

# Unbundling Democracy: Which Institutions Drive Long-run Economic Growth?

Markus Eberhardt\*

*School of Economics, University of Nottingham  
Institutions Trade & Economic Development (InsTED)  
Centre for Economic Policy Research (CEPR)*

*\* joint research with Vanessa Boese  
Varieties of Democracy (V-Dem) Project, University of Gothenburg*

**Case for Democracy Conference**

Brussels, November 30, 2021

## Democracy, Institutions and Long-Run Growth

- ▷▷ Existing research finding: the '**democratic dividend**' for economic prosperity is **positive and large**.
- ▷▷ But how do these studies **define democracy**?
  - ▶ Which building blocks of democracy and institutions drive economic prosperity in the long-run?
  - ▶ We start with **Liberal Democracy** and 'drill down' to its individual building blocks to answer this question.

## Democracy, Institutions and Long-Run Growth

- ▷▷ Existing research finding: the '**democratic dividend**' for economic prosperity is **positive and large**.
- ▷▷ But how do these studies **define democracy**?
  - ▶ Which **building blocks of democracy and institutions drive economic prosperity** in the long-run?
  - ▶ We start with **Liberal Democracy** and 'drill down' to its individual building blocks to answer this question.

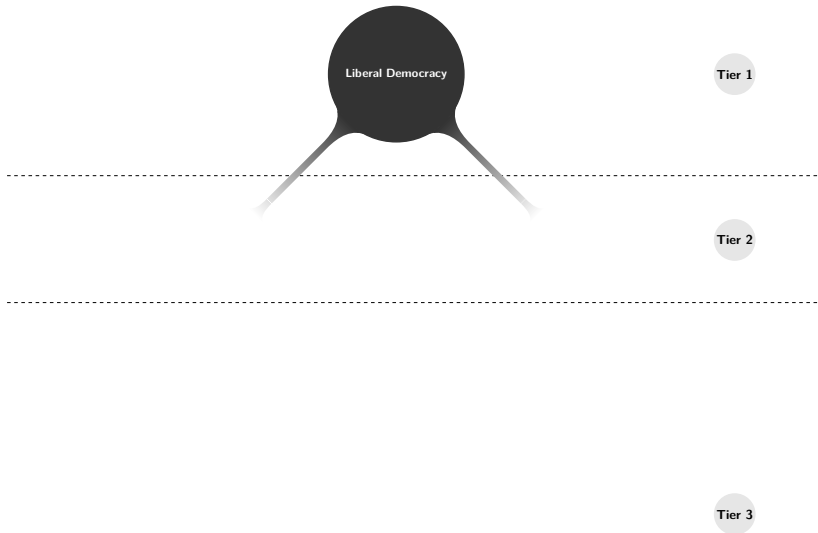
## Democracy, Institutions and Long-Run Growth

- ▷▷ Existing research finding: the '**democratic dividend**' for economic prosperity is **positive and large**.
- ▷▷ But how do these studies **define democracy**?
  - ▶ Which **building blocks of democracy and institutions drive economic prosperity** in the long-run?
  - ▶ We start with **Liberal Democracy** and 'drill down' to its individual building blocks to answer this question.

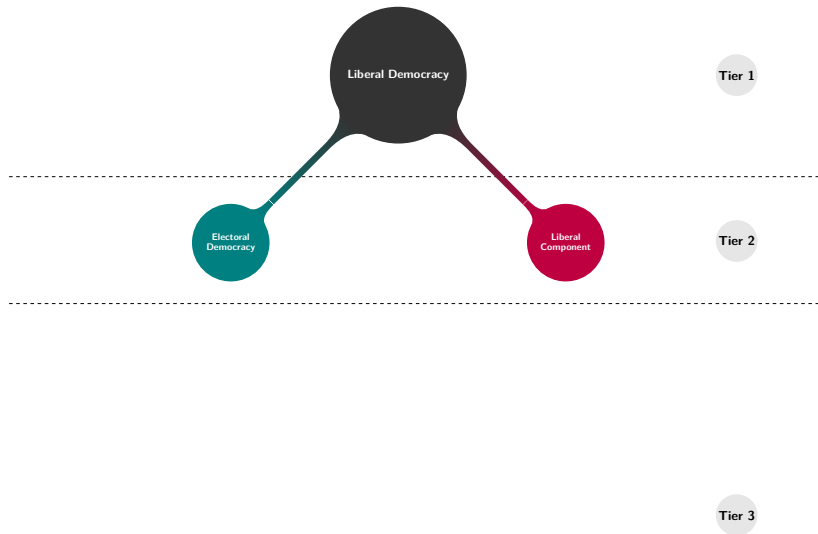
## Democracy, Institutions and Long-Run Growth

