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Deciphering the Enigmatic Connection
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Does Democracy Breed Economic
Prosperity?

This assignment has been completed as part of the study programme at BI Norwegian Business School. This does not mean that BI Norwegian Business School endorse the methods used, the results obtained or the conclusions drawn

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Preface

Gratitude and Aspirations: The Genesis of Scholarly Endeavours

We would like to begin by expressing our appreciation for the inspiration we have received from our professor, Lars C. Bruno, with his expertise and creative suggestions on these subjects. We also thank our family, friends, and colleagues for taking the time to review our research and provide useful constructive feedback.

Our bachelor thesis is written in a scholarly fashioned language, where every sentence has been given thoughtfulness and comprehensive contemplation. Each word is thoroughly considered before being included in a given sentence to prevent any misunderstandings, but also to give room for subjective and philosophical coins of thought by the reader. However, we acknowledge that some words may be difficult for some readers to understand, and thus we strongly encourage consulting a dictionary for any unfamiliar terms.

During the time we have spent on our thesis we have gained substantial knowledge, undoubtedly sparking inquisitiveness and genuine interests that will persist in engaging us within these fields of study. Given more time within the semester, we would have included all of the excluded countries and analysed data over a longer period encompassing a more encyclopaedic analysis of the question pondered in this thesis.

Our hope is, however, that the reader not only discovers our work to be enlightening and practical, but also captivating and thought-provoking. The perplexing relationship between political ideological approaches and economic conditions is far more intricate than any bachelor thesis can adequately assess. Still we have confidently done our very best providing some contribution to understanding the effects of democracy on economic prosperity.

Introduction

Mapping the Journey: A Guide to the Structure of the Thesis

In this bachelor thesis, we will examine the relationship between the political ideological approach of a society and its economic prosperity on an individual level. More specifically, we will ponder the question if democracy breeds economic prosperity. By analysing the relevant data we have collected, this thesis will assess the correlation and causality between these components while discussing the possible underlying reasons for the outcomes of our calculations.

The thesis is divided into four parts. The first part will provide a general overarching foundation for the comprehension of the complexities that are discussed. In this part, we will look at the interplay between trade, ideology, and society, before narrowing it down to the complex relationship between democracy and economic prosperity. If the reader already comprehends this subject, it is unproblematic to bypass this part.

In the second part, we will be acquainted with the two principal theories used as a basis for our analysis, namely Modernization Theory and Human Capital Theory. The last chapter of this part will introduce the complication of causality between democracy and prosperity, and thus the concomitant challenges inherent in determining the order of the two.

The third part of the thesis will consist of the data analysis we have conducted. Initially, this section aims to provide a comprehensive description and explanation of the data utilised in this study. The objective is to elucidate the variables and indicators, in addition to highlighting the sources of data and their reliability. Subsequently, we will proceed to scrutinise the various observations we have collected in relation to the central theories of our thesis.

In the fourth and final segment of our thesis, we will present our conclusion on whether democracy breeds economic prosperity. Our aspiration is that this thesis will provide a valuable contribution to the existing body of research in this field.

Part one

The Interconnection Between Trade, Ideology, and Society: An Overview of Historical Economics

One of the unique features of humanity that sets us apart from other social lifeforms is our distinctive ability to engage in collaborative problem-solving with intricate group dynamics, thus facilitating the establishment of complex societies fostering ideological subversions, (Carrol, 2017). Throughout the evolutionary history of all life forms that have inhabited the earth, there *may* never have been a more multifaceted interactive system than modern human society, and there is no denying that the economy is one of the underlying conditions for historical civilizations to prosper, (Diamond, 2017, p. 268).

However, from a historical perspective, the phenomenon of large and complex societies has only existed for a relatively short period. The emergence of trade played a crucial role in the development and expansion of these societies as it not only allowed for the exchange of goods and services between different groups of people, but also accelerated the flow of knowledge and ideas on scientific and philosophical matters, such as political and economic ideologies. Hence, one may argue that the amplification of the technological development and sociocultural understanding that consolidates our societal structure derives from the phenomenon of trade, which is one of the primary constituents of the economy, (Harari, 2014).

Indeed, trade has been a vital component of the global economy for thousands of years, evolving through different stages as human societies developed and expanded. In prehistoric times, trade was primarily a form of barter, with people exchanging goods and services. As civilizations began to emerge and grow, trade routes developed, enabling goods to be transported across vast distances. The Silk Road is a typical example of how salient mercantile routes have played a pivotal role in facilitating cultural exchange between the East and the West. These cultural exchanges were not limited to religious and philosophical ideas, but also encompassed technology, language, and the arts. For instance, Chinese porcelain and silk were highly prized in the West, while Roman glassware and woollen textiles were in high demand in the East, (Hansen, 2012).

During the mediaeval epoch, guilds functioned as pivotal agents that fashioned the intricate interplay of ideology and the economy. These associations of skilled craftsmen and merchants erected a comprehensive framework for economic pursuits premised upon a compendium of ethical principles and values, including equitable competition, safeguarding labour rights, and crafting superior merchandise. Through the regulation of professional entry and the imposition of quality standards, guilds stimulated the proliferation of trade and commerce, thus contributing to the emergence of capitalistic economic approaches within Europe. Furthermore, the guilds' emphasis on cooperative endeavours and self-governance engendered a formative influence on the development of contemporary conceptions of the intricate interdependence between individual autonomy, the marketplace, and governmental authority, (Epstein, 1998).

The Age of Exploration, which began in the 15th century, opened up new trade routes as Europeans established colonies and traded with non-European nations. The Portuguese were the first to establish trading posts in Africa and Asia, and were shortly followed by the Spanish, Dutch, and British, among others. The result of the colonial establishment, resource exploitation and trade network of these European powers, was a global economy that connected Europe, Asia, Africa, and the Americas, (Frankopan, 2015). The potential impact of these trading networks on the current global ideological landscape can be surmised as one that has exerted its influence upon the configuration of economic structures and power hierarchies, ultimately engendering enduring implications for the interdependent present-time political and economic liaisons (Pomeranz, 2021).

Both human civilization and the structural mechanisms it depends on are shaped by the intersubjective reality of what we refer to as the economy. Across the annals of time, numerous endeavours have been undertaken to ameliorate the functioning of economic systems. Although a considerable proportion of these undertakings have proven unsuccessful, certain instances have triumphantly yielded tangible results in inducing substantive transformations in economies. From mercantilism to classical economics, and from Marxism to capitalism, scholars have debated the different economic approaches for centuries.

The relationship between political ideologies and economic systems is complex and has perpetually evolved throughout history. In the early modern period, mercantilism was the dominant economic system, which emphasised government intervention to protect domestic

industries and accumulate wealth, (Brewer, 1990, p. 168). However, with the rise of classical economics in the 18th and 19th centuries, a shift towards free-market capitalism began to emerge, with Adam Smith's *The Wealth of Nations* serving as a cornerstone of this approach. Published in 1776, Smith's book argued that economic growth and progress could be achieved through the invisible hand of the market, rather than through government intervention.

During the late 19th and throughout the 20th century, the rise of socialist and communist regimes marked a challenge to capitalist economies. A multiplicity of endeavours aimed at implementing socialist doctrines were rife during the Cold War era, as evidenced by instances in nations including but not limited to the Soviet Union, China, and Cuba, (Brown, 2010). While the collapse of the Soviet Union and other socialist states led many to declare the triumph of capitalism, the global financial crisis in 2008 and subsequent economic challenges have renewed interest in alternative economic models, (Stiglitz, 2010). Additional obstacles to this framework, comprising escalating income inequality and the ecological ramifications of industrialization, persist as subjects of ongoing deliberation and inquiry.

Today, the debate over economic systems continues, with capitalism and socialism representing two of the most prominent approaches. Capitalism, which emphasises the role of markets and private ownership in driving economic growth, has been the dominant economic system in many parts of the world since the Industrial Revolution. As Smith put it into words in his book *An Inquiry into the Nature and Causes of the Wealth of Nations*, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest." (Smith, 1776, p. 14). Socialism, conversely, accentuates the role of government and collective ownership in promoting a more equal distribution of resources and opportunities. As Karl Marx eloquently put it in his book *Critique of the Gotha Programme*, "From each according to his ability, to each according to his needs!", (Marx, 1875, p. 175).

There is always room for improvement, which makes it fair to assume that we have yet to find the most efficient ideological approach. Hence, many countries and societies continue to grapple with questions about the role of government in the economy, the appropriate balance between private enterprise and public goods, and the best ways to address the growing inequalities and environmental challenges of our time.

The Role of Democracy in Promoting Economic Prosperity: A Complex Relationship

One particular area of the ongoing debate about economic systems is the role that democracy plays in promoting economic prosperity. Democracy originates from the Athenians who according to *The Oxford illustrated history of Greece and the Hellenistic world* “was both more and less democratic than in modern Britain or the United States”, (Boardman et. al., 2001, p. 130). The ideology emphasises the importance of individual freedom and the rule of law, which we shall see in *Part three* is widely seen as a fundamental component of many modern Western societies.

The evolution of democracy has seen a range of approaches to its implementation. The direct democracy employed in Athens was based on the idea of “rule by the people”, with citizens directly participating in decision-making processes. In ancient India, for example, the concept of democracy was expressed through village councils or “sabhas”, where all community members could participate in decision-making processes, (Singh, 2016, p. 112). In mediaeval Europe, democratic ideas were present in the form of the Italian city-states, where merchant oligarchies governed the cities instead of totalitarian regimes, (Waley & Dean, 2013, p. 196).

The Magna Carta, signed in England in 1215, established the principle that the monarch was subject to the law and is an early precursor to modern democratic ideals. The document containing the principle that no one, not even the king, was above the law was revolutionary in its time and has been credited with laying the groundwork for many modern democratic institutions. The influence of the Magna Carta on democracy extended beyond the borders of England, as it served as a model for democratic movements and was considered a symbol of liberty and a guarantor of individual rights, (Reynolds, 2016, p. 660).

In the 18th century, the American and French Revolutions marked a turning point in the development of modern democracies as they introduced modern representative democracy. This involves the election of representatives to make decisions on behalf of the people. The American Revolution resulted in the formation of the United States of America, a federal republic that enshrined democratic principles in its Constitution (Bailyn, 1992, p. 209). The French

Revolution, in turn, led to the abolition of the monarchy and the establishment of a republic that introduced the concept of universal suffrage, albeit temporarily, (Burke, 1955).

