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Democracy for Better Governance and Higher Economic Growth in the MENA Region?*
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1 Introduction

Democracy is valued in itself. The extent to which a citizen is able to live in an open society and participate in its democratic process directly affects his/her wellbeing. But democracy can also affect welfare indirectly through its effects on other aspects of the social and economic interactions that influence the wellbeing of people. Democracy can often positively affect the relative rights of social groups, such as gender-specific groups or minorities. In the economic area democracy may affect the distribution of income, with democracies, for instance, tending to pay higher wages and improve human capital. It may also affect the volatility of incomes, with democracies tending to produce fewer recessions and affect the economic rate of growth. Nobel Prize Laureate Amartya Sen observes that famines never occurred under democratic regimes.

To the extent that democratic development reinforces and is reinforced by these various positive effects, democracy will generally gain more acceptance, and opposition to it will weaken. But what happens if there are trade-offs between democratic development and any of these positive social and economic effects? What happens in cases where a democratic process brings into power a government which is able to pursue policies which undermine gender equality or the rights of a minority group? What happens in

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situations where democratic development leads for some reason to a reduction in incomes or a reduction in the rate of economic growth? In these situations, individuals and society may still value democracy despite the trade-offs. Society may introduce checks and balances and develop institutional mechanisms within the democratic process to reduce or eliminate the likelihood of a negative outcome.

In view of the complexity of the issues related to democratic development the objective of this chapter is to discuss only one topic: does democracy tend to induce higher or lower economic growth? The aim is to help to understand the links between democracy and economic growth. But it should be made clear that any finding which suggests that democracy leads to less growth would not lead to any presumption that democracy should be sacrificed for the sake of growth. This is a choice that needs to be made by any society (through the democratic process preferably!) given its special circumstances. On the other hand a positive link would reinforce the strength of argument for democracy.

The chapter focuses more specifically on the Middle East and North Africa Region (MENA) given the recent emphasis on democratic development. Actually democracy has risen dramatically on the agenda for and in MENA region countries. It has become an explicit objective of foreign policy for the USA as well as the G8. Whether it is the primary objective and whether it is being pursued effectively are issues which are subject to much heated debate. But there is no doubt that promoting democracy is high on the agenda of both the USA and the European Union in the context of its European Neighbourhood Policy. Equally, if not more important is the increased domestic pressure for change from within the region. Civil society at large has been demanding more political openness over the last few years. This has been more eloquently and forcefully expressed in the United Nations Development Programme (UNDP) Arab Human Development Reports.

The reasons for the recent call for democratic change are varied and complex. For foreign players, these may be connected to possible or presumed links between the lack of democracy and ‘terrorism’, or between democracy and ‘security of borders’. For domestic actors, the reason may simply be that the people of the region aspire to greater empowerment and freedom after decades, if not centuries, of political oppression. But this chapter will not delve into those issues. Nor will we look into the determinants of democratic development. For instance, there is a large literature and much debate about whether economic growth fosters democratization as first advanced by Lipset (1959). Most recently Friedman (2005) argued that over the long run a rising living standard fosters openness, tolerance and democracy, while recognizing that in the short run economic growth makes more secure whatever political structure may be in place; and economic stagnation and crisis may undermine a non-democratic regime. Also in a recent review de Mesquita and Downs (2005) argue that while economic growth results in higher incomes