

Economic Structure and Democracy: Revisiting the Causal Nexus Beyond Growth

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Abstracts

While many theorists have explored the relationship between the economy and democracy, existing explanations fall short in accounting for the recent wave of democratic backsliding in advanced economies since the 2000s. This decline aligns with reduced productive activity, falling employment, and a shrinking global wage share. The current structural changes call for a new analytical framework, one that goes beyond traditional econometrics and distributional conflict models, to understand the erosion of democracy worldwide better and to inform future policy solutions. In this paper, first, we present an alternative perspective on democracy that emphasizes the integration of formal institutional rights (de jure) with citizens' material economic access (de facto). Second, we examine econometrically the relationship between democracy and some key structural economic variables, such as the labour income share and Human Development Index (HDI), using both static and dynamic panel models (including system GMM) across 101 countries, with a focused analysis on BRICS and G7 nations over the past decade. Our findings suggest that even the liberal democracy indices, which do not account for the economic realities of the society, is also deeply rooted in its structural economic foundations. This insight supports our normative argument for the need to transform current structures to realize a more 'organic democracy', a system that harmonizes formal political rights with collective economic agency, to ensure the sustainability of democratic societies in the global political-economic order.

Keywords: Democracy, Liberal Democracy Indices, Economic Structure, Share of Labour income, Static and Dynamic Panel

JEL Classification: D72, O10, C33, C13, O43, P16

I. Introduction

In mainstream economics, it was a common belief that economic freedom, or the freedom of markets, and political freedom reinforce each other (Friedman, 1962). However, in the 1990s, when the democracy indices were made available by Freedom House, economists like Barro could not find any empirical relation between the rate of growth (indicating economic freedom) and the Freedom House democracy index (a proxy for political freedom) that supports the old belief. Rather, he observed a weakly negative relationship between the GDP growth rate and the democracy index (Barro 1996). After that, he suggested, there is a nonlinear, inverse U-shaped relationship between the GDP growth rate and the democracy index, which means that at a low level of democracy, increasing democratisation positively affects growth. However, at

higher levels of democracy, further democratisation can harm growth. So, growth doesn't require full democracy. According to this framework, the full democratic rights can be compromised if the growth rate rises. This implies that sacrificing full democratic rights to achieve greater growth is justifiable. However, the tragedy becomes even more profound when, in the contemporary world, we observe a decline in democratic rights, which is no longer justifiable, given that the growth rate is also falling in tandem with the decline of democratic rights. In the post-financial crisis era, a commensurate decline in the tendency of world democracy, as reflected in liberal democracy indices, can be observed in both developed and developing countries, accompanied by a decline in economic performance, such as GDP growth. According to the Economist's Intelligence Unit's data on Democracy, global democracy has declined (EIU report: Democracy Index, 2024). Also, we have seen that global growth has lost momentum since the 2007 financial crisis (WEF, 2024). Therefore, no further excuses remain to justify the decline in democratic rights. In this paper, we aim to explore the economic foundation of the democratic front. Democracy is derived from the Greek word *dēmokratia*, where *dēmos* means "people" and *kratos* means "power to rule." Thus, democracy signifies the power of self-governance vested in the hands of the people. Although the credit for the origin of the term and the concept of democracy belongs to Greece in the 6th century BCE, it was widely practised during the prehistoric era of hunting and gathering societies at the very dawn of human social existence (Graeber & Wengrow, 2021; Encyclopaedia Britannica, n.d.). In a sense, democracy represents a natural state of an equal society. Although the name was coined much later, the essence of democracy has been present in practice since the very beginnings of human society. However, as soon as wealth inequality emerged and a hierarchy formed within and between societies with the advent of agriculture, this natural state of democracy was disrupted and slowly abolished by growing disparities in wealth and property ownership among the members of the societies. (Graeber & Wengrow, 2021; Scott, J. C. (2017); Sahlins, M. (1972); Flannery & Marcus (2012); Polanyi (1944).). According to the available historical evidence, thousands of years later, in the 6th century BCE, an attempt was made to rebuild an imitation of the original democracy. However, in this case, democratic rights were shared only among privileged non-slave adult males, a tiny portion of the entire Greek population. This artificial version of democracy only weakly resembles the original natural democracy. Greek democracy was not founded on the *de facto* basis of economic equality in wealth and property ownership among its entire population as a fundamental condition for the existence and sustenance of true democracy. Rather, it created *de jure* legal institutions and laws to protect only those who had access to economic opportunities. So, the Greek version represented an alienated form, disconnected from the universal economic condition of the society. Since then, human civilisations have continued with the same uneconomic democracy where the perception of *de jure* democratic rights is no longer associated with universal economic accessibility. In the 20th century, these *de jure* rights (such as formal rights to elect political representatives, freedom of speech, civil liberty, etc.) were stretched to such an extent that almost all of the ordinary people were included; however, their economic accessibility and class belongingness remained unaddressed. So, we can conclude that even though the quality of democracy has improved since the time of the Greek civilisation, the formal democracy today, which floats on the surface of any political society, fundamentally remains alienated. Procedural participation, regular elections, and legal equality primarily define today's formal or liberal democracy. Formal democracy does not explicitly address the fundamental economic problems, such as inequalities that exist within a country. Here we must note that while a country is defined as a political unit, its political identity is significantly diminished without a functioning economy. In this paper, we will see that maintaining the lifeline of a separated democracy from its core (political-economic questions) is not easy for a prolonged period.

In this study, we would like to analyse the important, albeit indirect, relationship between economic performance and liberal democracy indices. While conventional liberal democracy indices predominantly focus on procedural aspects such as electoral participation, legal equality, and civil liberties, we would like to theoretically and empirically argue that economic dysfunction can exert a tangible influence on these seemingly independent measures. Specifically, we hypothesise that an economy's poor structure and performance create conditions that undermine the foundations of liberal democracy, leading to a measurable decline in democracy indices, which do not explicitly incorporate economic variables. The remainder of this study is structured as follows: Section II discusses the background and research gaps of this study. Section III presents the theoretical underpinnings of the relationship between the economy and democracy. Section IV details the empirical investigation, including the data and results, designed to assess the impact of economic performance on measures of democracy. The final section provides the conclusion.

II. Background and Research Gaps

Social scientists have been struggling for a long time (starting with Lipset in 1959) to frame a generalised and straightforward relationship between the economy and democracy, as accurate methodologies have yet to be developed to understand this relationship. In this regard, the modernisation theory posits that economic development leads to democracy. As societies industrialise, urbanise, and become more educated, they tend to adopt democratic institutions. Economic growth leads to higher incomes and creates a larger middle class, which in turn demands greater political participation. Simultaneously, urbanisation and education also foster rational-secular values and civic engagement (see Lipset, 1959; Lerner, 1958). This theory posits that capitalism is a precondition for democracy. Development aid or market reforms are seen as ways to “modernise” poor countries and encourage democratic transitions. However, this theory overlooks issues such as imperialism and global dependency. It views capitalism as a neutral force rather than a system of class domination. It treats democracy as a cultural by-product of wealth, ignoring structural power dynamics that exist in a capitalist society. The resource mobilisation theory focuses on how social movements and political change, including democratisation, depend on the availability and strategic use of resources, such as money, networks, media access, and organisational capacity. One implication of this theory is that poor economies may lack the resources to sustain pro-democracy movements. Political participation and democratic transitions require economic capacity (see Jenkins, 1983; McAdam, 1982). However, unlike Lipset (1959), Moore (1966) argued that there is not necessarily a simple and linear causal relationship between economic prosperity (in terms of per capita income) and the level of democracy; according to him a strong capitalist class is required for establishing and maintaining the democratic institutions in a modern state which emerged in the struggle with the pre-existing feudal elites. He explains how successful bourgeois revolutions enabled the establishment of democratic institutions, but he did not guarantee their resilience against capitalist oligarchy. The existing literature offers varied perspectives on this particular arena. Bernhagen (2018) highlights the inherent tension between capitalism and democracy. He argues that while capitalism prioritises property rights, democracy emphasises personal rights. Cohen (1977) argues, using the classical labour theory of value, that the so-called freedoms provided by capitalism of exchanging someone else's labour power and owning the value produced by that labour actually undermine the personal freedom of the worker, even if they voluntarily entered into the transaction. with some provided by capitalism Furthermore, Bernhagen posits that the inequality generated by capitalism can have a dual effect, either fostering or impeding democratisation processes. Rudra (2005) provides a related argument,