- ▷▷ Existing research finding: the '**democratic dividend**' for economic prosperity is **positive and large**.
- ▷▷ But how do these studies **define democracy**?
  - ▶ Which **building blocks of democracy and institutions drive economic prosperity** in the long-run?
  - ▶ We start with **Liberal Democracy** and 'drill down' to its individual building blocks to answer this question.

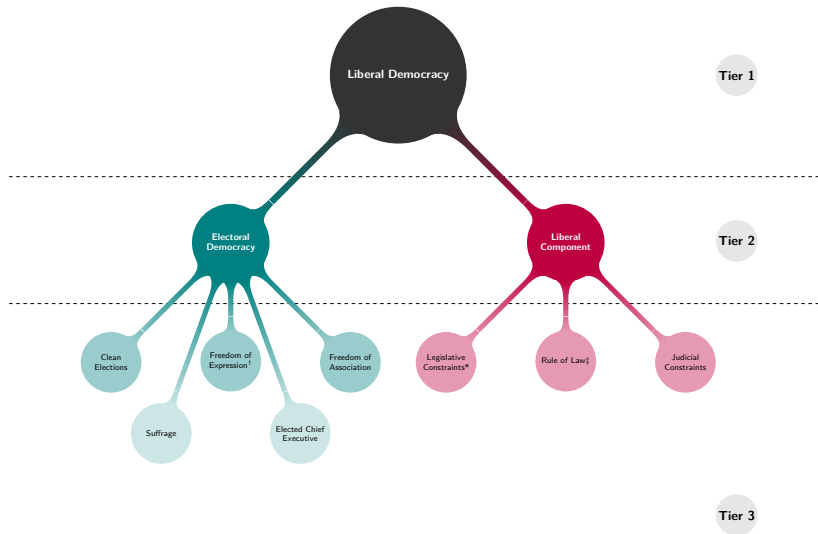
# Building Blocks of Liberal Democracy (V-Dem)



