A RELATIVELY RECENT PAPER ON THE SUBJECT SERVES AS THE BASIS FOR TODAY’S TUTORIAL.

A DEBATE OF TWO CONFLICTING HYPOTHESES

PRO DEMOCRACY

Democracy positively affects economic growth by increasing
• Physical Capital
• Human Capital
• Social Capital
• Political Capital

CONTRA DEMOCRACY

Democracy negatively affects economic growth by complicating efficient allocation of resources and investments.
THE CONTRA STORY


- First formal treatment of this question.

The lesson is not that Democratization should not be fostered, but that it cannot be motivated by economic growth arguments.
LARGE STRAND OF LITERATURE ALONG THIS LINE SINCE

- Yi Feng, “Democracy, Political Stability and Economic Growth,” *British Journal of Political Science* 27 (July 1997);
- Adam Przeworski and Fernando Limongi, “Political Regimes and Economic Growth,” *Journal of Economic Perspectives* 7 (Summer 1993);
- idem, “Modernization: Theories and Facts,” *World Politics* 49 (January 1997);
CAUSALITY 1: ECONOMIC WEALTH LEADS TO DEMOCRATIZATION

Stage 1: country is poor and authoritarian
Stage 2: country develops
Stage 3: country becomes richer
Stage 4: Moral sentiments and social movements become more important
Stage 5: Country becomes democratic
EVIDENCE

Fact 1: most of the rich countries in the world are democratic
Puzzle: the direction of causality is unclear

Fact 2: many rich countries have become rich under authoritarian regimes

Hypothesis 1 –rephrased: democracy is a luxury to be enjoyed only by countries rich enough to afford it

Indeed, these are arguments made by authoritarian leaders in the developing world. E.g. Hugo Chavez
Hypothesis 2: *without commitment to democracy, a country cannot step out of economic poverty as it is pre-requisite for essential ingredients such as*

- *Physical Capital*
- *Human Capital*
- *Social Capital*
- *Political Capital*

Indeed, these are arguments made by democratic leaders in the developed world. E.g. by GW Bush, but also B Obama
ROBUST FINDINGS

• Physical Capital
• Human Capital
• Social Capital
• Political Capital

All, separately and jointly, have positive effects on growth!
BUT MORE IMPORTANTLY

EQUAL distribution of these capitals has been shown to have a positive effect on growth


IS DEMOCRACY THE TOOL TO ENSURE EQUAL DISTRIBUTION?
DEMOCRACY AS A "STOCK" VARIABLE

1. Physical Capital
2. Human Capital
3. Social Capital
4. Political Capital
   a. Learning
   b. Institutionalization

Democracy + Time → Economic growth
DEMOCRACY AS REDISTRIBUTION DEVICE

Democracy ensures more equitable distribution of capital

1. Physical Capital
2. Human Capital
3. Social Capital
4. Political Capital
   a. Learning
   b. Institutionalization

Economic growth
IS THIS RELATED TO PIKETTY’S FINDING?

That a

$\textit{higher } g \textit{ (growth of the economy)}$

ceteris paribus $r \textit{ fixed} \textit{ (return on capital)}$

i.e. $r-g \textit{ down}$

Leads to

$\textit{Inequality down}$

!
RECALL PIKETTY’S “FORMULA”

\[ r > g \text{ up} \]

implies

Inequality up
INTERMEDIATE SUMMARY OF STYLIZED FACTS

• Democracy as a level variable has a negative effect on growth
• Higher physical, social, human and political capitals have a positive effect on growth
• Equality in capital levels has a positive effect on growth
• Higher growth has a positive effect on capital equality
• Democracy as a stock variable has a positive effect on physical, social, human and political capitals
HAVE WE GONE IN A LOOP?
DEMOCRATIC STOCK
<table>
<thead>
<tr>
<th>Variable</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 4</th>
<th>Column 5</th>
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<tbody>
<tr>
<td>Democracy stock (1900–)</td>
<td>0.006***</td>
<td>0.002*</td>
<td>0.009***</td>
<td>0.007***</td>
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<td>Democracy level</td>
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<tr>
<td>GDP pc (ln)</td>
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<td>-2.961***</td>
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<td>Investment (PWT)</td>
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<td>Instability (Banks)</td>
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<tr>
<td>Trade openness (PWT)</td>
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<td>Life expectancy (WDI)</td>
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<td>Population growth (WDI)</td>
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<td>Years independent</td>
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<td>Regime durability (Polity IV)</td>
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<td>Social conflict (Marshall)</td>
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<td>Government consumption (PWT)</td>
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<td>Illiteracy (ln)</td>
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<td>Annual dummies</td>
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<td>Constant</td>
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<td>R squared (within)</td>
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<td>Prob &gt; F</td>
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<td>0.0673</td>
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*p < .10; **p < .05; ***p < .01
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<td>(0.452)</td>
<td>(0.488)</td>
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<td>(0.519)</td>
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<td>(0.668)</td>
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DEMOCRACY “LEVEL” VS DEMOCRACY “STOCK”

Capital creates a stock.

A high level of democracy, per se, may not really translate into high democracy in terms of democratic capital.
NOW, FINALLY, LET US TURN TO PUTNAM AND ITALY...

My idea is to map the concepts and hypotheses to his findings regarding Italy, in particular the North-South divide.