noting that the pro-democracy effects of globalisation are contingent on the presence of sufficient welfare spending. This suggests that mitigating the negative consequences of globalisation through social safety nets is crucial for successful democratisation. Gasiorowski et al. (1998) found empirical support for socioeconomic factors related to development, the influence of neighbouring democracies, and high inflation rates as significant determinants of democratic consolidation. However, their analysis indicated that other factors, such as specific aspects of political culture and the design of democratic institutions, did not demonstrate a statistically significant impact on democratic consolidation. Robinson (2006) describes how most empirical studies lack an explanation of the causality between the growth of per capita income and the growth in the level of democracy, despite the strong correlation between these two, especially after the great divergence in per capita incomes since 1800 (Pomeranz, 2000). James A. Robinson's 2006 framework, developed in collaboration with Daron Acemoglu, employs an elite-centric methodology in which elites' strategic calculations primarily sustain democracy to prevent mass uprisings. Within this framework of democracy, the demos (the people) are not even a direct player, and democracy is not a natural outcome of societal progress; rather, it is a strategic concession by elites to preserve their economic interests against the citizens. Its survival depends on the elites' continued fear of unrest. Treisman (2015) demonstrates how GDP-centric metrics overlook structural factors, such as colonial legacies and resource dependence. He highlights the core contradictions, such as oil-rich Gulf countries being non-democratic despite their high GDP, and the post-war democratisation process not working in some countries, especially when the democratisation in Latin America was reversed. He also incorporated the international power structures into the process of democratisation of nations, such as the impact of the decolonisation wave in Third World countries and the pressure of the Cold War. Huber, Rueschemeyer, and Stephens (1993) incorporate the power dynamics of historical class structuring, along with transnational pressures. In this framework, capitalist growth empowers workers and the middle classes, eroding feudal hierarchies and emphasising contingency and power struggles in democratisation. Kennedy (2010) argues that economic development reduces the likelihood of major institutional transformation, but it raises the chance that such a change will be towards democratic reform. He found that economic crises rather significantly increase the likelihood of a regime change, but the type of regime that emerges after the crisis depends on the country's level of economic development. Knutsen et. al. (2019) contend that the link between economic development and democracy is especially pronounced when focusing on the electoral dimensions of democracy. Their research indicates that electoral competition is a more influential driver of the positive relationship between economic development and democratic outcomes than other aspects of democracy, such as deliberation or egalitarianism. Additionally, the empirical findings of Przeworski et al. (2000) and Acemoglu et al. (2008, 2014), which dispute a causal relationship between economic factors and democracy, have been subject to scholarly critique. Studies by Boix & Stokes (2003), Boix (2011), and Murtin & Wacziarg (2014) found that economic development, indicated by income levels or primary education rates, significantly predicted both the establishment and survival of democracies when analysing data from the mid-nineteenth century onward. Democracy measures often have an upper limit, causing "top-censoring" that can distort research results. When democracy measures are adjusted to account for top-censoring, studies show a stronger and more significant relationship between development indicators and democracy (Benhabib et al. 2011). Fidrmuc (2021) confirms that democracy has a positive impact on economic growth, especially when it is sustained over time. Democracy is more important than economic freedom globally, but both matter in post-communist countries. Balaev (2014) proposes considering the time lag involved when analysing the effect of economic development on democracy. The class-based Marxist theory views democracy as a contingent outcome of the class struggle. Under

capitalism, economic relations of production shape the political system. Here, formal democracy serves as a mechanism to manage class conflict, rather than dissolve it. True democracy, both economically and politically, is only possible in a post-capitalist society (see Wood, 1995). In this regard, Branco (2011) argues that studies examining the effect of economic development on democracy often inadvertently delink the two concepts. He critiques neoclassical economics for lacking democratic values, asserting that modern economics undermines democratic ideals. This is done, according to Branco, by marginalising ethical considerations, citizen participation, and collective decision-making within its frameworks, thereby undermining democracy. We find Ghardallou and Sridi's (2020) view, which summarises the mainstream literature's perspective, suggesting that democracy is a political system where power originates from the people, but it requires more than just institutions and voting. Individuals have the right to express themselves and engage in public debate at all levels, and freedom of the press is essential for access to information, expression, and dissent. However, no direct link to economic phenomena was established. To summarise, we can say, as mentioned, that there are countless studies on the relationship between the economy and democracy. There are many studies investigating the simple relationships that exist between economic prosperity (per-capita income) and democratisation such as Lipset's 1959 modernisation theory, Barro's 1996 'Democracy and Growth' while some studies particularly focused on the class aspects where it is shown that there are broadly two kinds of class conflicts that shape the level of democracy and its sustainability in a society.

1. Conflict between elites and citizens (between Haves and Have-nots)
2. Conflict between the different groups of elites with different economic interests (Intra-Haves)

This is an insightful contribution to the literature, which attempts to understand the relationship between the economy and democracy from a class perspective. However, these literatures consider only the conflict between feudal elites and industrial elites when it comes to the analysis of the conflict between the elites in terms of setting the democratic levels of society, which is not adequate enough to provide a solid framework in understanding the erosion in the levels of democracy among the advanced countries of the contemporary world where the level of industrialisation is already at a maximum level and has a negligible influence of feudal elites in these countries. The second most common problem arises when these models consider only distributional factors (such as Taxation, social security, etc.) as the core of these conflicts, rather than production questions (such as privatisation, employment, inflation, etc.). This particular problem stems from an outdated understanding of the late 17th-century to early 18th-century pre-industrial economy, when there was no concept of employment-unemployment. Most of the ordinary people belonged to the peasant class, working in agricultural lands and producing sufficient crops for their consumption, so unemployment was not a significant issue. Still, the main problem arose from the tax burden imposed by monarchs, military, bureaucratic, and feudal elites. There was also a problem of conflict between the elites over the question of how much of the collected tax would be allocated among the different groups of elites. It is undeniable that these conflicts over taxation also played a vital role as a central issue in shaping democratic norms in society during the transitional period from an agricultural (feudal) economy to an industrial (market-oriented) economy. However, this remains no more relevant (at least as a central question) in the analysis of the democracy-economy nexus in the 21st century, where the bigger question has become the production and ownership itself (Unemployment, Inflation, Privatisation, etc.) instead of redistribution (Taxation). Even now, the distributional problems are not entirely in the hands of the political elites (as understood in traditional class politics), as financial globalisation controls both the production and distributional aspects of the economy today. When the free market is not only free but also