# Building Blocks of Liberal Democracy (V-Dem)

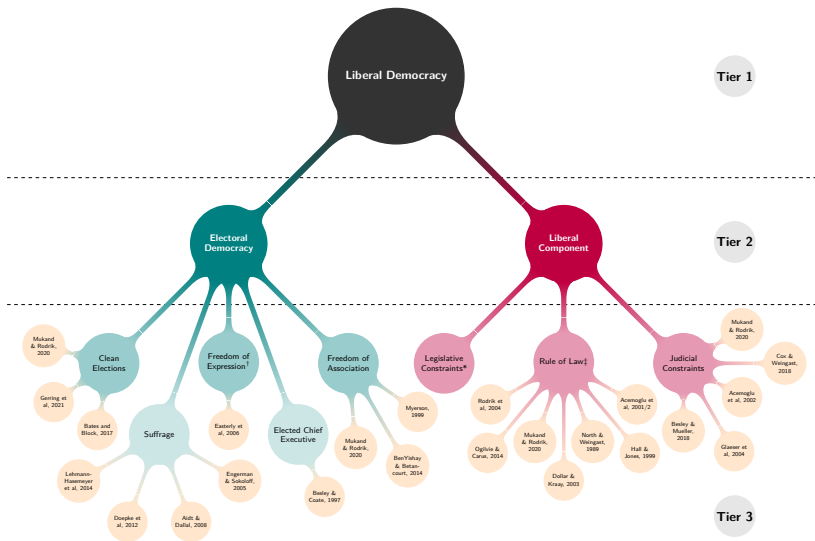


# Building Blocks of Liberal Democracy (V-Dem)

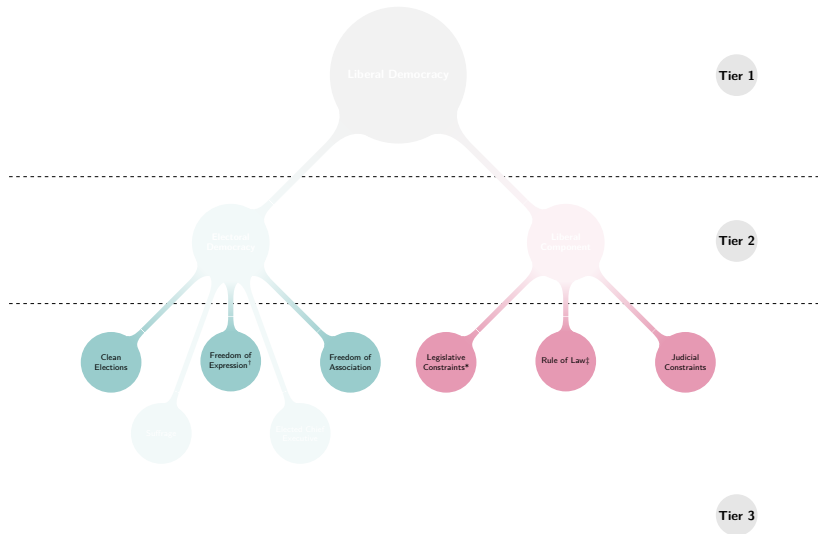




# Building Blocks of Liberal Democracy (V-Dem)

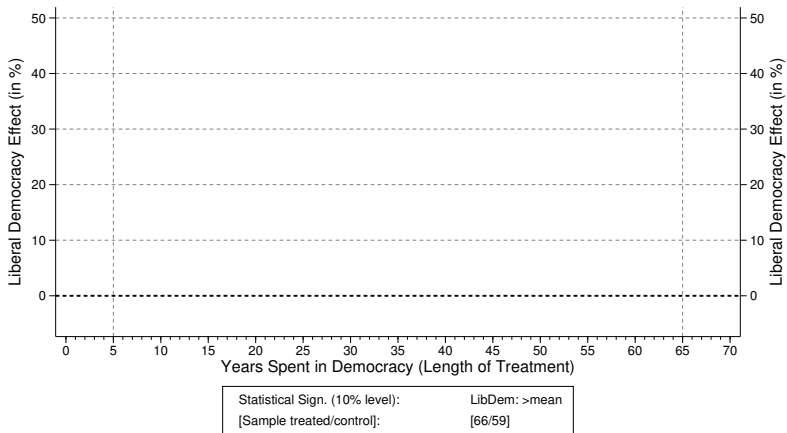


# Building Blocks of Liberal Democracy (V-Dem)



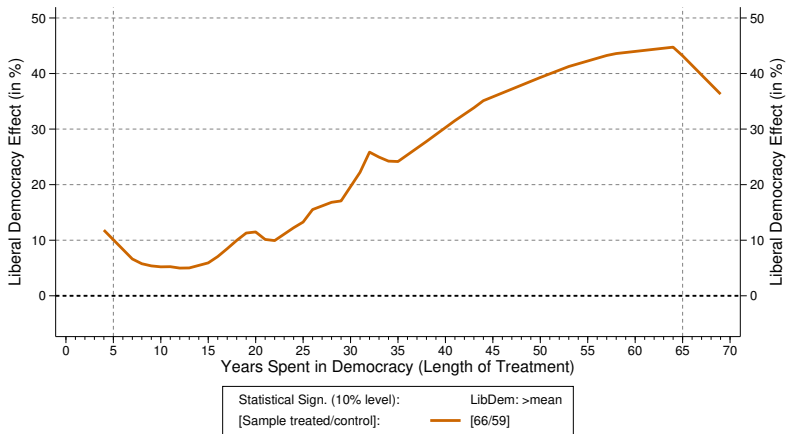
# Result #1: Democracy is the dividend that keeps on giving