Numerous scholars posit that a symbiotic relationship exists between democracy and economic advancement. As we shall see in *Part two*, the order of these components is not necessarily unequivocally intuitive. According to Acemoglu and Robinson, “democracy leads to more inclusive economic institutions, which in turn result in higher levels of economic growth” (Acemoglu & Robinson, 2012, p. 425). They argue that democratic institutions can help promote competition and innovation, as well as provide a more stable and predictable environment for businesses to operate in. However, this relationship is unquestionably complex and can be influenced by various other factors.

At the same time, there is also significant debate about how different economic ideologies relate to democracy. Some argue that capitalism and democracy are closely linked, with the former requiring a certain degree of individual freedom and private enterprise to flourish. As Milton Friedman states in his book *Capitalism and Freedom*: “A society that puts equality before freedom will get neither. A society that puts freedom before equality will get a high degree of both.” (Friedman, 1962, p. 143). Others suggest that socialism and democracy can coexist, with collective ownership and government intervention serving to ensure that economic benefits are more equitably distributed.

While democracy is often seen as an imperative for economic prosperity, there are examples of autocratic societies that have experienced impressive economic growth. China, for example, has seen remarkable economic development over the past few decades, despite being a one-party state with limited political freedom, (Naughton, 2006). Similarly, countries such as Singapore and Saudi Arabia, have achieved high levels of economic growth and development under a system often described as authoritarian.

The relationship between democracy and economic growth is far from straightforward, and many factors can influence the success of an economic system. For example, the quality of institutions, the level of corruption, the stability of the political environment, and the presence of a skilled and educated workforce can all impact economic outcomes. According to the renowned economist Amartya Sen, the development of a country’s economy “requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as

systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states.” (Sen, 1999, p. 11).

In light of these complexities, it is difficult to determine which ideological approach is most conducive to economic growth. As mentioned earlier, the contemporary global market has been dominated by capitalistic views since the Industrial Revolution, and many argue that this was instrumental in driving technological progress and economic development. As the famous writer and philosopher of Objectivism Ayn Rand put it: “The contrast between West and East Berlin is the latest demonstration, like a laboratory experiment for all to see. Yet those who proclaim their desire to eliminate poverty are loudest in denouncing capitalism. Man’s well-being is not their goal”, (Rand et al., 1986, p. 136). Conversely, some point to inequality and environmental challenges that have arisen under capitalism as evidence that alternative systems are needed.

Socialism, on the other hand, is often associated with economic stagnation and inefficiency, and the ideological approach tends to coexist with autocracy. However, there are examples of socialist countries that have experienced periods of rapid economic growth. A prime example is the oil boom that the socialist regime in Venezuela experienced during the 1970s. Unfortunately, the prosperous period was limited, and not necessarily beneficial on an individual level, and resulted in the Bolivarian Revolution followed by vast economic complications, (Bull & Rosales, 2020).

For instance, the mixed economies of the Nordic countries combine elements of socialism and capitalism while maintaining a high level of democracy, and have achieved a proliferation of economic prosperity and social welfare. Thomas Piketty, a French capitalist, takes the position that “the ideal future society resembles the social-democratic regimes that existed in Europe from the 1950s to the 1980s, and that are still found today in Nordic countries”, (Piketty, 2014, p. 559).

Part two

Democracy's Role in Human Capital Development and Economic Growth: Examining the Theories on the Subject

The Enduring Influence and Controversies of Modernisation Theory

In the past century, many scholarly endeavours have been undertaken to elucidate the complex interplay between political ideologies and economic progress. One of the most influential and enduring theories in this realm is the Modernisation Theory. This theory postulates that economic development is closely tied to the diffusion of Western values and institutions, particularly democratic governance, market capitalism, and individualism (Bradshaw, 1987).

Modernisation Theory is a socioeconomic theory that emerged in the mid-twentieth century and is concerned with explaining the transition from traditional to modern societies based on human progress, (Eisenstadt, 1968). According to this theory, modernisation occurs when societies adopt modern technologies, more feasible institutions, and values, leading to economic growth, industrialisation, urbanisation, and the eventual emergence of a stable, democratic political system (Inglehart & Welzel, 2005). This is illustrated in *Figure 1*.

As with most academic theories, the Modernisation Theory has been the subject of frequent debate and criticism, and it remains a controversial and contested topic within the social sciences and socioeconomic discipline.

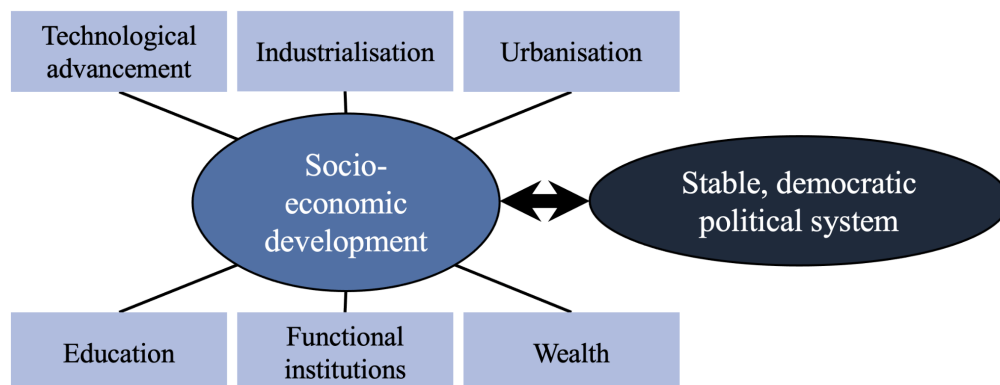


Figure 1 The figure is self-made and illustrates the relationship between the elements of Modernization Theory.

The roots of modernisation theory can be traced back to the work of Max Weber and his concept of rationalisation, which saw the rise of bureaucratic and scientific rationality as a key factor in the modernisation process. In the mid-twentieth century, scholars such as Walt Rostow, David McClelland, and Daniel Lerner developed modernisation theory further, arguing that economic growth and development could be achieved by adopting Western-style institutions and values. In his book *The Achieving Society*, McClelland argued that adopting Western values, such as individualism and achievement orientation, helps promote economic development in non-Western countries (McClelland, 1961). As illustrated in *Figure 2*, these values can aspire societal independence, thus initiating liberal norms that can lead to democratic conventions. Lerner, in turn, focused on the role of communication and media in promoting modernisation, arguing that the spread of Western media and communication technologies could help to promote economic and social development in non-Western societies, (Lerner, 1958).



Figure 2 *The figure is self-made and illustrates a sequential process of democratic formations.*

Modernisation theory significantly impacted development policy, particularly during the post-World War II era when many newly independent states sought to develop their economies. The theory was widely adopted by policymakers in Western countries, who saw it as a means of promoting economic growth and political stability in developing countries (Inglehart & Welzel, 2005). One prominent example of this is the United States, which promoted the idea of modernisation as a means of containing communism during the Cold War. According to William Easterly, in the post-World War II era, the United States saw the spread of communism as a significant threat to both its national security and its capitalistic market, (Easterly, 2001). As a result, it sought to promote economic development and political stability in developing countries to counter communist influence. The government of the United States saw Modernisation Theory

as a way of achieving these goals, and thus it became a central component of US foreign policy during this period.

Another way in which the United States promoted modernisation was through the provision of foreign aid. In his book *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, Easterly argues that the US provided vast amounts of aid to developing countries during the post-World War II period, intending to promote economic development and political stability. The aid provision was often tied to adopting Western-style institutions and values, such as democracy and free-market capitalism. By doing so, the US sought to create the conditions for economic growth and political stability, which it allegedly assumed would help contain the spread of communism. Throughout the annals of history, it has been a recurring motif for dominant nations to follow this very pattern.

However, the theory has also been criticised for its Eurocentric assumptions and failure to consider the social and historical contexts of non-Western societies, (Escobar, 1995). Similarly, economist Alice Amsden in her book *The Rise of the Rest: Challenges to the West from Late-Industrializing Economies* contends that modernisation theory overlooks the role of political power and international relations in shaping economic outcomes. She argues that economic development is not simply a matter of adopting Western institutions and values, but rather the result of complex interactions between the state, domestic elites, and international forces, (Amsden, 2001). Moreover, other scholars have highlighted modernization theory's limitations in explaining economic development. Easterly argues that the theory's emphasis on market-oriented policies and foreign aid has failed to deliver sustained economic growth in many developing countries, (Easterly, 2006).

Saudi Arabia is a noteworthy example of a country that has undergone modernization, albeit in a manner that diverges from the Eurocentric perspective of the Modernisation Theory. In recent years, the Saudi government has implemented a series of reforms to modernise the country and reduce its dependence on oil revenue. These reforms include the Vision 2030 plan, which aims to diversify the economy, promote private sector growth, and improve education and training. The plan also includes measures to promote women's rights and increase workforce

participation, (World Bank, 2021). As we will see in *Part three*, Saudi Arabia has managed this without adopting the Western democratic societal approach.

Proponents of modernisation theory argue that it remains relevant in the contemporary world, as developing countries continue to struggle with poverty, inequality, and underdevelopment. They argue that modernisation can be achieved through increased foreign aid, trade liberalisation, and promoting democratic values and institutions, (Fukuyama, 2011). However, critics argue that modernisation theory fails to account for the complexity of social and economic change and ignores the role of power, inequality, and historical legacies in shaping development outcomes, (Escobar, 1995).

The Role of Democratic Institutions in Fostering Human Capital Development and Economic Growth

Another theory closely related to Modernization Theory, as both theories are based on similar studies, is the Human Capital Theory. The Human Capital Theory postulates that education and other human capital investments are crucial factors in promoting economic growth and development (Schultz, 1961). According to the theory, by increasing human capital as a supplement to physical capital, particularly through education, societies can improve the workforce abilities, productivity, and overall economic outcomes, (Becker, 1962). This may result in better facilitations for technological development and scientific improvement. In the context of democracy, the Human Capital Theory suggests that democratic institutions and policies may play a critical role in promoting education and other human capital development, thus facilitating economic growth and prosperity.