controls both the masses and the political elites to serve the interests of the economic elites. So, there is another problem that arises: the political elites are no longer directly connected to the economic interests of the free market entity; rather, they have become mere commodity sellers (who offer attractive services to their voters to be elected) in the political market with electoral competitiveness (Anthony Downs, 1957) so the political elites are now subordinated to the free market economy. Therefore, they have limited control over the economy to create employment, control inflation, and protect public infrastructure from privatisation, given their small government size. In this situation, the political elites may promise to provide economic well-being to the masses. Still, these promises are hard to keep after winning the election, even with the best intentions to deliver promises of well-being to the masses in terms of both the distributional aspect (progressive taxation and social welfare) and the production aspect (Employment, inflation, providing, and sustaining public infrastructure and resources). The third problem arises in terms of the omitted variable problem discussed by Robinson (2006), which suggests that there is a clear correlation between economic variables (such as Per-capita income growth) and the level of the democracy index, but there is no causation between them. Robinson (2006) correctly pointed out that there is an omitted variable problem coming from outside of the model, but the question is, what is that omitted variable? According to Max Weber (Weber & Kalberg, 2013), this omitted variable is likely to be a religious institution, specifically Protestantism; however, others have explained the role of colonial institutions (Engerman & Sokoloff, 1997; Acemoglu et al., 2001, 2002). James Mahoney sheds some light on how the mode of integration into global markets during colonial and postcolonial periods shapes long-term political and economic development (Mahoney 2001). Although these institutional factors have a more profound influence on democratisation, they are still not enough to explain the current situation of democratic erosion, even in first-world countries where the “inclusive institutions” have already reached the highest level of achievement. The inertia of institutionalism alone cannot explain the rapid decline in the level of democracy in the 21st century, even in developed countries with well-established institutions. Our focus on the omitted variable differs, focusing on the wage share in GDP as a structural variable, which aligns with the analysis of critical junctures in the history of capital-labour dynamics by Collier and Hoeffler (2004). In our analysis the greater wage share in GDP reflects the demand driven growth which increases production and creates employment with an effective demand existing in the market due to the high level of wage instead of just profit led growth which slows down the GDP growth rate by drying out the purchasing power in the hand of the working class. In terms of democracy, in a prosperous economy with high employment and wage rates, people with greater access to basic economic, political, and social resources will experience less political unrest among themselves, which will provide stability to the democracy. Therefore, the wage share in GDP plays a vital role, influencing both growth in per capita income and the level of democracy. Institutional factors are also important, but institutions themselves are also the by-products of the various conflicts of interest between and within groups. Fourthly, all the focus of these studies is tightly concentrated within the area of positive analysis of liberal democracy, as this represents the highest development of democracy and the culmination of human civilisation's history. Still, our framework goes beyond, after contributing to the trend of positive analysis of liberal democracy, we believe to analyse organic democracy as a normative progression towards the history of democracy, which is yet to come.

III. Economic Foundations of Democracy: A Theoretical Framework

In examining the inherent, structural relationship between democracy and the economy, we will address two crucial and unavoidable questions that inevitably arise in democratic discussions.

1. What should be the smallest and largest units of a democracy?
2. Who should be considered a functional demos (people) according to their rights and accessibility in democracy?

Regarding the unit of democracy, we have seen in ancient Greece, which was divided into city-states fragmented within the empire, the units were the cities, and the citizens of these cities had the right to democratic means of self-governance, without being overly concerned with the outer world's economy and polity. But in the present, the countries predominantly exist all over the world as nation-states. Still, financially, they are not separated from each other, as financial globalisation is the dominant form of the contemporary world economy, acting as the core of the whole democratic world. In that case, the citizens of a nation-state (countries) may have access to their established governments within the units of their cities, districts, states, and countries, but not beyond that. Internationally, they have no such units. This is a crucial point to consider in a world where global finance integrates the entire planet, but there is no or an insignificant global unit to function as a democracy, keeping global finance in check and balance. Now, regarding the functionality of demos, their rights, and accessibility, let us first define them. That is the rights in terms of the *de jure* functionality of formal institutions and law (right to political participation, right to freedom of speech, etc.), as well as accessibility in terms of *de facto* economic property ownership and commonly accessible wealth (such as right to affordable education, health, housing and employment for all, affordability of participation in economic decision making for all etc.). Analysing both factors is important because the mere existence of legally protected rights does not ensure their equitable enjoyment by all citizens. The formal rights can be significantly constrained or enhanced by an individual's economic circumstances. For instance, while the right to political participation may be legally guaranteed, economic disparities can limit the ability of marginalised groups to effectively exercise this right due to factors such as lack of resources, limited access to information, or disproportionate vulnerability to political coercion. Therefore, a comprehensive assessment of democratic functionality requires considering both the legal framework of rights and the socio-economic context that shapes their accessibility. Based on these conditions, we have broadly defined three kinds of democracy since its evolution.

Evolution of Democracy

In ancient Greek democracy, it was clear that only a tiny portion of the population could enjoy both the rights and accessibility of self-governance (democracy), as the demos or citizens were free (non-slave) adult males. Women and slaves had no right to participate in the democratic process of the functioning polity. So, there was a clear distinction between Demos and non-Demos, as the women and slaves were not even allowed as Demos into the establishment. We can also observe a similar polity in 19th-century Britain; only sufficiently propertied adult males were considered part of the demos in the establishment, and they had both the rights and access to the decision-making process of the polity. In contrast, others didn't even have the rights. We can refer to this type of democracy as an exclusionary democracy. On the other hand, in the natural or organic form of democracy, where economic questions are considered an inseparable part of its core, the entire population falls under the demos, with all their rights and accessibilities, which lies on the opposite spectrum to both ancient Greek democracy and democracy in 19th-century Britain. As economic inequality and hierarchy developed within and between prehistoric human communities, organic democracy was distorted. Then, the inorganic democracy was formed in ancient Greece. To comprehend the current form of democracy, we consider the concept of organic democracy in the context of the modern world, with modifications and improvements made to address the scale and mode of production in the

economy while preserving its essential characteristics. In doing so, we find that the liberal form of democracy prevalent in the contemporary world is not fundamentally different from exclusionary democracy in terms of its separation from economic questions or accessibility. However, in terms of *de jure* institutional rights, it considers rights for the entire population within the country, irrespective of property ownership. The following table 1 categorises the fundamental differences among these three kinds of democracy in terms of their rights and accessibilities:

Table 1: Different Kinds of Democracy

Category	Organic Democracy	Exclusionary Democracy	Liberal Democracy
Rights	↑ <i>De jure & de facto</i>	↓ Limited to free males	↑ <i>De jure</i> for all
Economic Accessibility	↑ Collective ownership and decision making	↓ Property for elites	↓ Private ownership
Political Accessibility	↑ Direct participation	↓ Exclusionary citizenship	→ Formal rights, wealth-skewed
Basis of Exclusion	None (theoretical)	Gender, slavery, and class	Economic inequality

Note: ↑ = High accessibility/rights, → = Moderate accessibility/rights, ↓ = Low accessibility/rights

Source: Authors' understanding.