## Liberal Democracy has a perpetual growth effect



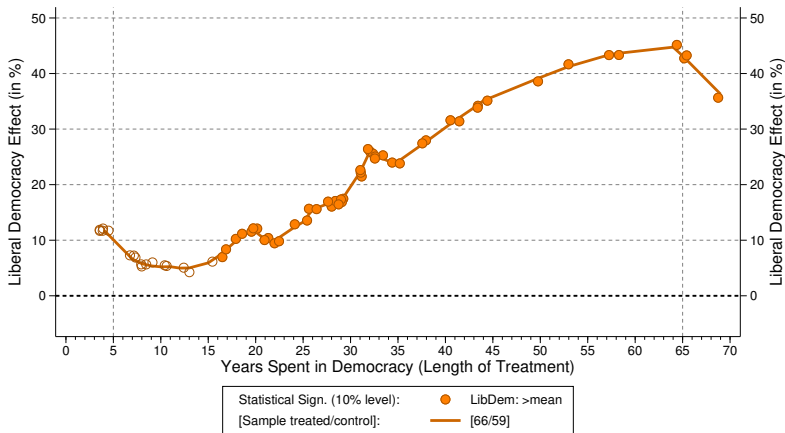
# Result #1: Democracy is the dividend that keeps on giving

## Liberal Democracy has a perpetual growth effect

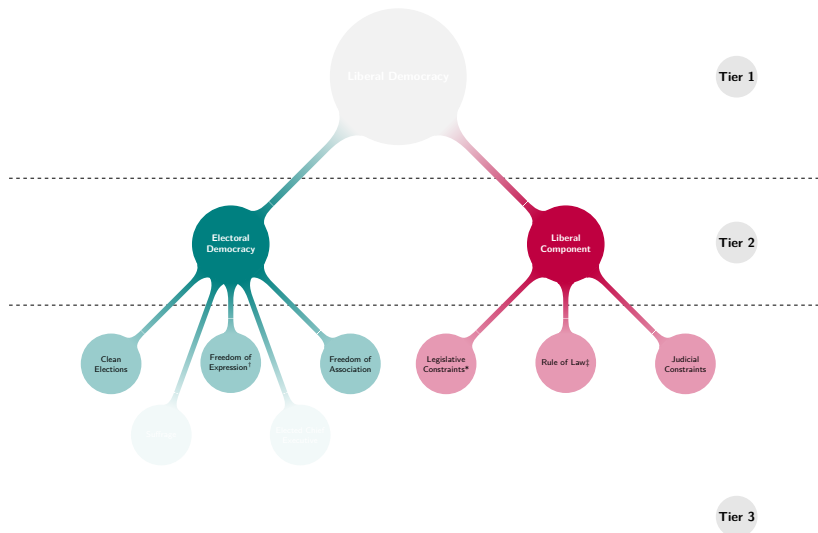


# Result #1: Democracy is the dividend that keeps on giving

## Liberal Democracy has a perpetual growth effect

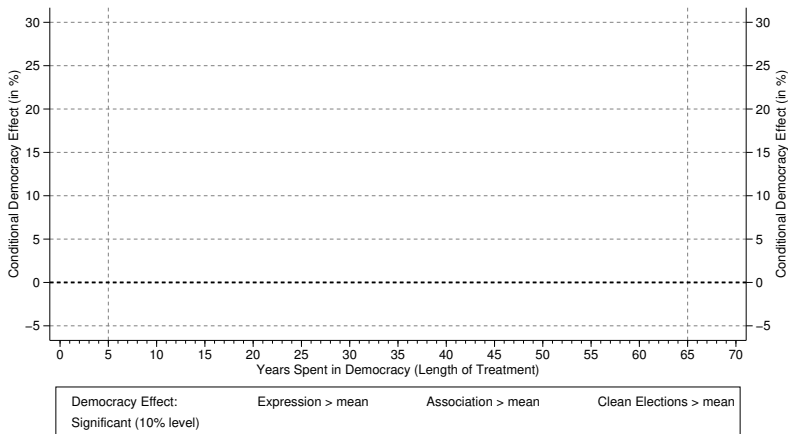


# Which of the lower-level building blocks drive economic prosperity in the long-run?



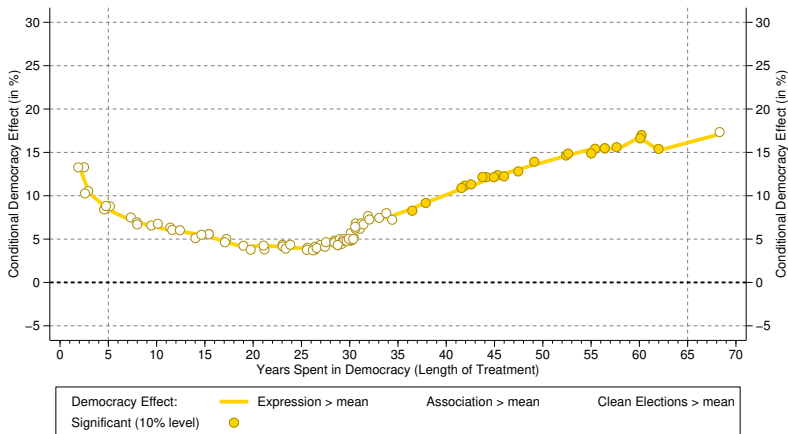