The mechanisms can be conceptualised as the interlocking components of a complex system that drives economic growth, resembling the interdependent gear wheels that propel a motor forward. Consider a hypothetical democratic society wherein there exists a specific public demand for fiscal investments in education. This will indirectly enable technological development, as intellectual levels of society will blossom. Ultimately both technological development and intellectual blossoming will facilitate scientific improvements. These gear wheels will affect each other resulting in a motor for economic growth as illustrated in *Figure 3*. This exemplifies how democracy may stimulate human capital accumulation, subsequently contributing to economic development.

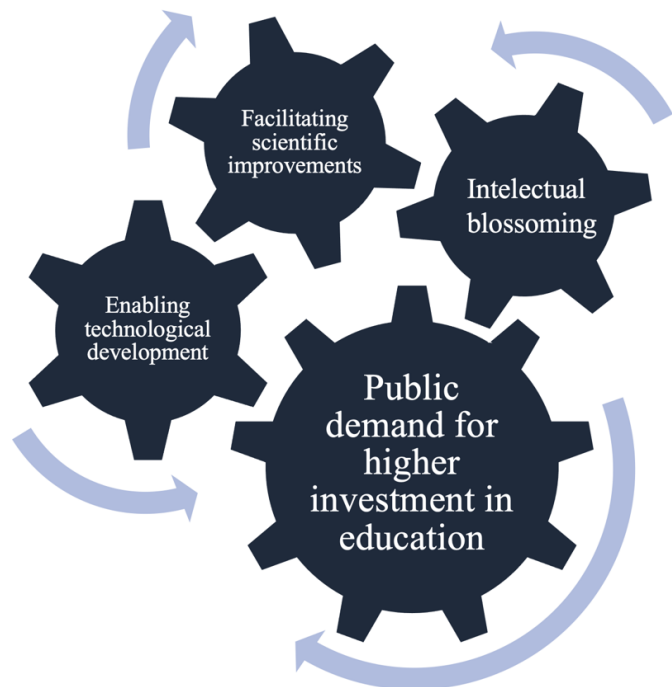


Figure 3 *The figure is self-made and illustrates the conceptualisation of elements in Human Capital Theory driving economic growth.*

One way democracy can foster human capital investment is through public education policies. In contrast to autocracies, education is often seen as a public good in democratic political regimes, and thus governments may invest in education to promote economic growth and social mobility, (Psacharopoulos & Patrinos, 2004). For example, democracies may provide free or subsidised primary and secondary education to all citizens or invest in higher education through public universities, as this is requested by the respective citizens. These policies can contribute to promote educational attainment, particularly among underprivileged groups who may lack access to education due to financial or social barriers.

However, China has managed to maintain and cultivate an educational level that surpasses many of the modern democratic regions of the global market, (OECD, 2021). This contradicts the theory as China is considered a totalitarian regime with a lack of democratic institutions as we will further contemplate in *Part three*.



Figure 4 The figure is self-made and illustrates a sequential process of democracy driving development in human capital.

In the realm of public education policies, democratic institutions can augment the advancement of human capital by instilling an environment conducive to innovation and entrepreneurship. The Human Capital Theory posits that the facilitation of innovation is a fundamental mechanism for promoting economic growth, with entrepreneurship playing a critical role in stimulating innovation, (Audretsch, 2007, p.66). Democratic societies that uphold free markets, protect property rights, and provide a consistent legal and regulatory environment, can promote entrepreneurship and innovation, thus fostering human capital development and subsequently, spurring economic growth. This sequentiality is illustrated in *Figure 4*.

An example is how Singapore's pro-business climate, bolstered by its stable legal and regulatory environment, has resulted in a thriving start-up ecosystem and a hub of venture capital in the Southeast Asian region, thus contributing to the country's human capital development and economic growth, (Aleenajitpong & Leemakdej, 2021). Similarly, the United States of America's protection of intellectual property rights, and minimal government intervention and regulation,

have fostered a culture of entrepreneurship and innovation that has driven human capital development and economic prosperity, (Audretsch, 2007).

The Human Capital Theory further suggests that democratic institutions can promote human capital development by providing municipal engagement and political participation opportunities. In democracies, citizens can participate in the political process, express their opinions, and hold government officials accountable. This type of civic engagement can help promote a sense of political efficacy and engagement, which can affect other areas, including education and workforce development (Putnam, 2000, p. 187).

The Nordic countries are often cited as an example of successful implementation of the Human Capital Theory through democratic institutions. Norway's strong welfare state is an example where the government provides significant support for education, ensuring that citizens have access to high-quality education and training programs that allow them to develop their intellectual and physical capabilities. This emphasis on education and training has helped construct a highly skilled and productive workforce capable of contributing to economic growth and development (OECD, 2019).

Despite these potential benefits of democracy for human capital development, it is important to note that not all democracies are created equal. In some anomalies, democratic institutions may be weak or corrupt, or prioritise short-term political gains over long-term economic development. As such, the relationship between democracy and human capital development is complex and further research is needed to better understand the elements that shape this relationship.

Democracy and Prosperity: The Chicken or the Egg?

The question of what comes first, democracy or economic prosperity, has been a long-standing debate in political science and economics. Some scholars argue that democracy is a prerequisite for economic prosperity, while others argue that economic growth is necessary to establish and maintain democratic institutions.

Proponents of democracy as a prerequisite for economic prosperity suggest that democratic institutions such as free and fair elections, the rule of law, and protection of property rights, promote a stable and predictable economic environment that attracts domestic and foreign investment. The implementation of democratic reforms during the 1980s and 1990s in South Korea resulted in increased credibility for the market which fueled the economic development. This is an example of the phenomenon that supports the argument of democracy being a prerequisite for economic prosperity. Additionally, democratic institutions provide conditions that prevent the concentration of power, corruption, and abuse of authority, which can impede economic growth (Acemoglu & Robinson, 2012).

Scholars have extensively studied the relationship between democracy and economic prosperity. The book *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* by Acemoglu and Robinson, presents the argument that inclusive political institutions, which are a hallmark of democratic regimes, are crucial for promoting economic growth and development. The authors suggest that inclusive political institutions provide a level of playing field for all individuals and groups, encouraging innovation, entrepreneurship, and investment. On the other hand, extractive political institutions, which are some of the characteristics of autocratic regimes, concentrate power and wealth in the hands of a few, potentially resulting in economic stagnation and poverty.

Correspondingly, Zakaria argues in his book *The Future of Freedom: Illiberal Democracy at Home and Abroad*, that democracy is essential for economic prosperity as he suggests that democratic institutions create an environment of openness, transparency, and accountability that promotes economic development, (Zakari, 2007). Additionally, he contends that democracies are relatively more able to adapt to changing economic circumstances, thus better equipped to weather economic shocks and challenges. An interesting example supporting

this suggestion is the financial crisis in 2008. Western democracies, such as the United States and European countries, primarily relied on monetary policy tools like quantitative easing and lowering interest rates to stimulate economic growth, (Bernanke, 2015), they also implemented fiscal stimulus packages and bank bailouts to stabilise the financial system, (Blinder, 2013). This may have rendered them considerably more adept at addressing the economic exigencies. However, such a perspective is naturally subject to frequent critical views as some scholars argue that democratic institutions can be slow in response to economic challenges and can become bogged down in political gridlock and partisan bickering, which can delay or prevent necessary economic reforms, (Rodrik, 2000, p. 5).

Moreover, some scholars argue that non-democratic governments may be better equipped when responding to economic challenges due to their enhanced ability to implement rapid and decisive policy changes without being constrained by the need to win public support or engage in complex political negotiations, (Haggard & Kaufman, 2020). Some countries, such as China, have achieved rapid economic growth by prioritising economic development over political freedoms according to some, (Pei, 2006). It has been argued that China's authoritarian political system has allowed it to make rapid economic reforms and respond quickly to economic challenges, without the need to navigate the complexities of democratic politics, (Shambaugh, 2013).

Opponents of the notion that democracy is a prerequisite for economic prosperity argue that economic growth is necessary for establishing and sustaining democratic institutions. Economic advancement has the potential to fuel technological breakthroughs and foster innovation, which can ultimately enhance the standard of living for people and societies. According to *The Origins of the Modern Economy*, as individuals' fundamental needs are met and they gain access to new technologies and knowledge, their quality of life can be elevated, leading to increased levels of education, health, and economic prospects, (Mokyr, 2016). This can, in turn, spark a cycle of positive development, where individuals and communities become better equipped to engage in the democratic process and demand greater accountability and representation from their governments, (Acemoglu & Robinson, 2012).

Furthermore, this technological innovation derived from economic prosperity harbours the potential to revolutionise democratic institutions by augmenting communication channels,

promoting transparency, and intensifying citizen participation. As Shoshana Zuboff argues in her book, *The Age of Surveillance Capitalism*, technological developments have brought about new forms of power and control that are increasingly difficult to identify and resist, (Zuboff, 2019). Hence, technological innovation can cause challenges to democratic values and preconditions.

However, technology can enhance democratic institutions by promoting transparency and increasing citizen participation. In the internet and social media age, the populace has unrestricted access to information, empowering them to hold elected officials accountable for their actions. Consequently, economic and technological development can act as a catalyst for promoting democratic societies, where individuals can exercise their rights, partake in decision-making, and work towards shared aspirations.

Seymour Lipset, in his book *Some Social Requisites of Democracy: Economic Development and Political Legitimacy*, posits that economic development creates the prerequisites essential for the emergence of democracy (Lipset, 1959, p. 105). He contends that economic progress leads to the development of a middle class that demands greater political representation and participation. Moreover, he suggests that economic growth provides the resources to create and maintain democratic institutions.

Similarly, Przeworski, Alvarez, Cheibub, and Limongi assert that economic development is vital for establishing and maintaining democracy. They argue that economic growth creates the necessary conditions for establishing democratic institutions, such as an independent judiciary, a free press, and a robust civil society (Przeworski et al., 2000, p. 142). In addition, they maintain that economic growth provides the resources essential for the sustenance of democratic institutions over the long term.

According to some scholars there is a positive correlation between economic growth and democracy, but there is no evidence of a causal effect between these two components, (Acemoglu et.al, 2008, p. 836). Hence, the question of whether democracy is a prerequisite for economic prosperity or contrariwise is yet to be elucidated.