Today's liberal democracy excludes the economic essence of the political society not only from its heart of theoretical analysis, but also from its indices, which are created in such a way that all their efforts channel into focusing only on *de jure* electoral rights and formal liberties. Indices like Freedom House Index, Democracy Index by EIU (Economic Intelligence Unit), and Polity IV revolves around the periphery of Civil liberty and Political Rights of the individuals without diving deep into the economic core of the society, which they term as minimalist approach or middle-range approach, by masking the material issues of the core socio-economic conditions for the sake of simplicity in measurement. (Freedom House, n.d.; Economist Intelligence Unit, 2024; Marshall, Gurr, & Jaggers, 2018; Lauth & Schlenkrich, 2020). However, the underlying real problem of political tension cannot be avoided. Even in their formal measurements, socioeconomic factors such as unemployment, inflation, inequality, privatisation of national wealth, public infrastructure, and natural resources can influence the liberal democracy indices. Over the years, these economic factors can hurt the formal democratic rights, norms, and institutions. Civil liberty and political rights such as the right to vote, freedom of speech, free and fair election, political awareness, political participation, the rule of law and other individual rights become hollow formalities without the socio-economic accessibilities like fulfilment of the right to employment, education, health (including food, clothing and shelter), and the structural conditions to avail all the economic rights. The structural conditions are ample public infrastructure, adequate productive capacity of the national capital, and a wage level that ensures sufficient effective demand. For the contemporary world with its complex production structure, these are the tools for establishing an equitable society. An equitable society in every aspect of life, whether political, social, or economic, was a basic characteristic of an organic democracy, as we have previously discussed. The above structural conditions for availing economic rights can address the problems of inequality (political, social, or economic), the dominance of foreign capital, large-scale production, and other structural issues in the modern world.

Framework for Understanding the Liberal Democracy - Economy Nexus

Now, let us consider a simple model that gives us the idea of how liberal democracy indices of electoral politics depend on the fundamentals of the socioeconomic factors as discussed above: Let us consider two parties, 'Party-A' and 'Party-B', competing against each other in the election with their respective candidates. The masses can choose only one party to rule among them i. Now, let us suppose that Party-A wins the election with a majority vote over Party-B, and takes the opportunity to rule the masses by forming the government as per the rule of 'winner takes all'. However, as we have mentioned, if economic conditions are not within the government's control, especially during periods of recession, the economic crisis will translate into political unrest among the masses ii. Economic issues like privatisation of the public infrastructure and necessary public services, inadequate job opportunities due to the lack of structural capacity in the economy, lack of purchasing power due to inflation and unemployment, demand side crisis due to inefficient market and most importantly lack of government capacity to invest in building enough capacity to absorb the unemployment of the existing population and to provide sufficient social securities due to small government size can deteriorate the popularity of the ruling party. The other group of the elite (Party-B), who lost the last election, will then try to mobilise the masses against the ruling group of elite (Party-A) to give them competition in the next election iii. That catalyst can lead to a wave of anti-incumbency among the masses against the ruling elites. From that point, the competition among the elites may take a turn for the worse. Under the neo-liberal order iv, the ruling party in the government has no control over the economy to solve the socioeconomic problems of the masses. However, they have all the manipulative authority over the control of law, administration, communication and force. Therefore, there is no reason why the ruling party should continue to engage in free and fair competition with the other section of the elite in the next election, allowing the anti-incumbency wave among the masses to flourish and potentially overthrow the ruling party. Therefore, the ruling party will most likely suppress or manipulate the formal rights of freedom of speech, the right to vote, free and fair elections, political awareness, political participation, the rule of law, and other fundamental rights. All these are the formal *de jure* factors used in the mentioned liberal democracy indices. In this way, at least theoretically, economic effects should reflect in the formal liberal democracy indices (see Table 2). We are examining these relationships through our empirical study, which suggests that elite competition is a structural flaw of liberal democracy, not just an anomaly.

Table 2: Tabulated Framework: Party A vs. Party B Model

Phase	Party A (Incumbent)	Party B (Opposition)	Mass Behaviour	Outcome
Pre-Election	Campaigns on economic promises (jobs, growth).	Criticises Party A's record; offers alternative (but vague) policies.	Chooses based on perceived economic security and trust.	Party A wins via majority vote.
Governance	Implements policies favouring privatisation, austerity, or elite interests.	Mobilises public dissent against Party A's failures.	Growing disillusionment as economic conditions worsen (unemployment, inflation).	Economic crisis deepens; public trust declines.
Economic Crisis	Lacks control over privatised economy; resorts to fiscal conservatism.	Amplifies anti-incumbency rhetoric, blaming Party A for the crisis.	Protests, strikes, and demands for accountability rise.	Political unrest destabilises governance.
Political Suppression	Manipulates laws/media to	Accuses Party A of authoritarianism but	Formal rights (speech, assembly)	Liberal democracy

Phase	Party A (Incumbent)	Party B (Opposition)	Mass Behaviour	Outcome
	suppress dissent, restrict voting rights, or rig elections.	lacks the power to counter without mass mobilization.	erode; apathy or radicalization increases.	indices decline (e.g., Freedom House score drops).

Source: Authors' understanding.

IV. Impact of Economic Performance on Measures of Democracy: Empirical Analysis

In this section, we present the empirical analysis, which seeks to explore the relationship between the structure of the economy and the state of democracy, departing from the conventional emphasis on economic growth and per capita income as the primary explanatory variables. While a substantial body of literature has examined the linkages between economic performance and democratic outcomes, much of this scholarship remains inconclusive, particularly in establishing a robust causal relationship between these two factors. We posit that democracy is not merely a function of growth rates but is shaped by the way economic resources are generated, distributed, and accessed within a society.

Data and Methodology

To empirically examine the relationship between democracy and economic performance, we have identified the following variables that capture an economy's structure and its multidimensional impact on the socio-political accessibility of the masses, which is ultimately reflected in the democracy indices. The following is a detailed description of the variables used in our econometric model:

Dependent Variable:

Democracy Score (ds): The dependent variable is the Democracy Index as reported by the Economist Intelligence Unit (EIU). This index evaluates the state of democracy across countries based on the electoral process, civil liberties, functioning of government, political participation, and political culture. A higher score indicates a more robust democratic system. It varies from 0 to 10.

Explanatory Variables:

Human Development Index (HDI): As a proxy for economic development, we use the Human Development Index published by the United Nations Development Programme (UNDP). HDI is a composite indicator that incorporates per capita income, average years of schooling, and life expectancy at birth. It reflects not only growth-centric economic wellbeing but also health and education outcomes. A higher HDI is hypothesised to positively influence democratic development by enhancing the population's capabilities and voice in governance.

Labour Income Share (ls): Labour income as a share of GDP, sourced from the International Labour Organisation (ILO), serves as a proxy for the economic accessibility of the broader population. It is the key variable of our interest. Higher labour income share indicates a more equitable distribution of income and economic participation, potentially leading to greater political stability and democratic resilience. According to our hypothesis, a lack of economic accessibility leads to political unrest and causes democratic failure.

Resource Rent Share (rnt): The share of total income derived from natural resource rents, including oil, minerals, and gas, is used as an indicator of rentier economic structure. An economy with higher income from rent typically indicates a weak economic structure and

limited employment opportunities. Again, high natural resource availability attracts global finances and elites, which creates low economic accessibility and rights of the masses, resulting in a deterioration of democracy.

Trade openness (op) measured as total exports and imports of goods and services as a share of gross domestic product. Foreign Direct Investments (FDI) measured as net inflows from foreign investors as a share of GDP gives greater accessibility to the global finances and elites to the economic unit, which may harm the economic accessibility of the domestic masses, political interference from non-participants creates political instability and leads to lower level of democracy.

