The Influence of Democracy on Economic Growth

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November 2025

Stanford
Democracy
Action Lab
Center on Democracy, Development and the Rule of Law

Democracies generally do not possess an intrinsic economic advantage over autocracies, but they tend to sustain less volatile economic growth. Scholarly debate concentrates on the causal link between democracy and economic development, seeing as this relationship can be context-dependent and heterogeneous across different forms of democracies and autocracies. However, stronger institutions of accountability and protections for economic rights in democracies have the potential to foster long-term GDP gains.

The Case for Democracy series. This brief is part of the The Case for Democracy series, which curates academic scholarship on democracy's impacts across various domains of governance and development. Drawing from an exhaustive review of the literature, this analysis presents selected works that encompass significant findings and illustrate how the academic conversation has unfolded. For more on the series, please visit `https://cddrl.fsi.stanford.edu/dal/research`.

Background

Early modernization theorists like Seymour M. Lipset proposed that prosperity naturally leads to democratic governance. Yet cases like South Korea and Singapore motivated theories by scholars such as Samuel P. Huntington and Joan M. Nelson who emphasized the efficiencies of authoritarian systems in implementing rapid industrialization policies, implying that democracy could hinder growth through gridlock and electoral cycles. Contemporary findings challenge both of these overarching conclusions, introducing nuance into the theoretical modeling of the relationship between regime type and growth and addressing the issue of reverse causality inherent to this question.

Innovation in Analysis

Adam Przeworski, Michael E. Alvarez, Jose Antonio Cheibub and Fernando Limongi (2000)'s landmark study redefined the discussion on the link between economic development and democracy.[1] Despite the strong correlation between democracy and growth, their analysis confronts the fundamental inferential challenge of endogeneity; that democratic consolidation may lead to wealth, and that vice versa that wealth may lead to consolidated democracy. In distinguishing between endogenous and exogenous effects, they

[1] Przeworski, Adam, Michael E. Alvarez, Jose Antonio Cheibub, and Fernando Limongi. 2000. *Democracy and Development: Political Institutions and Well-Being in the World, 1950–1990*. Cambridge: Cambridge University Press.

conclude that while wealth does not directly cause democratization, it dramatically increases the survival of existing democracies, which rarely collapse in affluent countries but remain vulnerable in poorer ones. Earlier research primarily utilized bivariate correlation analysis, cross-tabulations, descriptive statistics, simple linear regressions, and case studies, which authors note these approaches are ill-suited to distinguish causal mechanisms or transition probabilities accurately.

The data: The correlation between democracy and development is a classic example of endogeneity (or reverse causality), which means that observing that democracies tend to be wealthy is insufficient to conclude that democracies produce growth because growth may itself produce democracy. In theory both of these processes may occur: democracy can foment growth, and growth can generate democracy. Przeworski et al. (2000) clearly lays out this challenge. For example, while we observe Chile's high economic growth upon democratization, we cannot know for certain how Chile's economic growth would have been if instead of democracy Chile would have had autocratic retrenchment. In light of this problem, known as the fundamental problem of causal inference, social scientists use exogenous variation, or "shocks", to democratic consolidation that are not driven by changes in economic growth to estimate the causal effect.

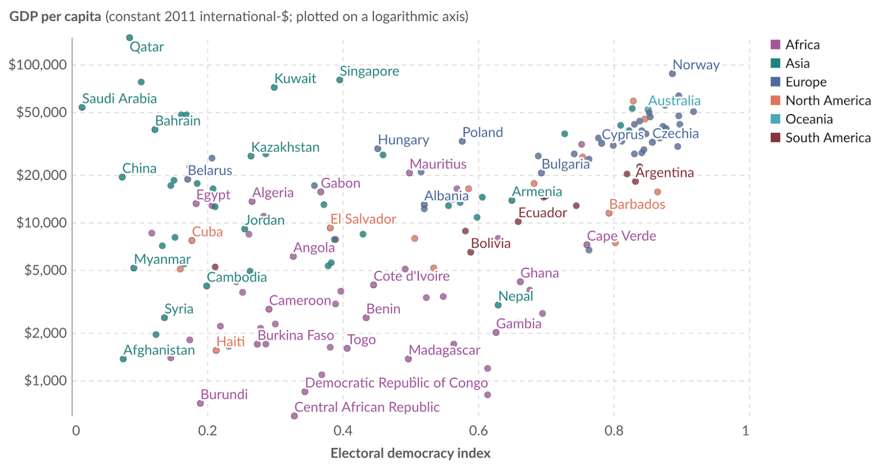

Figure 1: Correlation between GDP per capita and Electoral democracy Index (2022). GDPpc is adjusted for inflation PPP. The electoral democracy index is by V-Dem. Taken from `https://ourworldindata.org`