Part three

Beyond Theory: Calculating the Relationship Between Democracy and Economic Prosperity

Data Collection: An In-Depth Assessment of Economic, Societal, and Democratic Variables from 26 countries

Our data is assembled from a diverse spectrum of sources. In the primary data file, we have included economic, societal and ideological variables between 1980 and 2019 from a total of 26 countries. The countries we have included are chosen based on their relevance to the thesis, including elements such as the size and global influence of their economy, political ideologies, and geographical location. To comprehensively assess whether democracy breeds economic prosperity, we have included external data files to support or contradict the thesis from situations we find applicable to the subject.

The socioeconomic variables in our data set are primarily collected from the International Money Fund (IMF). It includes different data on the gross domestic product (GDP), inflation measures, indicators such as employment rates and population, and policy variables such as governmental revenue, expenditure, and current balance. We have decided to use GDP per capita figures expressed in constant international dollars, calculated by dividing constant price purchasing-power-parity (PPP) GDP by total population. This allows for meaningful comparisons of economic activity and a general indicator for the standard of living between multiple countries, regardless of differences in currency exchange rates and purchasing power.

Our dataset also includes different variables on the level of democracy in various aspects of the respective countries. The numbers in this section are assembled from V-Dem and the Polity5 project, which contain comprehensive analyses of democratic variables. The democratic variables obtained from V-Dem are five different measures of democracy. These include indications of polyarchy, liberal democracy, participatory democracy, deliberative democracy, and egalitarian democracy. To simplify our data analysis, we have made an aggregated variable

for democracy generated by summarising V-Dem's five different measures of democracy and dividing it by five to create a composite index.

As we consider human capital to be a vital component in the trajectory of a country's economic development, and we consider education to be a valid indicator of human capital, we have included data on educational attainment derived from the empirical article: *A new dataset of educational attainment in the world, 1950-2010*, (Barro & Lee, 2013). Although the panel data includes a wide spectrum of disaggregated data, we have decided to only include the aggregated data that does not differentiate based on sex or age. As the data on this particular measurement only includes observations until 2010, we made a simple predictional growth-regression model that forecasted the educational participation for the remaining years based on the average growth between 1980 and 2010.

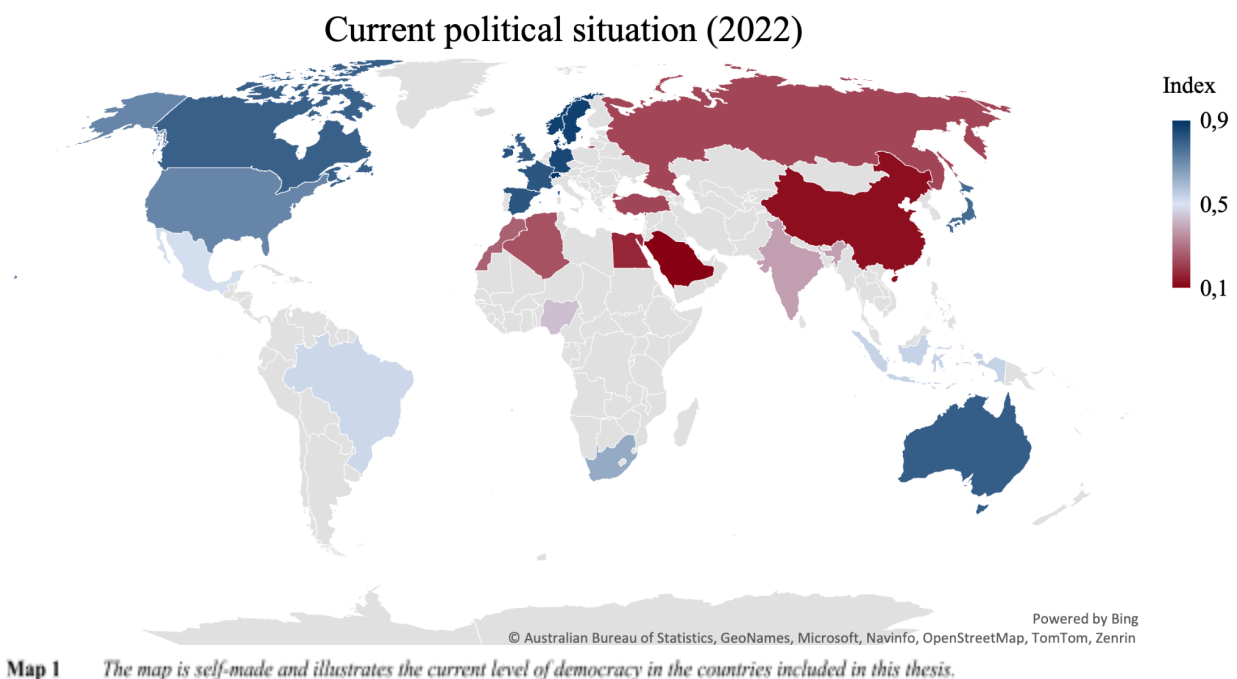
Another vital component that may significantly impact a country's economic growth is its dependency on natural resources. To include this occurrence as a control variable in our data analysis we have obtained numbers on the total contribution of natural resources to economic outputs from The World Bank. This is an aggregated variable including oil rents, natural gas rents, coal rents, mineral rents, and forest rents, (The World Bank, 2023). These rents refer to the revenue a country experiences from selling or leasing these natural resources. Hence, it effectively indicates how dependent the countries are on the pertinent resources for their economic growth, (Bruno, 2014).

Declining Democracy and Rising Corruption: The Paradox of Growth in Relation to Democracy and Corruption

According to the Global State of Democracy Report in 2021, the level of democracy on a global scale has declined since 2010, (IDEA, 2021, p. 16). The report indicates that the decline is largely due to the erosion of civil liberties and the rule of law, which are vital components of a democratic society. Furthermore, the report notes that this decline is occurring in both established and developing democracies, and that the COVID-19 pandemic has exacerbated the situation. Moreover, corruption and abuse of authority, which can result from the concentration of power, can impede economic growth (Acemoglu & Robinson, 2012).

The current political situation is illustrated in the global chart of *Map 1*, where the colours are based on a score ranging from 0-1. Blue represents high levels of democracy, and red illustrates the contrary. The nations comprising Europe, along with Canada, Australia, and Japan, evince the most elevated degrees of democratic governance, while the territories encompassing China, Saudi Arabia, Russia, and the northern regions of Africa manifest the least advanced levels of democratic practices.

It is worth observing that the nations excluded from this study do not manifest any chromatic presence on the graphical depictions, and thus hold a neutral grey colour.



As discussed in *Part Two*, Human Capital Theory suggests that there is a bivariate relationship between democracy and human capital. The intricate mechanisms interdependently facilitating this phenomenon are depicted in *Figure 3* presented within the chapter that expounds on this particular theoretical construct. *Chart 1* shows the proportion of the total population who have completed tertiary education among the world’s largest five economies. This illustration depicts a divergence between the democratic nations and the less democratic nations, thus corroborating the theory’s fundamental principles.

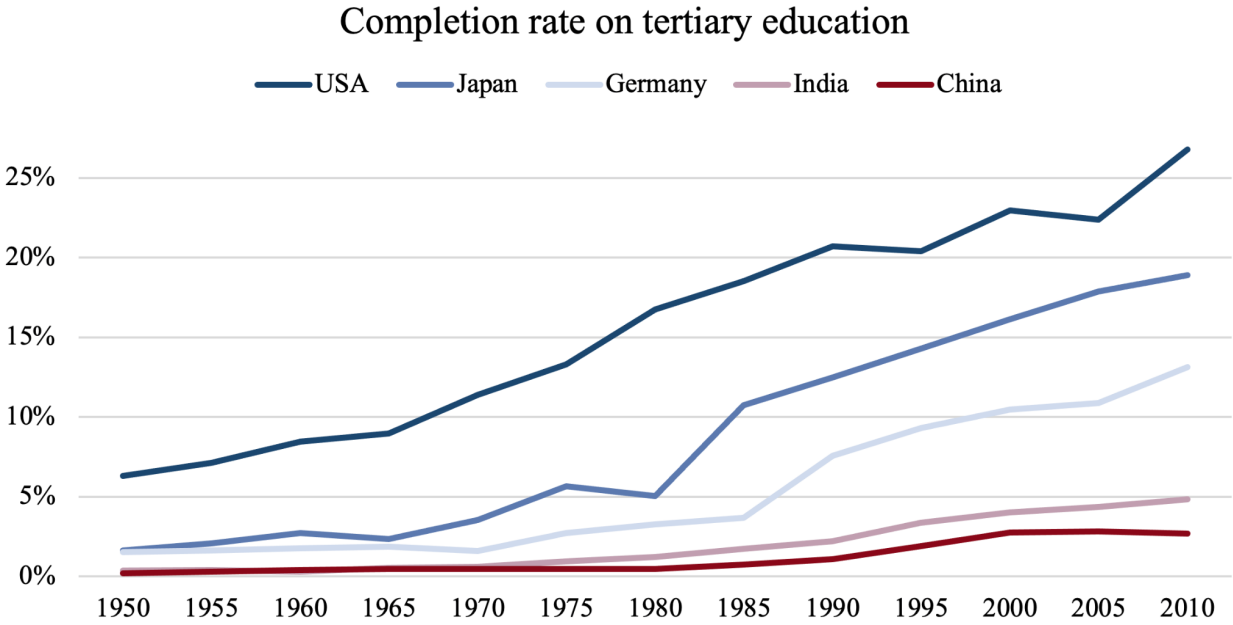


Chart 1 The chart is self-made and illustrates the development of completion rate on tertiary education.

Evidence also indicates that factors related to human capital, including education, can play a vital role in reducing corruption within a given country. Empirical research suggests that increased educational attainment among the population is associated with decreased corrupt practices by government officials, (Glaeser & Saks, 2006, p. 1055). Additionally, education has fostered a culture of ethical and moral values that may decrease the prevalence of corrupt behaviour, (Hallak & Poisson, 2007, p. 73). These relationships are supported by the argument that education can provide individuals with the necessary skills and knowledge to hold their leaders accountable, promote transparency, and prevent abuses of power as discussed in *Part two*.