The manufacturing value-added share of total GDP (man) represents the structural economic stability of a country; a higher manufacturing share provides stable employment opportunities to the masses, thereby promoting economic accessibility and a more democratic unit. While the industry value-added share (ind) encompasses the overall effect of manufacturing, mining, energy, and construction fields.

Government Spending (gs): General government final consumption expenditure as a percentage of GDP serves as a proxy for the state's capacity to provide public goods and social protection. Higher government expenditure may enhance public welfare and reduce discontent, thereby strengthening democratic institutions.

The source of the above four explanatory variables is World Bank's World Development Indicators database.

Income Inequality (inq): Measured by the Gini coefficient, this variable represents the degree of income distribution inequality. Greater inequality often implies unequal access to economic and political resources, which may fuel unrest and political instability. This data is sourced from World Inequality Database (WID).

To enhance the robustness and contextual relevance of our empirical investigation, the analysis is conducted in two stages. The first stage encompasses a global-level estimation to capture broad patterns in the relationship between democracy and economic performance across countries. In the second stage, we conduct a disaggregated analysis, focusing specifically on a subset of 15 countries from the BRICS+ and G7 groupings. This two-tiered approach is motivated by the substantial structural heterogeneity among countries, particularly in terms of economic size and population scale, factors which are hypothesised to exert significant influence on democratic dynamics. The focused examination of BRICS+ and G7 economies serves as a revalidation exercise for the global findings, allowing us to assess the consistency and generalizability of our results within more comparable and economically influential blocs. By doing so, we aim to control for structural asymmetries and mitigate potential estimation bias that arises from pooling highly diverse countries into a single regression framework. The study covers the period from 2010 to 2021; for the global level estimation we considered decadal (2010-19) average data. In Table 3A and 3B, we have presented the descriptive statistics. As shown in Table 3B, the BRICS+ and G7 groups do not exhibit significant deviation from the broader sample of 101 countries, at least when considering the overall mean values (see table 3A). Table 3.B also indicates substantial between and within-group variation in the variables for the G7 and BRICS+ countries, which supports the appropriateness of panel data analysis for these groups. However, it must be noted that when considering all 101 countries together, static panel estimation does not emerge as the most suitable approach. The overall explanatory power of the static panel regression model found to be limited in this

specification. Therefore, for the broader sample, we first employ cross-sectional analysis using averaged data from 2010 to 2019.

Table 3A: Descriptive Statistics (101 Countries)

Variable	Obs	Mean	Std. Dev.	Min	Max
ds	101	5.974911	2.106594	1.548	9.886
ls	101	48.04767	9.427752	25.6891	67.9004
hdi	101	0.740604	0.155267	0.3642	0.9501
op	101	87.19946	54.4531	25.58657	399.4355
rnt	101	6.417347	9.032856	0.000253	46.77817
gs	101	31.35618	11.49597	11.95074	57.28598
man	101	13.11835	5.305219	1.266174	29.60194
ind	101	27.89817	10.77867	6.889882	65.04247
fdi	101	6.455858	20.19719	-2.35939	198.4101
inq	101	0.558395	0.091119	0.364247	0.742687

Source: Authors' Calculation

Table 3B: Descriptive Statistics (BRICS+ and G7 Countries)

Variable		Mean	Std. Dev.	Min	Max	Observations
ds	overall	6.178222	2.601699	1.71	9.24	N = 180
	between		2.676116	1.8975	9.105	n = 15
	within		0.217579	5.443222	7.003222	T = 12
ls	overall	51.79116	11.2375	20.272	63.413	N = 180
	between		11.41555	26.59183	61.71358	n = 15
	within		1.9937	44.48408	61.42308	T = 12
hdi	overall	0.836428	0.095236	0.572	0.951	N = 180
	between		0.096768	0.616083	0.941667	n = 15
	within		0.016771	0.786178	0.891178	T = 12
op	overall	58.66359	32.43569	22.77218	186.1089	N = 180
	between		32.97042	27.15201	165.2931	n = 15
	within		5.641583	32.26255	79.4794	T = 12
rnt	overall	7.081925	10.63934	0.02009	50.20364	N = 180
	between		10.25651	0.040002	32.67847	n = 15
	within		3.803183	-8.27812	24.6071	T = 12
gs	overall	37.39741	10.40706	13.00823	61.69671	N = 180
	between		10.41634	15.07011	57.83498	n = 15
	within		2.544486	31.67105	47.74508	T = 12
man	overall	14.06826	5.392248	7.925744	32.06479	N = 180
	between		5.452764	8.893433	29.15431	n = 15
	within		1.08206	10.98107	19.41226	T = 12
ind	overall	29.00138	11.00186	16.08773	63.17032	N = 180
	between		10.91441	17.04795	50.8473	n = 15
	within		3.039272	17.62462	41.32439	T = 12
fdi	overall	1.888618	1.552837	-0.89387	12.07885	N = 180
	between		0.910474	0.438835	3.518708	n = 15
	within		1.277999	-1.76891	11.18255	T = 12
inq	overall	0.56255	0.079358	0.4404	0.74	N = 180
	between		0.081249	0.450225	0.7324	n = 15
	within		0.010092	0.52935	0.604408	T = 12

Source: Authors' Calculation

Global Level Study

Here, we have selected 101 economic units based on the availability of data for the variables, which cover nearly 80% of the global population and economic activity.

Table 4A: Pairwise Correlation between the Variables under Consideration

	ds	ls	hdi	op	rnt	gs	man	ind	fdi	inq
ds	1									
ls	0.70***	1								
hdi	0.64***	0.42***	1							
op	0.11	0.04	0.30***	1						
rnt	-0.66***	-0.59***	-0.24**	-0.07	1					
gs	0.53***	0.47***	0.66***	0.18*	-0.14	1				
man	0.04	0.06	0.06	-0.08	-0.25***	-0.06	1			
ind	-0.49***	-0.43***	-0.05	-0.10	0.79***	-0.09	0.21**	1		
fdi	0.10	0.05	0.11	0.30***	-0.10	0.06	-0.21**	-0.22**	1	
inq	-0.41***	-0.29***	-0.46***	-0.20**	0.22**	-0.53***	-0.02	0.19**	-0.1	1

Note: *, **, *** implies variables are significant at 1%, 5% and 10% level respectively.

Source: Authors' Calculation

Our primary study based on pairwise correlations (see table 4A) identifies that democracy score (ds) is positively and significantly correlated with ls, hdi and gs. While rnt, ind and inq negatively related with ds. Other correlations help us to construct robust models by avoiding the problems of multi-collinearity.

We have calculated the average values of the variables for the years 2010-2019 and applied the OLS technique to estimate the following equation:

$$ds_i = \alpha_1 + \beta_1 ls_i + \beta_2 hdi_i + \beta_3 op_i + \beta_4 rnt_i + \beta_5 gs_i + \beta_6 ind_i + \beta_7 man_i + \beta_8 fdi_i + \beta_9 inq_i + u_i \dots(i)$$

To avoid multi-collinearity problems and improve the model's representation, we performed four combinations of independent variables, followed by the overall combination. The results are shown in Table 4B.