## Result #2: Freedom of Expression and Clean Elections drive the Long-Run Growth Effect

### Building Blocks of Polyarchy/Electoral Democracy (Tier 3)



## Result #2: Freedom of Expression and Clean Elections drive the Long-Run Growth Effect

### Building Blocks of Polyarchy/Electoral Democracy (Tier 3)





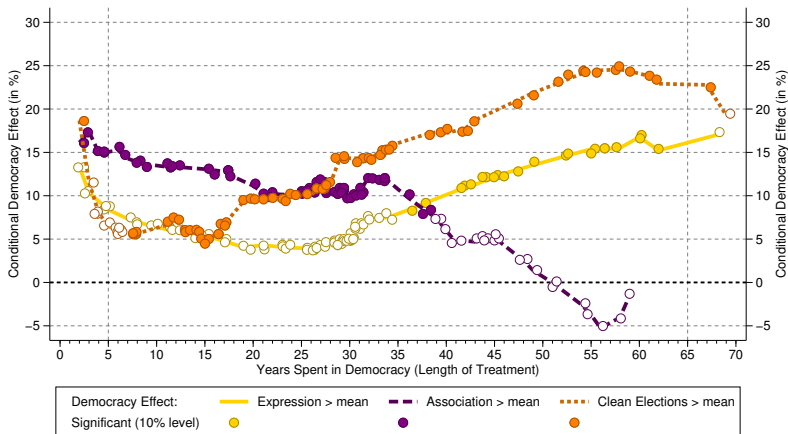
## Result #2: Freedom of Expression and Clean Elections drive the Long-Run Growth Effect

### Building Blocks of Polyarchy/Electoral Democracy (Tier 3)



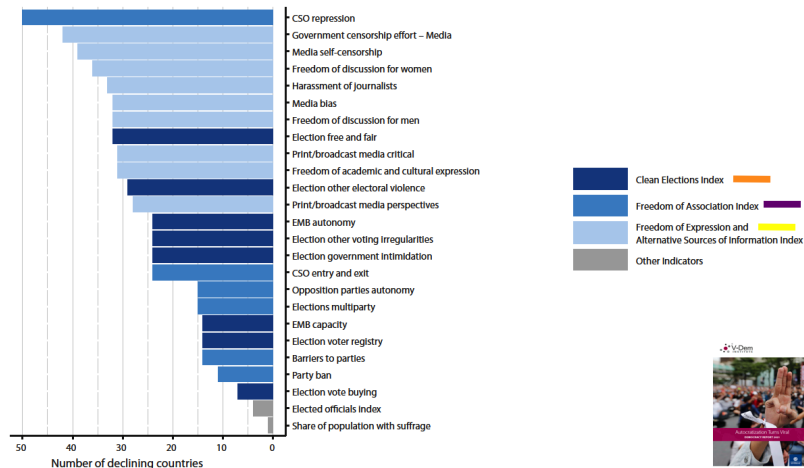
## Result #2: Freedom of Expression and Clean Elections drive the Long-Run Growth Effect

