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Submission ID: 287

The Question for The Modernization Theory

Does Democracy Really Influence the Economic Development?

Abstract

In general, democratic countries have higher economic growth than non-democratic countries. The primary reason for this theory is that democracy and capitalism are mostly the two sides of the same coin. Thus, democratic countries can promote economic growth easier than authoritarian regimes. Most developed countries adopt to democracy while there are a lot of developing countries which do not have democratic political institution and adopt authoritarian regimes. For example, most countries in Middle East do not adopt democracy and overall GDP is not as high as developed countries like the US and European countries. However, some Middle Eastern countries that have rich oil resources are relatively rich compared to other developing countries adopting democracy. In addition, the recent economic development of China should not be overlooked. Although China does not adopt to democracy, GDP of China is the second largest in the world following the US. This is because China started adopting capitalism while maintaining authoritarian political institution. Therefore, just being a democratic state does not seem to directly lead to the high economic growth. Based on questions above, I would like to measure how democracy influences economic well-being, considering other variables that should be controlled. I used statistics indicating the relation between democracy and GDP per capita from IBM SPSS Statistics.

Objectives

The idea of the modernization theory goes back to "some Social Requisite of democracy: Economic Development and Political Legitimacy" written by Seymour Martin Lipset (Diamond, 2006). The impact of this article was huge because Lipset was the first person who clearly stated that "the more well-to-do a nation, the greater the chances it will sustain democracy" (Lipset, 1959, p. 75) even though there were still a number of colonial countries in Asia and Africa in that era. Lipset compares between European countries and Latin American regarding education, urbanization, industrialization, and the level of democracy. He particularly emphasizes on the importance of education. In terms of education, the lowest literacy rate in Europe, which is a completely democratic region, is 96% while in Latin America, which has some dictatorial states, is 46%. Overall, Lipset came up with the idea that there are strong relationships between economic development and democracy.

There are some counter arguments against Lipset's modernization theory. Przeworski and Limongi claim that the modernization theory is not the correct theory (Przeworski & Limongi, 1997). They use GDP per capita to measure countries' economic development. They criticize Lipest's claim that democracy can be achieved by economic development under dictatorships. If this hypothesis is correct, dictatorial countries move to democratic states when they attain enough GDP per capita to change political institutions. Indeed, the regime transformation from dictatorship to democracy is likely to occur if countries achieve more than $6000 GDP per capita. If countries succeed in earning more than $6000 GDP per capita, they tend to maintain stable democratic institutions. However, countries earning less than $6000 GDP per capita are unlikely to succeed in regime transitions. In other words, they argue that democracy is not caused by development under authoritarian regimes and is caused exogenously, not endogenously. In fact, only 19 out of 123 dictatorial states developed and achieved modernization. Furthermore, some countries achieved economic development under authoritarian regimes. Przeworski and Limongi raise some dictatorial countries, such as Singapore and Malaysia, arguing that they have developed their economy for a long time although they have maintained authoritarian regimes. Simply put, Przeworski and Limongi conclude that the modernization theory can only apply to rich countries, whose GDP per capita is more than $6000, and cannot apply to other countries.

Moreover, Lipset overlooks the different process of state formation between Europe and other developing countries. European countries were made by wars (Schwarz, 2008). States need to collect money to go to wars, so European countries developed democratic institution for taxation. Thus,the modernization theory can apply to Europe. On the other hand, state formation in third world countries is not because of wars. They were artificially made by western countries. Although most countries have achieved independence from colonialism by western countries, the influence of colonialism is strong even after the independence. For example, the boarder between Iraq and Kuwait were drawn based on interest of European countries to enjoy natural resources in Kuwait. As a result, Saddam Hussein caused the Gulf War in 1991, claiming that Kuwait should have been the part of Iraq. This example indicates that state formation in third world is unstable compared to that in European countries. Therefore, modernization theory cannot apply to third world countries because the assumption of state formation is different from that of European countries.

Although most wealthy countries adopt both capitalism and democracy, these two factors do not always stick together. Some examples are countries in the Middle East who have rich oil resources, called rentier states, like Saudi Arabia. Rentier states maintain relatively higher economies compared to other developing countries although they are controlled by authoritarian regimes (Luciani, 2016). This is because rentier states do not need democratic social contracts with their population. Since rentier states can earn money by selling oil, they do not need to collect money from their population. Thus, they do not have to levy taxation on people. They make social contract with their citizens through money from oil revenue. Another good example of non-democratic emerging nation is China. China has maintained communism even after the end of the Cold War. Although GDP per capita of China is still under developing, recent economic development of China is apparent. The existence of a communist country adopting capitalism questions the conventional view that democracy and capitalism are the two sides of the same coin. These examples indicate that the correlations between democracy and economic growth cannot apply to all countries.