Table 4B: OLS Regression Result

	Model 1	Model 2	Model 3	Model 4	Model 5
R square	0.7498	0.6789	0.6124	0.7199	0.7531
Adj R square	0.731	0.6548	0.5877	0.7020	0.7286
F stat	39.81***	28.09***	24.76***	40.26***	30.84***
Ls	0.060***	0.063***	0.1***	.079***	0.054***
Hdi	5.817***	-	-	6.50***	5.192***
Op	-0.003	-0.001	0.001	-.003	-0.003
Rnt	-0.097***	-0.106***	-	-	-0.109***
Gs	-	0.054***	0.045***	-	0.016
Man	-0.045**	-0.029	-	-	-0.048
Ind	-	-	-.051***	-.061***	0.006
Fdi	-0.001	-0.001	-.001	-.0022	-0.001
Inq	-1.436	-1.715	-2.349	-1.094	-0.912
Constant	1.034	3.308**	2.490	-.048	0.946

Note: *, **, *** implies variables are significant at 1% , 5% and 10% level respectively.

Source: Authors' Estimation

The Ordinary Least Squares (OLS) regression results show the structural relationship between economic factors and democracy, going beyond simplistic growth narratives. Across the five model specifications, the overall picture remains robust and consistent with our theoretical expectations. The F-statistics are highly significant in all models ($p < 0.01$), validating the joint significance of the explanatory variables. labour share (ls) is positive and statistically significant at the 1% level in all specifications, ranging from 0.054 to 0.1. This means greater income participation by the working population significantly promotes democratic resilience. HDI continues to exert a strong and positive influence on democracy scores wherever included (Models 1, 4, and 5), with coefficients between 5.192 and 6.5, all significant at the 1% level. This finding suggests that improvements in human development, particularly when they encompass income, education, and health, contribute positively to democratic consolidation. Trade openness (op) remains statistically insignificant across all specifications. Its coefficients are very close to zero, indicating that greater openness to international trade, in itself, does not have a direct or stable impact on democracy levels within the countries under study. This challenges the simplistic neoliberal assumption that openness inherently fosters democracy. Resource Rent (rnt) is consistently negative and highly significant in Models 1, 2, and 5, with coefficients around -0.097 to -0.109. This strongly supports the resource curse hypothesis: higher dependence on natural resource revenues tends to weaken democratic structures by fostering elite centralization and diminishing mass political participation. Where Government Spending (gs) is included (Models 2 and 3), the coefficients are positive and significant at the 1% and 5% levels, respectively. This highlights the importance of state capacity in sustaining democracy, implying that higher government spending on public services and social protection tends to stabilize democratic regimes. Manufacturing Share (man) has a negative and marginally significant coefficient (at 5%) in Model 1 (-0.045) but turns insignificant when other variables are introduced. This indicates that although manufacturing-driven economies could initially exhibit centralised, hierarchical structures that suppress broader democratic participation, their influence becomes less clear when other economic variables are controlled. Industry Share (ind) is negative and highly significant at the 1% level in Models 3 and 4 (-0.051 and -0.061, respectively), but becomes positive and insignificant in Model 5. Foreign Direct Investment (fdi) and Income Inequality (inq) both remain statistically insignificant across all specifications, indicating that short-term changes in foreign investment flows or inequality levels alone are not strong enough to directly and immediately alter democracy scores within this framework. However, the consistently negative sign of inq still hints that inequality affects democracy negatively.

Further we constructed a dynamic panel data model to tackle the self-dependency of democracy score (ds) to its previous status. Our dynamic panel GMM model can be represented as

$$ds_{it} = \alpha + \rho L.ds_{it} + \beta_1 hdds + \beta_2 hdi + \beta_3 ind + \beta_4 ind + \beta_5 inq + \beta_6 ls + \beta_7 op + \beta_8 rnt + u_{it} \dots (ii)$$

Table 4C: Dynamic Panel regression

	Model 1	Model 2	Model 3	Model 4
	Coef	Coef	Coef	Coef
Wald chi2	3400.38	1572.18	4049.18	11776.56
Prob > chi2	0	0	0	0
L1.ds	1.107***	0.941***	1.676***	2.131**
Hdds			-0.603	-1.325
Hdi	-5.713***	-6.530**	1.248	5.095
Ind	0.033			
Inq	-10.82	-13.693*		
Ls	0.008	0.007	0.016	.022
Man		-0.034	-0.039	-.0390
Rnt	-0.038	-0.009	-0.026	.0111
_cons	8.552	13.005*	-3.856	-5.062*
Arellano–Bond AR(1)	-3.84***	-3.03***	-4.02***	-4.02***
Arellano–Bond AR(2)	0.05	0.3	-0.03	-0.03
Sargan chi2	6.48	8.98	5.53	8.16
Hansen chi2	2.24	3.16	7.33	7.97

Note: *, **, *** implies variables are significant at 1% , 5% and 10% level respectively.

Source: Authors' estimation.

In the dynamic panel regression analysis (see Table 4C), we employed the system GMM estimator to tackle the endogeneity problem arising due to the persistence of democracy scores over time and the possibility of reverse causality between democracy and economic variables. The model fits well, as indicated by the highly significant Wald chi-square values across all specifications, suggesting strong joint significance of the regressors. The Sargan and Hansen tests for over-identifying restrictions confirm the validity of the instruments, with p-values comfortably above the conventional threshold, thus implying that our instrument set is not overfitting the endogenous variables. Further, the Arellano-Bond test for first-order serial correlation is significant, while that for second-order serial correlation is not, supporting the correctness of our model specification. Starting with the lagged democracy score (L1.ds), it is found to be highly significant and positive in all models, confirming the dynamic nature of democracy where past levels strongly influence current levels. This result underscores the notion that democracy evolves cumulatively rather than through abrupt structural breaks. The coefficient of HDI is negative and significant (Model 1 and Model 2) but turns insignificant and positive in Model 4 and Model 5 while incorporating an interaction term of hdi and ds (hdds). It indicates that hdi works differently on different levels of democracy. This result further strengthens our hypothesis that economic structures, rather than growth-centric development narratives, critically determine the democratic status. The industrial value-added share (ind) is positively signed across models, although it does not reach statistical significance. This indicates a weak but positive association between broader industrial activities and democracy levels. The variable income inequality (inq) shows negative coefficients throughout, though statistical significance is marginal. Nevertheless, the consistently negative sign indicates that greater inequality is associated with lower democracy scores, which is consistent with our theoretical proposition that economic exclusion erodes the socio-political foundation necessary for liberal democracy. The labour share (ls), a pivotal structural variable in our analysis, remains statistically insignificant across all models. Although the sign is positive. The variable capturing manufacturing share (man) appears with a negative but

insignificant coefficient, implying that manufacturing-led economic structures alone are not sufficient to nurture democratic development unless accompanied by broader redistributive and political frameworks. Similarly, resource rent (rnt) remains insignificant, although the negative signs align with the theoretical expectation that economies heavily reliant on resource extraction and external linkages without inclusive internal economic structures face democratic vulnerabilities. The change in statistical significance of many explanatory variables may reflect the difference between long-run cross-country structural correlations and short-run within-country dynamics. It suggests that while some explanatory variable like labour share is a meaningful correlate of democracy in cross-sectional comparisons, its temporal variation within countries may be limited, endogenous, or absorbed by other dynamic features, particularly the dependence of democracy on its own lagged value, of the model.

Analysis of G7 and BRICS+ Countries

With only 15 countries and 12 years of data, System GMM is not feasible due to the issue of overidentification. However, to address the research question, we account for temporal variation by employing a static panel data model.

We employed is a random effect panel regression analysis as the equation (iii) shows, based on the Hausman test results:

$$ds_{it} = \alpha + \beta_1 ls_{it} + \beta_2 hdi_{it} + \beta_3 hdi2_{it} + \beta_4 rnt_{it} + \beta_5 man_{it} + \beta_6 inq_{it} + \beta_7 ind_{it} + u_{it} \dots \dots (iii);$$

$$uit = u_i + e_{it} \dots \dots (iv);$$

u_i is the unobserved individual-specific (e.g., country-specific) random effect and e_{it} is the idiosyncratic error term.