### Building Blocks of Polyarchy/Electoral Democracy (Tier 3)



# Implications of the current Wave of Autocratisation for Long-Run Economic Prosperity

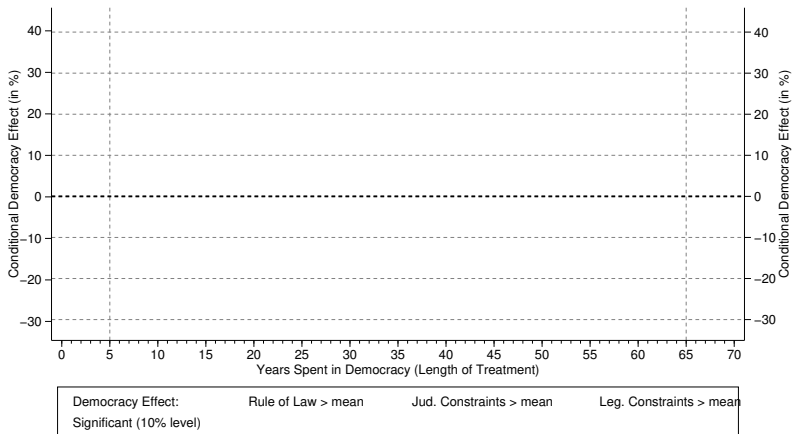
**FIGURE 13: INDICATORS OF DEMOCRACY DECLINING, SUBSTANTIALLY AND SIGNIFICANTLY, 2010–2020**



Source: V-Dem *Democracy Report 2021 – Autocratisation turns viral*

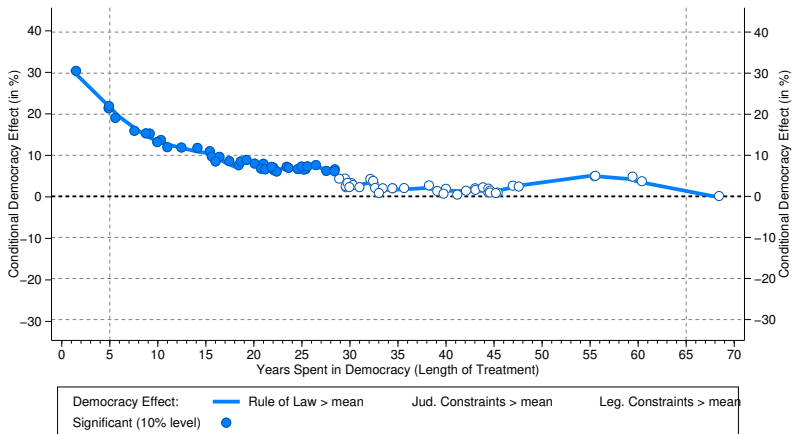
## Result #3: The Liberal Component Matters for Long-Run Economic Prosperity