Their findings dismiss the notion of a tradeoff between democracy and development. Although democracies do not guarantee superior economic performance, autocracies are not necessary to produce growth. Upon employing a mix of historical, qualitative and quantitative methods to study examines growth rates and regime trajectories between 1950 and 1990, authors find that below a $3,000 per capita income threshold, democracies and dictatorships exhibit similar economic growth performance. Steven Radelet (2015) confirms that indeed poorer democracies and non-democracies average similarly annual per capita GDP growth (3%).[2] However autocracies can produce both very high growth like China and also very low growth like Venezuela, while democracies are less likely to produce the extremes. Figure 1 illustrates this point well, with autocracies exhibiting a much wider variation in their economic performance compared to democracies. In terms of wealthier nations, Przeworski et al. (2000) find that both types of regimes can produce robust growth through different strategies. Authors posit that authoritarian regimes suppress wages and channel resources into capital investment, whereas democracies tend to generate growth through a more balanced distribution of resources.

[2] Radelet, Steven. 2015. "The Rise of the World's Poorest Countries. Journal of Democracy 26 (4).

A DECADE LATER, MORTON HALPERIN, JOSEPH SIEGEL, AND MICHAEL WEINSTEIN (2010) further examine the features of democracy that lead to economic growth.[3] Rather than the growth through redistribution that Przeworski et al. (2000) propose, authors argue that democracies can produce growth when they have strong institutions of accountability. They show that between 1980 and 2005, low-income democracies with strong accountability institutions grew at an annual per capita rate of 2.3%, compared to just 0.99% for those with weaker institutions. Institutions tied to economic rights, including property rights, contract enforcement, and capital mobility, accounted for approximately 47% of the observed economic growth.

[3] Halperin, Morton H, Joseph T Siegle, and Michael M Weinstein. 2010. The Democracy Advantage: How Democracies Promote Prosperity and Peace. New York: Routledge.

Democracy's Economic Advantage Down the Line

STUDYING WHETHER TRANSITIONS TO DEMOCRACY PRODUCE ECONOMIC GROWTH has been a key source of evidence on this question. Torsten Persson and Guido Tabellini (2006) were part of the early scholarship addressing this question analyzing a panel regression analysis with annual data from about 150 countries from from 1850 to 2000.[4] Their main findings corroborate that certain conditions pre-democratization and post-democratization improve the chances of democratization yielding high economic growth. Countries that liberalize their economies before democratizing tend to experience better economic growth, suggesting that economic openness may prepare a country for more successful democratic reforms. Their findings also suggest that countries transitioning into presidential democracies - compared to parliamentary ones - to lead to faster economic growth compared to parliamentary democracies. Moreover, expectations of regime change, including anticipated democratic reform or autocratization, impact investment decisions and growth; accounting for these expectations reveals a more substantial positive democracy effect than simply observing actual regime changes.

[4] Persson, Torsten and Tabellini, Guido. 2006. "Democracy and development: The devil in the details." American Economic Review, 96(2), pp.319-324.

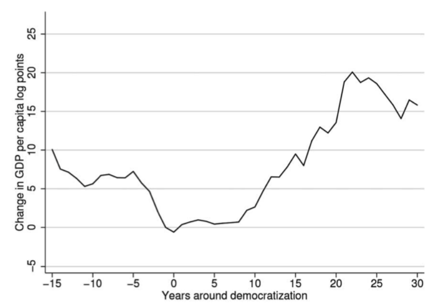

Figure 2: Change in GDP per capita around democratization episodes. The graph shows the relationship between years around democratization and change in GDP per capita gap. Taken from Acemoglu et al. (2019).