Research Material & Method

Based on the arguments above, I would like to measure the relationship between the level of democracy and economic development statistically by using IBM SPSS Statistics Software. Actual numbers from statistics can measure whether hypotheses are correct or not. This hypothesis can be confirmed by running regression analysis. I chose Dem_level4 as the dependent variable. The label of this variable is "regime type." This variable is coded 1 as full democracy, 2 as part democracy, 3 as hybrid regime, and 4 as authoritarian. In other words, the more regimes are close to democracy, the less numbers are coded. I chose this variable because there are many kinds of regime types besides democracy and non-democracy today, unlike when Lipset was alive. I used GDPpcap08 as the independent variable. This is an interval variable that represents GDP per capita by US dollar. Since there are more than just two dependent variables, the linear regression analysis should be used. In this linear regression analysis, the null hypothesis is that GDP per capita does not have significant impacts on regime types. The result of the linear regression analysis is below.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.154	.099		31.821	.000
	GDP/capita WB	-3.453E-5	.000	-.505	-7.157	.000

a. Dependent Variable: Regime type (Economist 2014)

"B" means the estimation of GDP/capita and the constant. The regression equation for estimating the effect on GDP per capita on the level of democracy is

Regime types = 3.154 – 3.453 GDP/capita

This result indicates that there is a 3.453 unit decrease in the level of regime types for each one-unit increase in GDP per capita. P-value for GDP per capita is .000, which is less than .050. This means that null hypothesis should be rejected. In other words, there are strong relationships between regime types and GDP per capita. This result seems to mean that Lipset's modernization theory, there are significant relations between democracies and economic development, is proved and the critics of Lipset's argument are rejected.

Nonetheless, this result does not mean that the modernization theory is completely proved. This is because there might be some other factors that should be controlled to analyze the relations between regime types and GDP per capita. As mentioned before, there should be some elements that could be against the modernization theory. I would like to control the level of human development and the level of oil production. I added human development because it is what Lipset emphasizes on: education. If more people in a country get good education, the level of human development increases proportionally because they can learn how to develop themselves through education. Oil production can be related to rentier states, which are not democratic states. As mentioned before, rentier states, which can get money from revenue of the selling of oil, do not have to make democratic institutions. By controlling human development and oil production, there could be different results from the simple linear regression analysis between regime types and economic growths.

I run another linear regression analysis between GDP per capita and regime types, controlling human development and rentier states. From the same SPSS's World.sav, I use HDI, which is an interval variable for the measure of human development, and oil, which is also an interval variable. HDI is coded one as the maximum human development and indicates the level of human development by specific numbers. Oil production shows the level of oil production by barrel per day. These are the controlled independent variables that should be included in the analysis in addition to GDPpcap 08, another independent variable, and Dem_level4, a dependent variable. The null hypothesis is that GDP per capita does not have a strong influence on the level of democracy, controlling the level of human development and oil production. I run the linear regression analysis, us ing all of these variables. The results are the following:

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4.713	.292		16.114	.000
	GDP/capita WB	-9.236E-6	.000	-.136	-1.426	.156
	Human Development Index (HDI) value, 2010 (UN)	-3.190	.544	-.559	-5.860	.000
	Oil production, in barrels per day (CIA)	1.673E-7	.000	.244	3.770	.000

a. Dependent Variable: Regime type (Economist 2014)

There is a 9.236 unit decrease in GDP per capita for each one-unit increase in the regime types. Every time the level of regime types increases by one unit, there is a 3.190 decrease in human development. There is a 1.673 increase in oil production every time the level of regime types increases by one unit. For each P-value is .156 for GDP per capita, .000 for human development, and .000 for oil production. Since .156 is more than .050, it is concluded that there are not significant relations between regime types and GDP per capita. On the other hand, human development and oil production have significant impacts on regime types because both have .000 P-values, which are less than .050. In other words, the null hypothesis cannot be rejected if human development and oil production are controlled. Therefore, the modernization theory presented by Lipset cannot be proved. However, I should not overlook the other factors from this result besides the null hypothesis. The strong relationship between human development and regime types implies that education takes an important role in regime types. The coefficients say that there are fewer human developments in higher number of regime types, which means less democratic regimes. The significant relation between oil production and regime types represent the nature of rentier states. As mentioned before, rentier states do not need democratic institutions as they can earn money from the revenue of selling of oil. The coefficients predict that more oil production countries earn, the more likely that they adopt authoritarian regimes. Simply put, the result of this linear regression analysis rejects the modernization theory and conveys that education and oil take significant roles in regime types.

Conclusion

In conclusion, Lipset's modernization theory that there are strong relationships between the level of democracy and economic development cannot apply to every situation. Indeed, Lipset did significant jobs to come up with the concept of modernization theory because modernization theory can explain overall tendency of relationships between democracy and economic development. In practice, the simple linear regression analysis between regime types and economic development tells that they have strong relationships. However, Lipsets overlooks some detailed factors that should be taken into account. Przeworski and Limongi take significant roles in criticizing Lipset's theory. Since they use specific numbers from a variety of statistics, their grounds of the critics of the modernization theory is strong. Therefore, the combination of my regression analyses and arguments of Przeworski and Limongi can be enough grounds to criticize Lipset's claim. In fact, the relationship between economic development and the level of democracy is weak if I control human development and oil production through the linear regression analysis. One thing that was correct regarding Lipset's arguments is that education has significant impacts on democracies from the strong relations between human development and regime types. The strong relationship between rentier states and non-democratic regimes is also proved through the analysis. This result tells the reason why countries in the Middle East have failed to adopt to democracy. Overall, modernization theory is rejected.

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