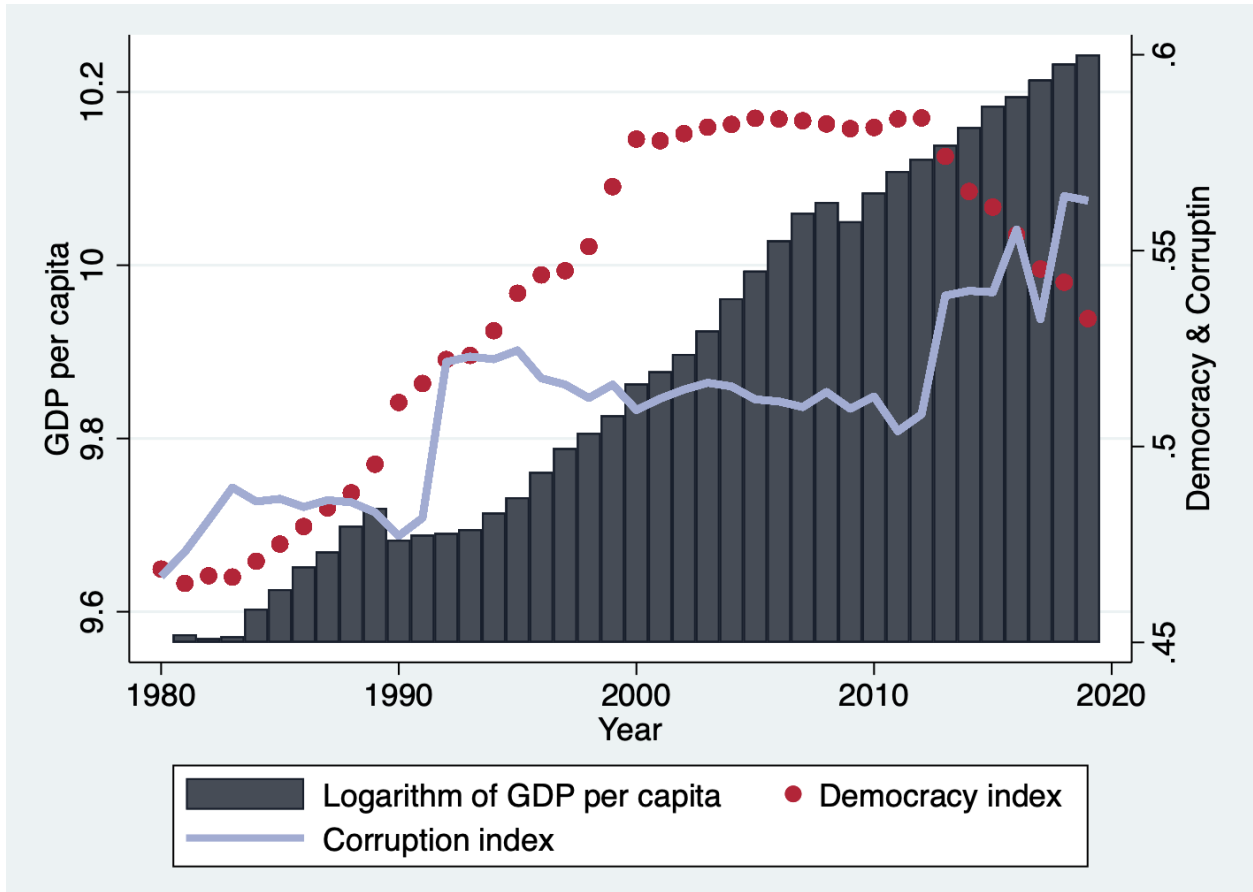


Chart 2 The chart is self-made and illustrates the development of GDP per capita, democracy, and corruption for the pertinent countries.

Our dataset clearly demonstrates both the declining tendency of the global democracy level and the increasing extent of corruption. In *Chart 2* we have constructed a graphical illustration including the total average values of the 26 countries, consisting of the level of corruption, democracy, and the logarithmic scale of GDP per capita for the pertinent period. Over the last decade, there has been an inversion in the relationship between democracy and corruption. Despite the negative trends of these two indexes, GDP per capita has demonstrated a stable growth trajectory over the past few decades, barring the setbacks experienced during the global economic recession of 1990 and 2008.

As illustrated in *Chart 2* there has been a notable proliferation in the level of corruption during this period, and the decline of democracy implies that there may indeed be a link between these two components. The decline of democracy may have led to inefficient educational quality, thus promoting the amplification of corrupt behaviour, but it is important to note that the decline in democracy occurs approximately at the same time as the amplification of corruption.

Another possible explanation for the democratic decline after 2010 is that citizens prioritised economic stability over political liberty in response to the global financial crisis in 2008. During economic uncertainty, citizens may be more likely to support leaders who promise stability and prosperity, even if it means sacrificing certain political freedoms. Furthermore, the financial crisis also led to a shift in global power dynamics. Authoritarian regimes such as the communist government of China, which managed to weather the crisis relatively well, emerged as major economic players during the following decade.

The tenet of the Human Capital Theory stipulates that augmentation in human capital leads to heightened labour aptitudes, thus fostering productivity and, in turn, propelling economic expansion, necessitating the deduction that GDP per capita should decline in the years after 2010. Hence, if these theories were infallible, the consistent growth trend in overall GDP per capita would not be observable. As shown in the chart, there has indeed been a consistent growth trend for GDP per capita, which is paradoxical in relation to the principal theories. This does not necessarily invalidate the theories under consideration, as it only suggests that the drivers of growth in GDP per capita are more complex and subject to various external influences.

Correlation Between Democracy and Economic Prosperity: The Role of Modernization and Human Capital

To comprehensively examine the relationship between democracy and economic prosperity, it may be useful first to assess the correlation between the two variables. *Chart 3* illustrates the relationship between the average GDP per capita and the democracy composite index for each country over the last 40 years. The table shows a considerable positive correlation between a high level of democracy and a higher GDP per capita, except for the clear aberration by Saudi Arabia.

One potential explanation for Saudi Arabia’s notable divergence from the observed trends may be its abundance of fossil fuel resources. Some argue that oil revenues create a rentier state where the government has no accountability to its citizens and can rely on oil exports for revenue, rather than on taxation. This results in a weak civil society and a lack of democratic institutions, which hinders the development of democracy in such countries, (Ross, 2001, p. 329). Hence, this may explain why Saudi Arabia is such an outlier in this respect.

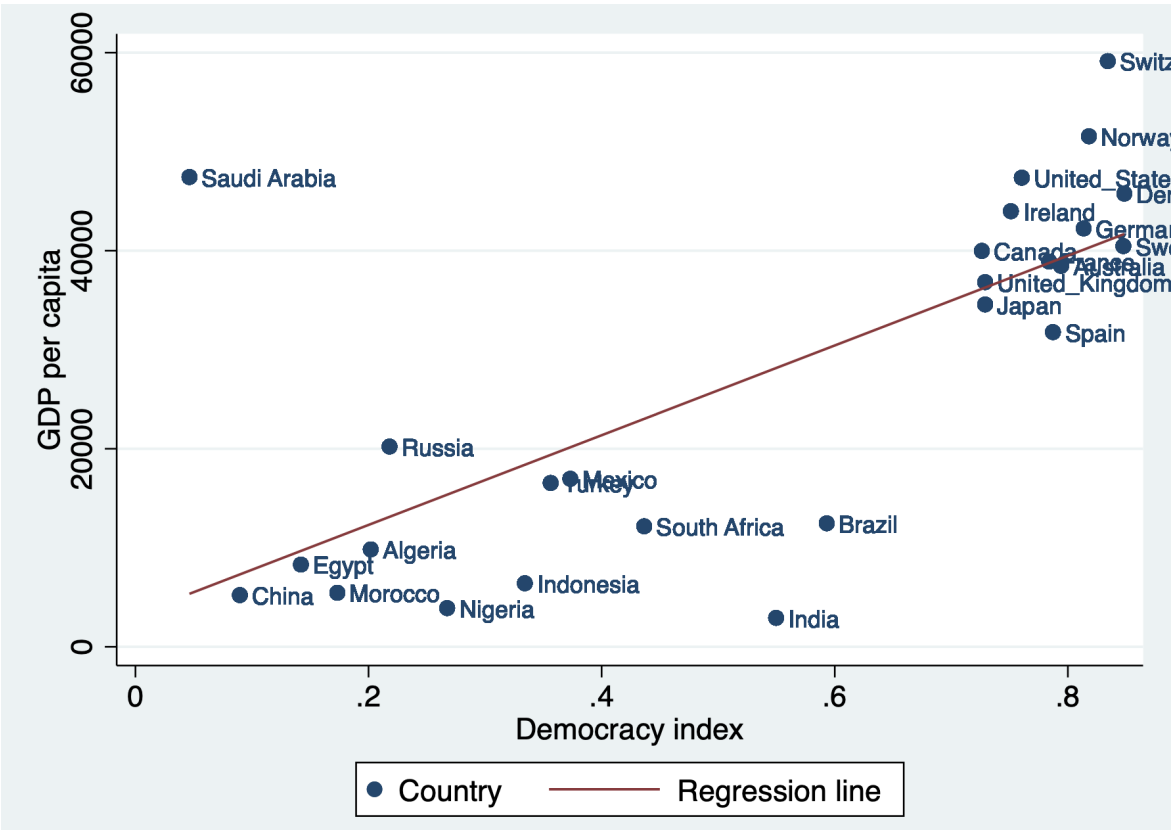


Chart 3 The chart is self-made and illustrates the relationship between the average score of democracy and GDP per capita from 1980-2019 in the countries that are included in this thesis.

The tendencies indicated in *Chart 3* corroborate the tenets espoused in the Modernization Theory discussed in *Part two*. According to Modernization Theory, economic development is facilitated by adapting Western technologies and values that breed societal independence leading to liberal norms, (McClelland, 1961). Countries, such as China and India have emerged as prominent economies in the global market with their important contribution to global trade. However, these countries have struggled with increasing the GDP per capita, thus experiencing a deficiency in economic prosperity on an individual level.

According to a report by the World Intellectual Property Organization (WIPO), China has become the top source of international patent applications, surpassing the United States and Japan. China has also become a leader in emerging technologies such as artificial intelligence and fifth-generation wireless technology, (WIPO, 2021). However, China has one of the lowest average GDP per capita during the current period in this assessment.

