



Development Institute

LESSON PLAN

Democratic Governance and Institutions for Growth

Prerequisite: CIPE Development Institute video presentation by Kim Eric Bettcher

I. Message

Institutions and policies that will favor growth are more likely to be put in place in a democratic policy environment. Some argue that democracy is less conducive to economic growth than authoritarianism, since the latter lacks the constraints that prevent those in power from swiftly undertaking growth-spurring policies. Yet the empirical evidence does not bear that claim out. In fact, the very characteristics of democracy that distinguish it from autocratic rule – such as openness, checks on authority, rule of law, and freedom of association – are the ones that make it a better environment for sustained growth. True democracy and functioning market economy share the same values of transparency, accountability, responsiveness, and constructive competition. They complement each other and provide an enabling environment where policy ideas can be freely debated and tested, and where entrepreneurs can flourish because their rights are equally protected.

II. Objectives

1. Understand what elements of good governance are necessary for true democracy.
2. Discuss the common traits of democracies and market economies.
3. Explore the advantages of democracy for good economic policymaking.
4. Challenge the myths concerning democracy and development.
5. Understand the need for private sector input into the economic policy dialogue.

III. Discussion questions

1. Is democracy better for economic growth than authoritarianism? Why or why not?
2. What are some of the advantages of democracy for economic growth?
3. What is required for the development of good economic policy?
4. Why are property rights important for growth and development?
5. What synergies exist between political and economic freedom?
6. How can citizens – including businesses – transparently and constructively participate in the policymaking process?

IV. Reading list

Required readings:

- Bettcher, Kim Eric, ed. *The CIPE Guide to Governance Reform: Strategic Planning for Emerging Markets*. CIPE, 2009. Chapter 1, “The Goal: Free-market Democracy,” and Chapter 2, “Country Analysis”
- Sullivan, John D., Kim Eric Bettcher, and Aleksandr Shkolnikov, “Business Associations, Business Climate, and Economic Growth: Evidence from Transition Economies,” CIPE Economic Reform Issue Paper no. 0807 (September 2008), <http://www.cipe.org/publications/papers/pdf/IP%2008-07%20ISNIE.pdf>.

Optional readings:

- Dewah, Elias M., “The Practice of Public Policy Dialogue in Botswana, 1988–2007,” CIPE Reform Case Study no. 0708 (November 2007), http://www.cipe.org/publications/papers/pdf/IP0708_BOCCIM.pdf.
- Diamond, Larry, “Democracy and Economic Reform: Tensions, Compatibilities, and Strategies for Reconciliation,” in *Economic Transition in Eastern Europe and Russia: Realities of Reform*, ed. Edward P. Lazear. Stanford, California: Hoover Institution Press, 1995, 107–158.
- Halperin, Morton H., Joseph T. Siegle, and Michael M. Weinstein, *The Democracy Advantage: How Democracies Promote Prosperity and Peace*. New York: Routledge, 2005.
- Rodrik, Dani, “Institutions for High-Quality Growth: What They Are and How to Acquire Them,” *Studies in Comparative International Development* 35, no. 3 (Fall 2000): 3–31.

V. Lesson plan

Democracy and institutions needed for economic growth

- 1993 Nobel Prize winner in economics, Dr. Douglass North, described the institutions that lead to productivity gains and economic growth
 - Property rights, the ability to enforce contracts, etc.
- Democracy is the best political environment for these institutions to take root
 - Mechanisms for participation in policymaking and accountability
 - Effective institutions can more likely be developed and maintained

Myth: Authoritarian governments can more easily establish policies for growth

- What if you have an unenlightened despot?
- Rule by personal relationships and patronage
- Many authoritarians distort markets instead of creating them
- Productivity and innovation don’t occur in closed, repressive environments

Myth: Developing countries can’t afford democracy

- Authoritarian regimes don’t have a better record
- Democracy can create a positive environment for markets and growth

Common elements of democracy and market economy

- Freedoms, competition, choices, and predictability (stable rules of the game)
- Values: transparency, responsibility, fair chance to participate

Advantages of democracy:

- Stability
 - Rodrik – Democracies have lower volatility in economic performance
 - Succession through predictable means
 - Rule of law protects property
 - Legitimacy – stakeholders not excluded from the system
 - Mitigates social pressures from growth
- Checks on authority
 - Limits to abuses
 - Accountability to taxpayers
 - Responsiveness
- Private sector input in policymaking
 - Source of micro-level information
 - Debate and alternative solutions, feedback
- Transparent relationship between public and private sectors
- Adaptability – avoids rigid policies and volatile policies

Real democracy entails good governance

- Effective government
 - Public administration
 - Laws and regulations
- Responsive, accountable government
 - Transparency, freedom of information, rule of law
- Citizen participation in the policy process
 - Need for diverse inputs into policy that benefit the economy overall
 - Rent-seeking undermines growth
- Freedom of association (representative and inclusive)
- Transparent public-private dialogue and decision-making
- Quality information and solutions

Botswana example

- Property rights
- Constraints on authority and responsiveness
- Development of public-private dialogue

VI. Sample test questions

1. **Which is NOT an economic policy-related advantage of democracy over authoritarian rule?**
 - a. Faster, more efficient decision-making
 - b. Opportunities for input and feedback
 - c. Attention to micro-level knowledge

- d. Greater transparency of policymaking
- 2. Political and economic freedoms are linked because...**
 - a. They encourage constructive competition
 - b. They provide choices
 - c. They encourage adaptability and innovation
 - d. All of the above
- 3. Harvard Professor Dani Rodrik demonstrated that democracy...**
 - a. Increases volatility of economic performance
 - b. Decreases volatility of economic performance
 - c. Has no impact on economic performance
- 4. Rent-seeking occurs when...**
 - a. Broad-based business coalitions engage in public policy advocacy
 - b. Groups seek narrow favors or privileges for themselves
 - c. A level playing field exists in the economy
- 5. What kind of micro-level knowledge is needed for good economic policies?**
 - a. A country's trade and financial flow balance.
 - b. Statistical projections of annual GDP growth.
 - c. Formal and informal barriers to conducting business.

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