DEMOCRACY'S MOST MEANINGFUL ECONOMIC ADVANTAGES BECOME APPARENT AFTER DEMOCRATIC CONSOLIDATION, when democratic institutions have had time to mature beyond the immediate post-transition phase. Elias Papaioannou and Gregorios Siourounis (2008) find that when countries transition to democracy, there are important gains to economic growth after their fifth, sixth and seventh post-transition year.[5] Democratic consolidation is associated with roughly 1% higher annual per capita GDP growth after their consolidation (around the fifth, sixth, and seventh post-transition year). Importantly, backsliding from democracy to autocracy results in slower growth, suggesting that the growth benefits are specific to

[5] Papaioannou, Elias, and Gregorios Siourounis. 2008. "Democratisation and Growth." The Economic Journal 118 (532): 1520–51.

the process of sustained democratization.

More recent findings strengthen the evidence for consolidated democracy's positive growth effects. Daron Acemoglu, Suresh Naidu, Pascual Restrepo, and James A. Robinson (2019) .[6] conduct an analysis on the basis of a consolidated democracy index and a panel covering 175 countries from 1960 to 2010 identifying 122 democratizations and 71 reversals and measures of GDP dynamics, regional shocks, social unrest, trade, and financial flows. Unlike previous studies focusing only on permanent transitions, their data includes periods where countries experience short stints in democracy. Their findings suggest that democracy generates long-term economic growth through institutional and social channels, with democratization raising GDP per capita by 20–25% over 25 years, and no evidence of adverse economic trends preceding the transitions.

[6] Acemoglu, Daron, Suresh Naidu, Pascual Restrepo, and James A. Robinson. 2019. Democracy Does Cause Growth. Journal of Political Economy, 127(1), pp.47-100.

An Ongoing Debate

Other scholars posit the effect may be more nuanced. Colagrossi et al. (2019) ran a meta-analysis that raises some skepticism regarding the democracy-growth link.[7] The study aggregates findings from 188 studies and over 2,000 regression estimates to conclude that democracy's direct impact on growth is positive and statistically significant. However, once human capital is controlled for, the direct effect of democracy often becomes statistically insignificant, for this element constitutes about one-third of the magnitude of the impact. The meta-analysis also showcases regional differences: democracy holds strong positive growth effects in sub-Saharan Africa and high-income economies, but shows negative implications in South Asia.

[7] Colagrossi, Marco, Domenico Rossignoli, and Mario A. Maggioni. 2019. "Does Democracy Cause Growth? A Meta-Analysis (of 2000 Regressions)." European Journal of Political Economy 61 (November): 101824.

Further challenging the democracy-growth link, Blattman et al. (2025) categorize autocracies into institutionalized and personalist forms, showing that they exhibit different economic performances.[8] While they agree that democracies achieve higher GDP per capita growth than autocracies, they notice that the "autocratic penalty" is not uniform across all regimes. The study defines personalist autocracies as those with concentrated personal power and weak institutional constraints on leaders. These regimes tend to grow at a rate approximately one percentage point lower than democracies annually. Meanwhile, institutionalized autocracies grow at rates that are statistically equal to democracies. These findings suggest that the distribution of power and institutional constraints within regimes may be more critical to economic growth than the absence of democratic

[8] Blattman, Christopher, Scott Gehlbach, and Zeyang Yu. 2025. "The Personalist Penalty: Varieties of Autocracy and Economic Growth," No. w34093. National Bureau of Economic Research, 2025.

institutions.

Looking Ahead

This remains a field where contributions are continually made. The debate is by no means settled, but the evidence suggests that while democracies do not universally outperform all forms of autocracy, certain autocratic configurations clearly underperform democracy. The relationship between democracy and economic growth appears to be contingent on institutional quality and the specific form of democratic governance, yet future research is needed to offer a more nuanced accounts of the mechanisms through which political institutions across regime types shape economic outcomes.

Acknowledgments: This brief was prepared collaboratively by the Democracy Action Lab team, led by María Ignacia Curiel and with a special contribution by Camila Fermín-Mata.