It could be posited that this phenomenon is attributable to the substantial population of the nation, which has represented a considerable proportion of the global population throughout the past decades, (United Nations, 2021). Nevertheless, it is also plausible that the limitation of political freedom and the low score on the democracy index has affected GDP per capita. *Chart 5* on page 30, displays a conspicuous low democracy score for China, with a discernible downward trend since 2004. Hence, the phenomenon may indicate that the limited improvement in the economic prosperity for individuals in this country results from China’s failure to adopt Western liberal values that promote democracy.

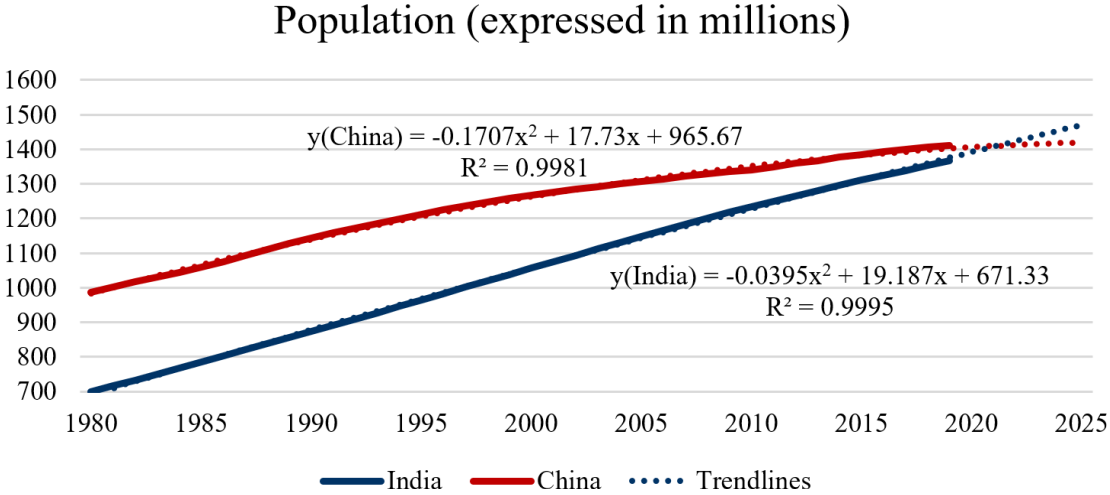


Chart 4 The chart is self-made and illustrates the development of population in the two countries. Note that our polynomial regression lines have an inversion that corresponds to the predictions UN.

On the contrary, India has managed to maintain a relatively higher level of democracy during this period. Yet the country's average GDP per capita remains even lower than that of China's. India has a sizable population segment that exhibits a higher rate of growth when compared to China, as evident from the upcoming inversion of the polynomial regression lines presented in *Chart 4*. According to the population division of the United Nations, India will surpass "China as the world's most populous country during 2023", (United Nations, 2022, p. 13). This could help explain some part of the phenomenon. Still, it may also have to do with other factors such as the country's economic policies, institutional complications regarding the religious conflicts between Hindus and Muslims, and the caste system's negative impact on human capital development. India's policies have been characterised by significant government intervention and protectionism, which may have hindered its potential for economic prosperity, (Panagariya, 2008, p. 116)

Furthermore, India has undergone the most profound negative change in democratic levels in the Asian region during this period, as illustrated in Map 2. This could indicate India's struggle with espousing Western ideological values, which according to Modernization Theory should result in reduced facilities for economic prosperity. Hence, this negative change in democratic levels may help explain India's relatively low score on GDP per capita.

On the other hand, Japan is a good example of an East-Asian country that has adopted Western values regarding political ideology and liberal societal norms. As indicated in Chart 5, Japan has consistently maintained a high level of liberal democracy over this period relative to both China and India, both of which have undergone a marked deviation from Japan during the past two decades. This may be a result of Japan's postwar constitution, written with the assistance of U.S. occupation forces, which established a liberal democratic regime that emphasises political liberty and freedom, (Woo-Cummings, 1999, p. 233).

Change in democracy from 1980 to 2019



Map 2 The map is self-made and illustrates the percent change in democracy in the Asian countries included in this thesis.

In addition, the country has adopted several Western social norms, such as gender equality and consumerism. For instance, Japan's women have achieved augmented entitlements and autonomy, particularly in the occupational arena, due to alterations in governmental policies and social attitudes, (Roberts, 2018, p.104). The Japanese government has also invested heavily in research and development, particularly in areas such as robotics, biotechnology, and nanotechnology, which has resulted in the creation of new industries and the elevation of their job market, (Roco, 2001, p. 355). It is also feasible that these technological developments have solidified Japan's influence on the global market.

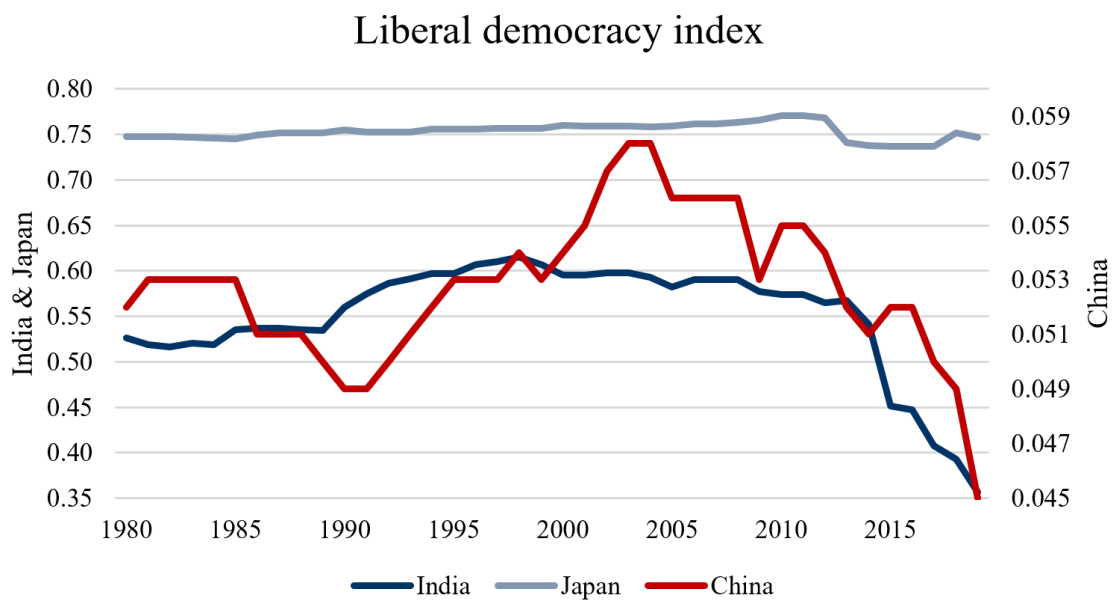
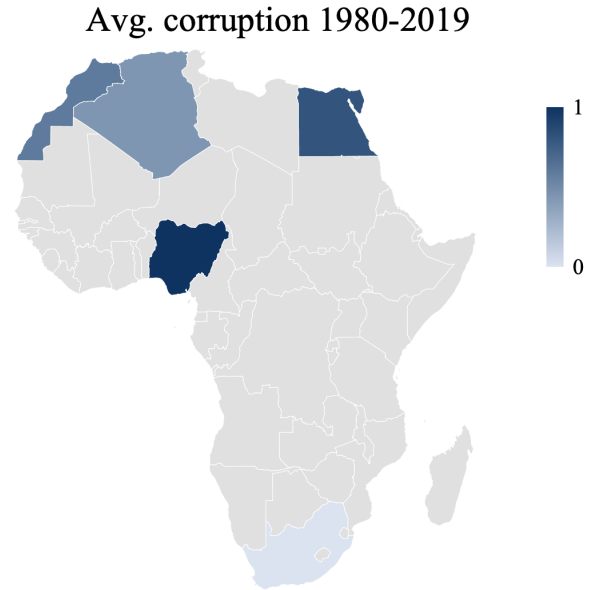


Chart 5 *The chart is self-made and illustrates the development of liberal democracy.*

Every country from the African continent included in this data set evinces a diminutive rating on the metrics of GDP per capita and democracy, with South Africa exhibiting the highest average score of both indicators. This finding aligns with previous research that has highlighted the challenges African countries face in achieving economic development and democratic consolidation. Many African states have experienced political instability, ethnic conflicts, and civil wars, making it difficult to establish democratic institutions and maintain them over the long term (Ihonvbere, 2002). Some scholars argue that external factors, such as the complications regarding colonial legacies and dependence on international aid, have hindered the adaptation of Western values and thus complicated the development of democratic institutions in Africa, (Mkandawire, 2015).

Another societal component of the impediments to development on the African continent is the ubiquitous high levels of corruption, (Mulinge, & Lesetedi, 1998). Previous studies have shown a strong statistically significant negative influence of the levels of corruption in a society on its GDP per capita, (Mustapha, 2014). *Map 3* illustrates the average level of corruption over the last four decades for the five countries included in our study. The level of corruption in South Africa is segregated from the other countries. This aligns with the studies suggesting the negative relationship between corruption and GDP per capita, as South Africa also exhibits the highest relative levels of GDP per capita and democracy over this period, as illustrated in *Chart 3*.



Map 3 The map is self-made and illustrates the average levels of corruption in the African countries included in this thesis.

However, as illustrated in *Chart 6*, the total years of educational participation have shown a congruous positive trend for each of these countries, except for the stagnation in South Africa and Algeria between 1995 and 2005. According to the idea expressed in the Human Capital Theory regarding the effects of increased educational attainment, it is reasonable to assume that the respective countries will experience higher levels of democracy and GDP per capita in the future.