Table 4D: Panel Data Analysis

	Model 1	Model 2	Model 3
Wald chi2(6)	31.450	52.290	43.900
Prob > chi2	0.000	0.000	0.000
R-sq: within =	0.123	0.133	0.073
R-sq: between =	0.368	0.589	0.666
R-sq: overall =	0.362	0.575	0.650
Ds	Coef.	Coef.	Coef.
Ls	0.027**	0.036**	0.056***
Hdi	-5.660***	-33.591***	-30.730***
hdi2		18.063**	16.702**
Ind	-0.030***	-0.039***	
Man			-0.033
Inq	-3.652**	-3.159	-2.557
Rnt	0.012***	0.020**	0.002
_cons	12.349***	22.399***	19.004***

Note: *, **, *** implies variables are significant at 1%, 5% and 10% level respectively.

Source: Authors' Estimation

The results presented in Table 4D once again confirm the importance of economic structure in shaping democratic outcomes. Across all three model specifications, the Wald chi-squared

statistics are highly significant ($p = 0.000$), suggesting that the models as a whole are strongly predictive. The behaviour of the R-squared values is particularly insightful:

Within R-squared remains low (0.073 to 0.133), indicating that changes within countries over time explain only a small fraction of the variation in democracy scores. This is consistent with the earlier observation that democratic evolution is slow-moving and deeply rooted in structural features. Between R-squared shows a notable increase as more variables are added: from 0.368 in the simplest model to 0.666 in the most comprehensive model. This steady rise indicates that cross-country structural differences (rather than temporal dynamics within countries) play a major role in explaining differences in democracy. Consequently, the overall R-squared also rises from 0.362 to 0.650, showing that a fuller set of explanatory variables significantly enhances the explanatory power of the model. Labour Share (ls) consistently shows a positive and significant coefficient across all models. The coefficient value rises from 0.027 to 0.056 as more controls are added, and significance improves, emphasizing that broader income distribution towards labour strongly supports democratic development. HDI initially shows a strong and negative association with democracy scores (coefficients between -5.660 and -33.591, all highly significant). However, when we incorporate HDI squared (hdi^2) into the model, an important non-linear relationship emerges: while the initial increments of HDI are negatively associated with democracy, the positive and significant coefficient of HDI^2 (ranging from 16.702 to 18.063) indicates a U-shaped relationship. In simpler terms, at lower and middle levels of HDI, improvements in the standard of living might coexist with authoritarian consolidations or fragile democratic institutions. But beyond a certain threshold, as HDI rises further (capturing more mature levels of education, health, and income equality), it starts to strongly support democratic consolidation. Industry value-added share (ind) consistently carries a negative and significant coefficient (between -0.030 and -0.039), suggesting that economies heavily dependent on industrial sectors may experience weaker democratic outcomes, potentially due to structural rigidities and elite dominance. Manufacturing value-added share (man) appears in the final model but is insignificant, implying that manufacturing alone does not have a strong independent impact on democracy in this context. Income Inequality (inq) shows a negative sign throughout, and is significant ($p = 0.038$) in the first model but becomes less significant in fuller specifications. This result partially supports the hypothesis that greater inequality undermines democratic stability, although its strength weakens when broader structural variables are controlled.

Resource rents (rnt) show small positive coefficients but are mostly insignificant, suggesting that in these large, diversified economies, natural resource dependence does not play a dominant role in shaping democracy.

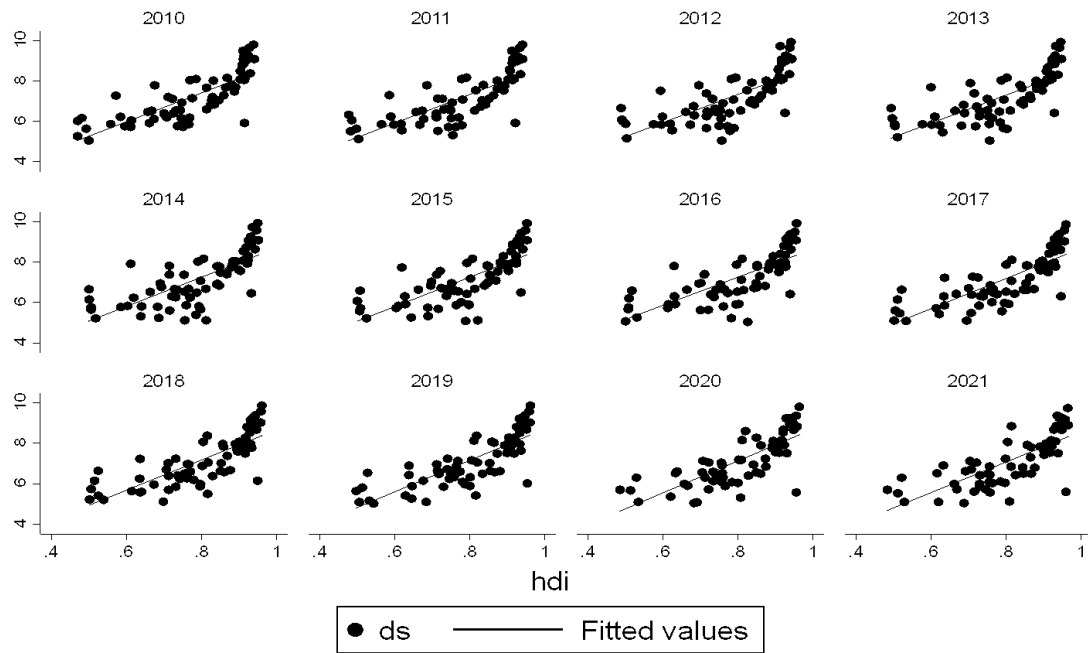
V. Conclusion:

In this paper, we have tried to explore the deeper relationship between democracy and the economy. We have emphasised theoretical analysis because it holds equal, if not greater, significance than empirical analysis, especially when working with pre-existing datasets—particularly those concerning democracy. As we have mentioned, democracy indices are not explicitly designed to address the economic foundations of democracy. Still, we have tried to unpack the cause behind the common trends between the multiple economic variables and the democracy index (EIU democracy index). The analysis that we have tried to establish is not only focused on the positive analysis of the current situation but also goes beyond to provide a normative analysis of the probable future through bridging between the historical evolution of democracy with its contemporary economic foundations, which reveals that the resilience of democratic institutions hinges not on abstract political ideals alone but on the material

