be based on a western liberal concept of democracy, so that besides freedom, other principles such as participation, accountability and responsiveness may be equally important.

The concept of development has not been less controversial, although there seems to be a general agreement that it refers to the improvement in the well-being of individuals. The main problem has been to identify the right measures to translate it. Following Sen (1988), we have in the literature surveyed in this paper identified two different approaches to measure development. The first -what we have called the means-approach- assesses development by measuring and quantifying the means which are needed for development. The other -termed the achievements-approach- measures the extent of the achievement of development itself.

The means-approach of development is still one of the most utilized. From this perspective, personal well being is mainly dependent on GDP per capita, and the literature on the relation

between democracy and economic growth consequently investigates whether democracy helps to increase income per capita. Results (compare section 3.1) are however contradictory: From a theoretical point of view, democracy leads to opposite conclusions depending on the growth model utilized. Authoritarian regimes may perform better if one analyses growth from a Harrod-Dommar perspective (because they are better able to increase the savings capacity in their economies). Based on more recent -and in academic and policy circles more accepted- growth models like the Sollow-Swan and endogenous ones, democracies (both procedural as well as liberal) on the other hand create a more favorable environment for the emergence of new technologies and innovation, which in turn are the main determinants of economic growth. However, in these models the poor usually do not appear as separate addressees of policy-making but the models rely on the (highly questionable) assumption that the poor benefit from growth at least equally as the rest of society.

The empirical evidence regarding these theoretical approaches to the democracy and growth relationship is disputable. The variety of results not only seems to be related to the theoretical arguments utilized, but even more to the technicalities and limitations of the empirical data, sampling, and parameters utilized. From the empirical literature therefore no definite conclusion can be withdrawn.

The literature on democracy and income inequality (compare section 3.2) can be seen as an encouraging attempt to overcome the obvious weaknesses of using economic growth as a proxy for discussing democracy's effect on pro-poor development – which is the lack of taking into account income distribution. However, staying within the income paradigm, it also clearly assumes a means-approach to development. From a theoretical perspective, the papers surveyed show an unambiguous negative relation between democracy and inequality. The main argument presented is that democracy (defined both in a procedural and –maybe even more- in a substantive sense) in countries with a majority of poor people would support political demands for a more egalitarian distribution of material goods. We have argued that this could be achieved not only through direct transfers but also through the provision of public goods by governments.

This has, at least to some extent, also been supported by the empirical analysis, which has shown significant evidence for the existence of a negative relation between democracy and inequality when using an (empirically more plausible) longitudinal measure of the existence of a stable democracy over time. However, here again there is some serious doubts about the quality and structuring of data employed.

Finally, we have looked at the relation between democracy and development from the perspective of the achievements-approach to development (compare section 3.3). It focuses not on income as a means for individuals to afford a better life, but stresses direct indicators of the achievement of development, such as social and human development variables. We have argued that pursuing this approach to development opens up a different perspective for the theoretical and empirical analysis of the relation between democracy and pro-poor development.

It has been shown that the existence of democratic governance principles is highly beneficial for the poor in particular, for two reasons. On the one hand, democratic governance principles are an instrument for increasing the effectiveness and efficiency of pro-poor development policies. This is crucial given the fact that the poor suffer most from the lack of such principles – much more than the rich who usually have powerful ways of achieving their goals even in societies which are not characterized by democratic governance (such as corruption, clientilism etc.).

On the other hand, democratic governance is a development achievement in itself, as it enables the poor to *choose for themselves* which kind of life they want to lead. From this perspective, the introduction and effective implementation of democratic governance principles may be the most important step forward on the way to achieving more egalitarian development. It is important to note again that for this conclusion, the achievements-approach is relying on a very broad concept of democracy which focuses not on the western liberal definition but on underlying and universally accepted governance principles.

To summarize, from the perspective of the achievement-approach, democracy not only benefits the poor as an instrument to achieve a better life, it can also be an important component of development itself. We believe that from this perspective it is just to say that democracy is not only “nice to have” for the poor, or a “luxury good” (Barro). Rather, to come back to the question posed in the heading of this paper, the poor indeed *need* democracy.

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