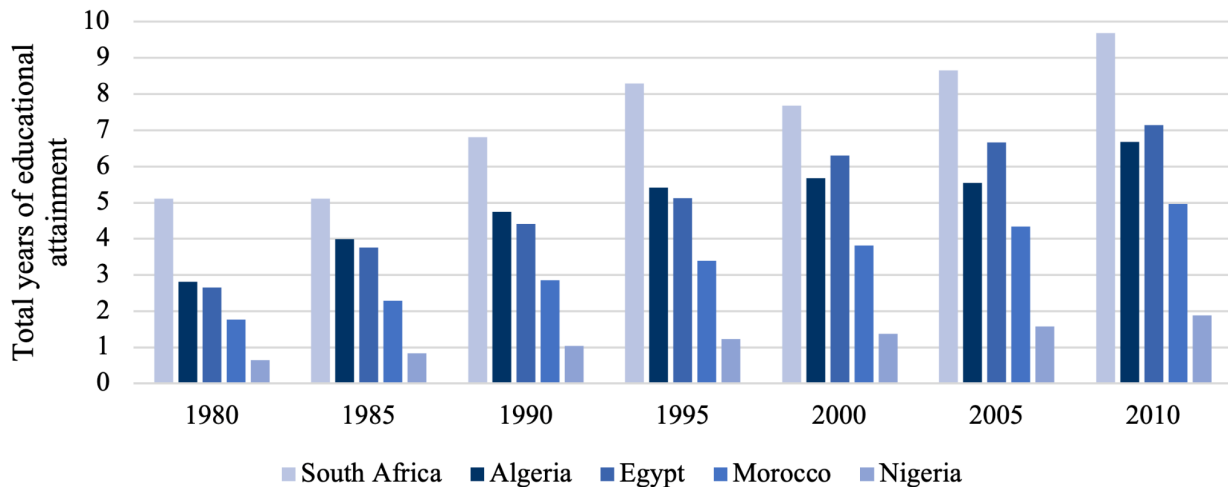


Chart 6 The chart is self-made and illustrates the development in total years of educational attainment.

Within the nations exhibiting the most elevated GDP per capita in *Chart 3*, Spain has the most inferior ranking concerning this criterion. The underlying reasons for this tendency are complicated, but the country's tenacious high levels of unemployment during this period, as illustrated in *Chart 7*, may be attributable to this phenomenon.

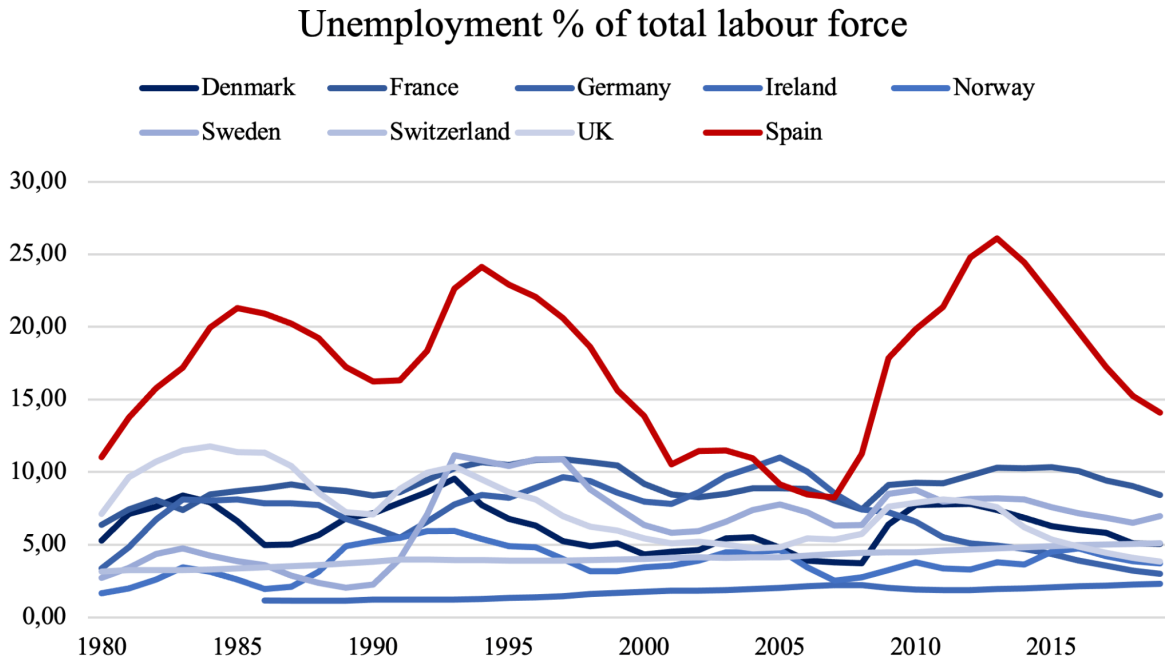


Chart 7 *The chart is self-made and illustrates Spain's development in unemployment relative to the other European countries that are included in this thesis. Note that it is only the unemployment in Spain that is relevant in this chart, and that the other countries are only included to illustrate the unusual high levels of unemployment in Spain.*

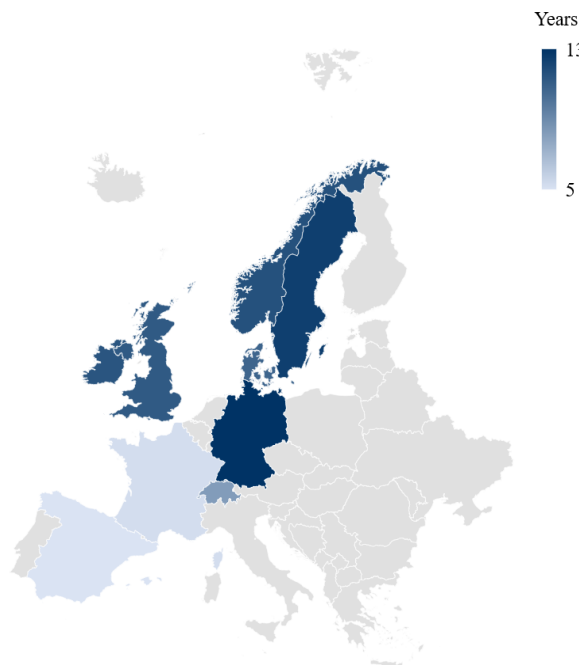
Following the death of Francisco Franco and the subsequent establishment of a democratic government in the late 1970s, Spain underwent a series of economic liberalisation measures, which fostered a period of rapid growth. However, Spain has experienced various structural issues within its economy over the last four decades, such as the composition of its collective bargaining that constrains wage flexibility, and the high severance payment for permanent workers, (Jaumotte, 2011). The financial crisis of 2008 exacerbated Spain's economic problems as the Spanish government's austerity measures implemented in response to the crisis further deepened the recession, and as the banking sector experienced a high rate of non-performing loans and an omnipresent need for bailouts, among other complications, (Fernández-Villaverde et al., 2013, s. 154).

Given that GDP per capita gauges individual-level production output, it follows logically that diminished unemployment rates will engender elevated levels of this metric, thus explaining the divergence of the Spanish labour market relative to that of the other European countries included in our research, as illustrated in *Chart 7*.

During this period, Spain evinces the lowest average value in total years of educational attainment among the European nations surveyed, as illustrated in *Map 4*. Following the end of Franco’s dictatorship and the country’s democratic transition, the education system underwent substantial reforms, including implementing the 1990 General Educational Law, (Boyd-Barrett & O’Malley, 1995, p. 226). However, the impact of these reforms has been slow to materialise, which may help explain the persistent disparities in educational attainment compared to other European nations.

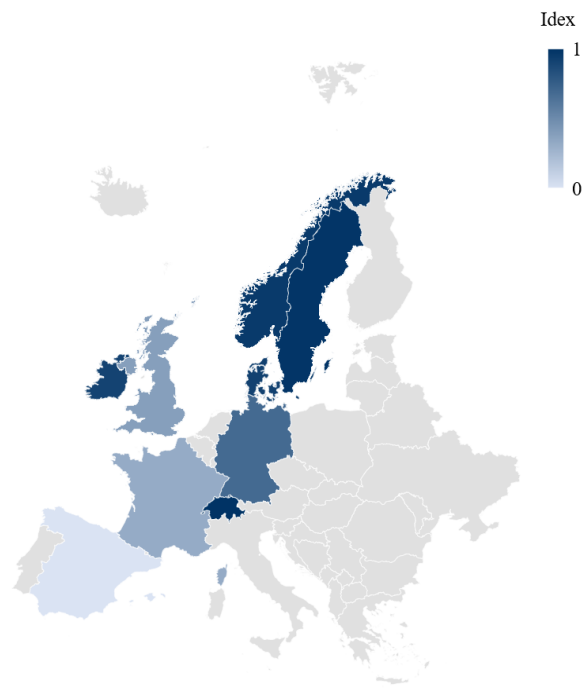
Education and cognitive abilities are substantial for the individual level of economic development, (Rindermann, 2008). As we have previously discussed in *Part two*, the Human Capital Theory suggests that higher levels of education will improve the workforce abilities, facilitating scientific improvement, and thus driving the individual-level production output.

Avg. Total years of educational attainment 1980-2019



Map 4 The map is self-made and illustrates the average score of total years of educational attainment in the European countries included in this thesis.

Avg. Political Stability 1980-2019



Map 5 The map is self-made and illustrates the average score of political stability in the European countries included in this thesis.

Furthermore, during this juncture, Spain's political stability appears comparatively inauspicious, as evidenced by its unfavourable mean value in contrast to the other European nations encapsulated in *Map 5*. This can have several negative repercussions, such as lower credence in governmental statements, which can reduce investments conducted by both local and foreign investors, resulting in impediments regarding technological development. Consequently, the comparatively lower mean values of these two particular indicators may provide a rationale for Spain's inferior performance in terms of GDP per capita.

Although the findings in this chapter, and especially the illustration of Chart 3, consolidate the narratives of the principal theories on modernisation and human capital, thus indicating a correlation between democracy and economic prosperity, it does not demonstrate any causal relationship between the two components. While correlation may be a necessary condition for establishing causality, it is insufficient on its own to prove that one variable causes another. Additional evidence and analysis are required to establish a causal relationship between two variables. This leads us to the next chapter where we will use calculations in the form of regression models to assess the causal relationship between democracy and economic prosperity.

Regression Models: Calculations on the Causal Link Between Democracy and Economic Prosperity

Thus far, we have analysed the correlation between democracy and economic prosperity. We also need to analyse the causal relationship between these two components to answer our research question. As regression models examine the relationship between dependent and independent variables, it may serve as a useful indicator of the causal relationship, particularly when employing lagged independent variables as it will demonstrate how these variables affect GDP per capita for the next period.