### Building Blocks of the Liberal Component (Tier 3)



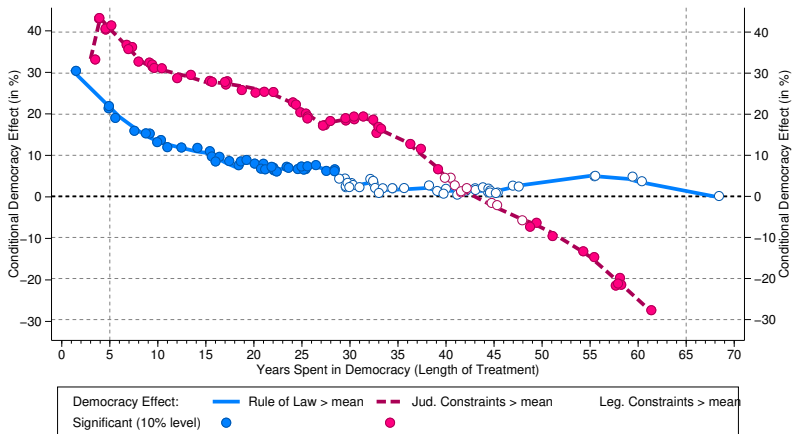
## Result #3: The Liberal Component Matters for Long-Run Economic Prosperity

### Building Blocks of the Liberal Component (Tier 3)



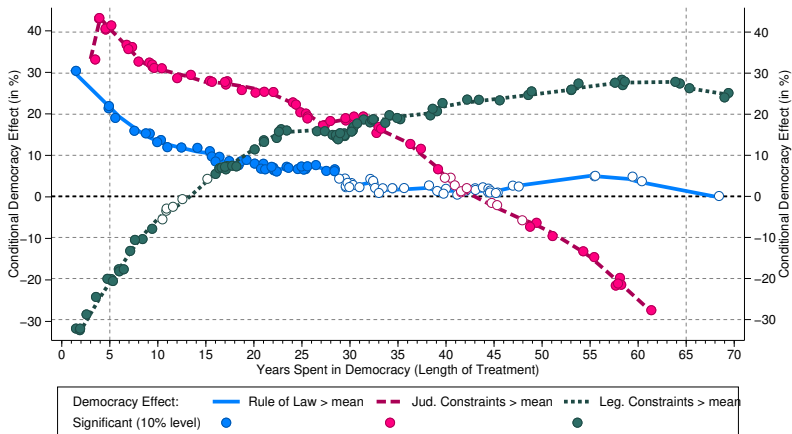
# Result #3: The Liberal Component Matters for Long-Run Economic Prosperity

## Building Blocks of the Liberal Component (Tier 3)



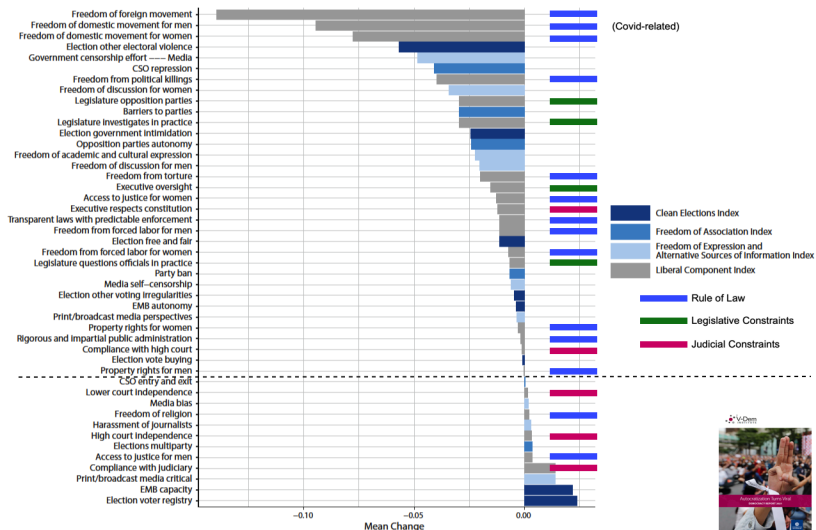
## Result #3: The Liberal Component Matters for Long-Run Economic Prosperity

### Building Blocks of the Liberal Component (Tier 3)



# Implications of the current Wave of Autocratisation for Long-Run Economic Prosperity

**FIGURE 8: CHANGE ON INDICATORS COMPOSING THE LIBERAL DEMOCRACY INDEX, 2019–2020**



Source: V-Dem *Democracy Report 2021 – Autocratisation turns viral*



## Concluding Remarks

### ▷▷ What are the building blocks of the positive liberal democracy-growth relationship?

- ▶ Drill down on 'Liberal Democracy' to see which institutions matter (most).
- ▶ Causal treatment effect models, trace institutions-growth effect over time spent 'in democracy'.