conditions and structural equity of the economy. By contrasting organic democracy (rooted in collective economic accessibility) with exclusionary and liberal democracies (marked by formal rights divorced from material realities), we demonstrate that the erosion of democratic quality in modern nation-states is inextricably linked to economic inequality, rentier structures, and the disconnect between de jure political rights and de facto economic exclusion. The lifeline of democracy lies not in periodic elections but in the daily economic realities of its people. The holistic objective of this paper is to integrate de facto economic accessibility with de jure formal rights through structural changes that deviate from the conventional reductionism of simple and over-generalised economic-democracy relationships. Despite the limitations, the empirical analysis we have tried to offer in this paper is no less important than the theoretical framework. Keeping the production aspect of the economy at the centre of our empirical analysis, we have used the labour income share of GDP as the key independent variable in analysing the variability in the democracy index as the dependent variable. The findings robustly show the centrality of labour income share share in sustaining democratic health. Across global OLS regressions, a 1% increase in labour income share correlated with a 0.054–0.1-point rise in democracy scores ($p < 0.01$), which shows the high significance even after controlling for other variables like the HDI, resource rents and inequality. Economic structure (labour income share) is a more reliable and immediate lever for democratic resilience than broader human development (HDI) because HDI has a non-linear U-shaped relationship with the democracy index; before fostering it at higher thresholds, HDI has a negative correlation with democracy. labour income share remains significant even in BRICS+/G7 panel models (coefficient: 0.027–0.056, $p < 0.05$), which shows it as a structural pillar of democratic stability. Even though the dynamic panel shows a path dependency of democracy on its own lagged value, past democracy strongly predicts current democracy, indicating that democratic institutions, once established, get their own life. The labour income share still has a smaller but statistically significant temporal persistence in this model. These results empirically validate our theoretical claim that democracy thrives when economic power is diffused through wage-earning majorities, not concentrated in capital-owning elites. Trade openness and FDI don't significantly affect democracy. Their coefficients are very close to zero, which challenges the simplistic neoliberal assumption that openness inherently fosters democracy. Higher dependence on natural resource revenues tends to weaken democratic structures by fostering elite centralisation and diminishing mass political participation. Government size, as expected, has a positive impact on the level of democracy. Our analysis reveals a non-linear relationship between HDI and the democracy index: it is negative in countries with lower levels of democracy (index below 5) and positive in countries with higher democratic scores (above 5), as shown in the scatter plots in the appendix. This pattern warrants further investigation. A preliminary interpretation suggests that in affluent countries, where democratic institutions emerged through historical struggles led by the bourgeoisie against feudal elites, higher levels of democracy tend to coincide with improved standards of living. In contrast, democratisation may not necessarily translate into material gains for the broader population in many post-colonial or developing nations, where capitalist development often occurred in compromise with feudal or colonial structures. While our empirical findings are suggestive, they are insufficient to confirm this hypothesis. Exploring this dynamic remains an important direction for future research.

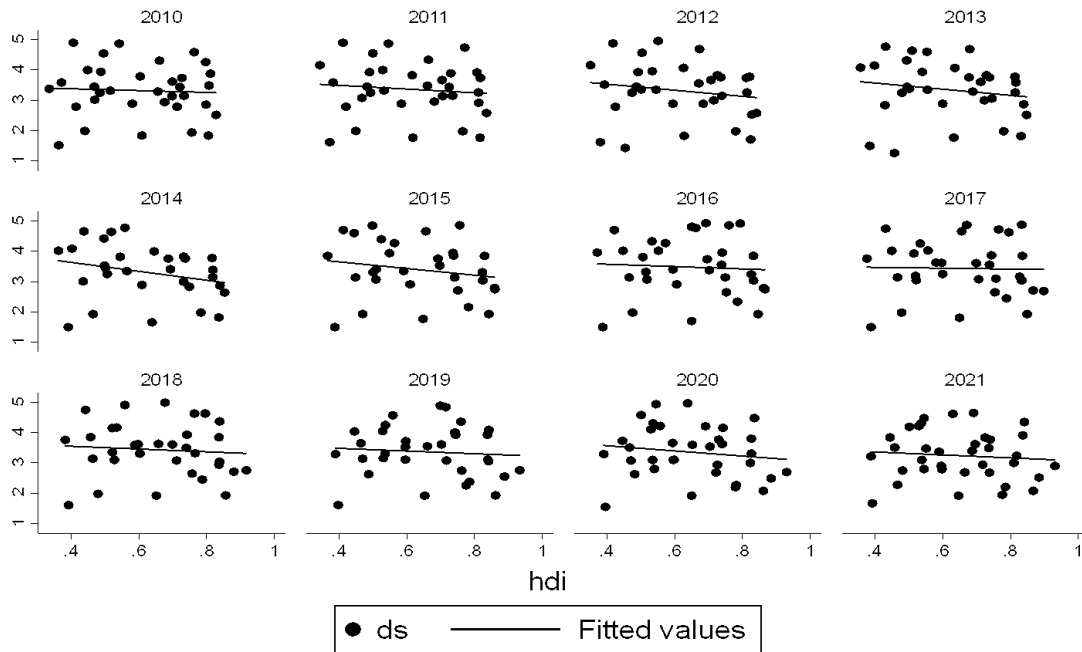
Appendix

Figure A.1: Democracy Score Vs HDI (ds>5)



Source: Author's estimation

Figure A.2 Democracy Score Vs HDI (ds<=5)



Source: Author's estimation

Endnotes

ⁱ Schumpeter's theory of democracy challenges the "classical doctrine" of democracy, which idealizes the rule of the people or the "will of the people." Instead, Schumpeter argues that democracy is not about the masses ruling themselves but about a competitive process where elites vie for the people's votes to gain power. He defines democracy as an "institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote." This elitist or competitive theory of democracy emphasizes that the role of the masses is limited to choosing their rulers, not directly participating in governance or ruling themselves. He critiques the "classical doctrine" of democracy, which idealizes the "will of the people" and the "common good," and instead emphasizes the functional efficiency of elite decision-making within democratic systems. (Schumpeter, 1942).

ⁱⁱ This dynamic aligns with Anthony Downs' spatial theory of electoral competition. In stable economies, Downs argues, parties converge toward the preferences of the median voter to maximize electoral appeal, a phenomenon he terms the One-Humped Distribution of voter preferences. For instance, both Party A and Party B might adopt centrist policies during periods of economic growth to capture the ideological middle ground. Conversely, during crises such as recessions, Downs' framework predicts a shift toward a Two-Humped Distribution of voter preferences. Economic distress polarizes the electorate into extremes, prompting parties to diverge from the center and adopt radical positions to mobilize their bases. This is how Party A/B rivalry escalates into anti-democratic tactics (Downs 1957).

ⁱⁱⁱ Although Party-B would also fail in offering any better than that of Party-A, because the pre-existing economic condition would be similar which would not allow them to take the government control over the economy in the interest of masses. But still, the masses are likely to consider Party-B over Party-A for the next election as they have only these two options of Party-A & Party-B in a liberal electoral democracy.

^{iv} Under the neoliberal paradigm, ruling parties often find their capacity to address socioeconomic challenges significantly constrained. Neoliberalism promotes minimal state intervention, emphasizing deregulation, privatization, and the primacy of free markets. This framework limits governmental tools to directly influence economic outcomes, thereby restricting their ability to implement policies aimed at reducing inequality or providing comprehensive social welfare.

For instance, in India, neoliberal policies have led to a rollback of state responsibilities in crucial sectors such as health, education, and employment protection. This shift has resulted in the dismantling or dilution of welfare provisioning and social protection systems, adversely affecting vulnerable communities.

In contrast, in ancient Greece, democratic governance was practiced at the level of the city-state, allowing citizens to exercise direct control over local decision-making without contending with extensive external economic pressures. Today, however, the dominant political unit is the nation-state, yet these states are intricately intertwined through financial globalization, which has become the cornerstone of the contemporary world economy.

^v Name of the countries are Brazil, Russia, India, China, South Africa, Iran, United Arab Emirates, Saudi Arabia (Extended BRICS members, Ethiopia and Egypt are excluded due to

data unavailability) and Canada, France, Germany, Italy, Japan, United Kingdom, United States (G-7).

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