To assess the relationship between democracy and economic prosperity, independent variables that may affect economic growth on individual levels are included in the regressions to get a more representative indication of the significance of democracy. As the living standards for individuals give a good indication of the economic prosperity in an economy, and as GDP per capita accounts for both the size of the economy and the population, it also provides a relatively good representation of the living standards for individuals in a given country. Hence, our dependent variable is the growth factor of GDP per capita in constant prices with U.S. dollars as the measuring currency accounting for purchasing power parity. We use U.S. dollars as the measuring currency while accounting for the purchasing-power-parity because this is necessary to conduct reliable comparisons between the countries in the panel data.

To analyse the causal effect between democracy and economic prosperity, and to eliminate the complications that occur when the dependent and independent variables are interlinked with each other, we have lagged all of the independent variables with one period with the acceptance of the two period lag for government debt and total investments. To exemplify this potential complication, the level of imported goods and services will affect GDP and vice versa, but if we use the observation of imports for the previous period, it will be impossible for the level of current GDP to have any effect on this observation.

As mentioned in our *Data Collection* chapter, our independent control variables are based on their potential relevance to growth in GDP per capita. The primary regression model incorporates exports and imports, quantified as the percentage change in the total volume for each year. Both exports and imports indicate the openness to trade which contributes to the economic development of the economies, (Kavoussi, 1985, p. 379).

Macroeconomic variables on total fiscal investments and government debt, both measured as a percentage of the GDP, are also included in our regression models. The reason why these components are lagged with two periods is that it takes relatively more time for them to have a significant effect on GDP. Real capital investments typically entail long-term investments, implying that the benefits or disadvantages of such investments may not be visible in the short run. Naturally, the degradation of industrial machines will be more noticeable after a certain period as they eventually start to lose their function. The effect of government debt may also have a delayed effect on economic growth due to the delayed response in the implementation of government policies or due to the adjustment period that economic agents require to adapt their conduct in response to fluctuations in government debt levels.

As indicated in the previous chapter on *Data Collection*, we have incorporated a variable that captures the rent generated by a country from its natural resources. This variable provides insights into the degree of the economy's reliance on natural resources, which is considered a significant driver of economic growth. Both this variable and the societal variables on democracy and corruption are only lagged with one period.

Given that the accumulation of knowledge resulting from education occurs over a prolonged period, the impact of education on the GDP per capita is naturally anticipated to have a considerable time lag, as it would not significantly influence economic development until the attainment of education is accomplished. However, due to the relatively limited temporal scope of our data set spanning only four decades, applying a significant lag to the educational attainment and government expenditure on education variables that would accurately reflect their true effect on economic development was not feasible. Consequently, we opted to implement a one-period lag for these variables in our analysis.

Growth in GDP per capita	Model 1 b/se	Model 2 b/se	Model 3 b/se	Model 4 b/se	Model 5 b/se	Model 6 b/se
Democracy_lag1	0.397*** (0.05)	0.809*** (0.06)	0.385*** (0.04)	0.900*** (0.05)	0.714*** (0.05)	0.369*** (0.04)
Growth_lag1	-0.464*** (0.03)	-0.113*** (0.03)	-0.441*** (0.04)	-0.192*** (0.04)	-0.196*** (0.03)	-0.384*** (0.03)
Exports_lag1	0.279*** (0.02)		0.296*** (0.02)	0.364*** (0.02)	0.397*** (0.02)	0.323*** (0.02)
Imports_lag1	-0.158*** (0.01)		-0.191*** (0.01)	-0.235*** (0.02)	-0.202*** (0.02)	-0.189*** (0.01)
Education_lag1	-0.009*** (0.00)	-0.035*** (0.00)		-0.024*** (0.00)	-0.017*** (0.00)	
Corruption_lag1	-0.189*** (0.04)	0.437*** (0.04)		0.341*** (0.03)		
Natural-rec-rent_l~1	-0.106** (0.03)				-0.392*** (0.04)	
Investments_lag2	-0.696*** (0.05)		-0.675*** (0.03)			-0.671*** (0.03)
Gov-debt_lag2	0.061*** (0.01)		0.043*** (0.01)			
Expend-educat_lag1	1.048*** (0.19)	1.900*** (0.21)			1.566*** (0.21)	0.868*** (0.19)
Period=1	0.000 (.)	0.000 (.)	0.000 (.)	0.000 (.)	0.000 (.)	0.000 (.)
Period=2	0.002 (0.00)	0.019*** (0.00)	0.001 (0.00)	0.015*** (0.00)	0.008*** (0.00)	0.002 (0.00)
Period=3	-0.041*** (0.00)	-0.023*** (0.00)	-0.049*** (0.00)	-0.036*** (0.00)	-0.033*** (0.00)	-0.046*** (0.00)
Period=4	-0.026*** (0.00)	-0.009 (0.00)	-0.038*** (0.00)	-0.024*** (0.00)	-0.018*** (0.00)	-0.028*** (0.00)
Period=5	-0.029*** (0.00)	-0.015* (0.01)	-0.045*** (0.00)	-0.042*** (0.01)	-0.032*** (0.01)	-0.035*** (0.00)
Period=6	0.000 (0.01)	-0.003 (0.01)	-0.027*** (0.01)	-0.034*** (0.01)	-0.019** (0.01)	-0.020*** (0.01)
Period=7	0.005 (0.01)	0.010 (0.01)	-0.024*** (0.00)	-0.021** (0.01)	-0.014* (0.01)	-0.020*** (0.01)
Period=8	0.007 (0.01)	0.023** (0.01)	-0.026*** (0.00)	-0.006 (0.01)	-0.010 (0.01)	-0.020*** (0.00)
R ²	0.763	0.569	0.730	0.649	0.683	0.728
Adj-R ²	0.752	0.552	0.719	0.634	0.670	0.717
BIC	-6788	-6233	-6688	-6427	-6521	-6681

* p<0.05, ** p<0.01, *** p<0.001

Matrix 1

Note: The numbers inside the parentheses under each coefficient represent the standard errors associated with the estimated coefficients. Smaller standard errors indicate more precise estimates. * Significant at the 5 % level, ** Significant at the 1 % level, *** Significant at the 0,1 % level.

Bayesian Information Criterion (BIC): A measure of model fit that penalises model complexity. Lower BIC values suggest a better balance between fit and complexity.

Across the five regression models in Matrix 1, the democracy composite index variable consistently shows a positive and statistically significant relationship with GDP per capita. The coefficients range from 0.397 to 0.9 and are significant at the 0.1% level in all models. Our adjusted determination coefficient (adj-R²) has a consistent moderate rate between 0.569 and 0.763. These models suggest that higher levels of democracy are generally associated with

greater economic prosperity. For example, according to Model 3, given that all the other control variables are unchanged and that the democracy index was to change by 1, the country could expect a 38,5% increase in GDP per capita for the next year.

The most comprehensive model, which includes the most variables, is Model 1. In this model, the significant coefficients on exports and imports make intuitive sense; a surge in exports is positively correlated with an increase in GDP, whereas imports exhibit the opposite effect. Consistent with the Modernization Theory, corruption yields an adverse impact on GDP per capita in this model. Both investment and natural resource rent negatively affects the dependent variable, whereas an increase in government debt will have a positive effect. From the model measurements on BIC, this is the model with the best model fit and balance between fit and complexity.

What is quite interesting in these regression models, is the educational coefficients. On the one hand, the educational attainment coefficient negatively impacts GDP per capita in every model. This contradicts the postulations of Human Capital Theory, which suggests that there should be a positive correlation between education and economic prosperity. However, these coefficients are relatively low, implying a weak relationship to the dependent variable. On the other hand, the coefficient displaying government expenditure on education has a positive effect in every model with relatively high coefficient numbers. In contrast to the educational attainment coefficient, this one is congruent with the Human Capital Theory. Even so, the standard errors are relatively high in every model for this coefficient, implying unreliability or impreciseness.

Considering the objective of the analysis, the consistency of the positive relationship between democracy and economic prosperity across all five models provides some evidence to support the notion that democracy breeds economic prosperity and that there indeed may be a causal relationship between these two components.

However, it is important to note that the relationship between democracy and economic prosperity is subject to various additional variables, whose impact on the economy our control variables endeavour to encapsulate. Note that the relationship between corruption and economic prosperity is negative in Model 1 but positive in Models 2 and 4, indicating that the relationship between corruption and economic prosperity might depend on other factors excluded from our regression matrix.

Additionally, it is worth noting that while our analysis has employed lagged independent variables to help uncover potential causal relationships, it is still limited in its ability to establish causality definitively. Other empirical approaches, such as instrumental variable techniques or panel vector autoregression (PVAR), could be employed in future research to better address potential endogeneity issues and more robustly establish causal relationships between democracy and economic prosperity.

Moreover, the role of other potential factors, such as institutional quality, political stability, cultural diffusion, and economic policies, could be explored further to better understand the underlying mechanisms through which democracy might influence economic prosperity. By incorporating these factors into the analysis, future research could develop a more comprehensive understanding of the relationship between democracy and economic prosperity and shed light on the conditions under which democracy might be more or less conducive to economic growth.

Part four

The Conclusion

The research in this thesis aims to assess whether democracy breeds economic prosperity. Our endeavour to provide a meticulous analysis has substantiated a concomitant relationship and positive correlation between these two elements. This implies that a higher level of democracy will likely foster a commensurate enhancement in economic prosperity, and conversely, a decline in the former may correspond to a deterioration in the latter.

Our findings support the principal theories used in this thesis, namely Modernization Theory and Human Capital Theory. Both of these theories regard ideas about how democracy can positively affect economic prosperity, which are reflected in our graphical illustrations and regression models. However, as we have discussed, the effects of implementing the ideas of these theories are prolonged, making it more difficult to accurately measure such effects based merely on our dataset spanning only forty years.

This leads us to the complications regarding causality, which has shown to be a far more complex phenomenon to comprehend. Although our regression models all indicate a causal link where democracy leads to growth in GDP per capita, the results are too ambiguous for a conclusive statement on this matter. Hence, our thesis concludes that even though a favourable association can be discerned between democracy and economic prosperity, the elusive causal nexus remains to be established.

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