### ▷▷ Findings:

- ▶ becoming a 'liberal democracy' has a perpetual effect on economic growth;
- ▶ freedom of expression and clean elections drive the long-run growth process (electoral democracy);
- ▶ legislative constraints on the executive drive the long-run growth process (liberal component).

## Concluding Remarks

### ▷▷ What are the building blocks of the positive liberal democracy-growth relationship?

- ▶ Drill down on 'Liberal Democracy' to see which institutions matter (most).
- ▶ Causal treatment effect models, trace institutions-growth effect over time spent 'in democracy'.

### ▷▷ Findings:

- ▶ becoming a 'liberal democracy' has a perpetual effect on economic growth;
- ▶ freedom of expression and clean elections drive the long-run growth process (electoral democracy);
- ▶ legislative constraints on the executive drive the long-run growth process (liberal component).

## Concluding Remarks

### ▷▷ What are the building blocks of the positive liberal democracy-growth relationship?

- ▶ Drill down on 'Liberal Democracy' to see which institutions matter (most).
- ▶ Causal treatment effect models, trace institutions-growth effect over time spent 'in democracy'.

### ▷▷ Findings:

- ▶ becoming a 'liberal democracy' has a perpetual effect on economic growth;
- ▶ freedom of expression and clean elections drive the long-run growth process (electoral democracy);
- ▶ legislative constraints on the executive drive the long-run growth process (liberal component).

## Concluding Remarks

### ▷▷ What are the building blocks of the positive liberal democracy-growth relationship?

- ▶ Drill down on 'Liberal Democracy' to see which institutions matter (most).
- ▶ Causal treatment effect models, trace institutions-growth effect over time spent 'in democracy'.

### ▷▷ Findings:

- ▶ becoming a 'liberal democracy' has a perpetual effect on economic growth;
- ▶ freedom of expression and clean elections drive the long-run growth process (electoral democracy);
- ▶ legislative constraints on the executive drive the long-run growth process (liberal component).

## Concluding Remarks

### ▷▷ What are the building blocks of the positive liberal democracy-growth relationship?

- ▶ Drill down on 'Liberal Democracy' to see which institutions matter (most).
- ▶ Causal treatment effect models, trace institutions-growth effect over time spent 'in democracy'.

### ▷▷ Findings:

- ▶ becoming a 'liberal democracy' has a perpetual effect on economic growth;
- ▶ freedom of expression and clean elections drive the long-run growth process (electoral democracy);
- ▶ legislative constraints on the executive drive the long-run growth process (liberal component).

## Concluding Remarks

### ▷▷ What are the building blocks of the positive liberal democracy-growth relationship?

- ▶ Drill down on 'Liberal Democracy' to see which institutions matter (most).
- ▶ Causal treatment effect models, trace institutions-growth effect over time spent 'in democracy'.

### ▷▷ Findings:

- ▶ becoming a 'liberal democracy' has a perpetual effect on economic growth;
- ▶ freedom of expression and clean elections drive the long-run growth process (electoral democracy);
- ▶ legislative constraints on the executive drive the long-run growth process (liberal component).

## Concluding Remarks

### ▷▷ What are the building blocks of the positive liberal democracy-growth relationship?

- ▶ Drill down on 'Liberal Democracy' to see which institutions matter (most).
- ▶ Causal treatment effect models, trace institutions-growth effect over time spent 'in democracy'.

### ▷▷ Findings:

- ▶ becoming a 'liberal democracy' has a perpetual effect on economic growth;
- ▶ freedom of expression and clean elections drive the long-run growth process (electoral democracy);
- ▶ legislative constraints on the executive drive the long-run growth process (liberal component).

**Thank you!**

Markus Eberhardt and Vanessa Boese