Analysis of the Relationship Between Democracy and Economic Growth and Its Connection to Global Citizenship

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Abstract

This study aims to analyze the relationship between democracy and economic growth, as well as its implications for global citizenship. Democracy, as a universal value system, encompasses not only state governance structures but also fundamental human values. The relationship between democratic systems and economic development has been a subject of extensive scholarly debate, with no clear consensus emerging regarding the causal direction or strength of this relationship. This research employs a qualitative literature review method, synthesizing findings from various studies on democracy and economic growth in different national contexts. The analysis reveals that the relationship between democracy and economic growth varies significantly depending on contextual factors, including institutional quality, cultural background, educational levels, and specific policy environments. Several studies indicate a positive correlation where democracy fosters economic growth through increased participation, transparency, and accountability. Conversely, other research suggests that economic growth may precede democratic development, with Lipset's modernization theory positing that prosperity enables democratic consolidation. The findings also demonstrate that in certain contexts, such as Indonesia's experience, significant economic prosperity has not necessarily corresponded with democratic advancement. Beyond the democracy-growth nexus, this study identifies education and cultural factors as crucial determinants of economic development, with some nations achieving prosperity through educational investment and cultural values rather than democratization efforts.. The research concludes that the relationship is context-dependent rather than universally applicable, with implications for global citizenship emphasizing the importance of understanding diverse developmental pathways and the complementary roles of democratic governance, economic policies, and educational investment in fostering sustainable development.

Keywords: democracy, economic growth, global citizenship, political economy

Introduction

Democracy is a system of universal values that encompasses not only the framework for state governance but also universal human values (Zanini, 2019). In general, democracy fosters greater justice in communal life and provides adequate scope for individuals and associations to develop their humanity. However, democracy cannot simply be imposed on developing nations, as it involves not merely a concept but also tangible infrastructure and specific environmental conditions. Thus, democracy must be understood not only as a strategy but also as a modern political process.

Democracy is widely understood as a form of government exercised with the free consent of the people, or a system of governance where supreme authority rests with the people government by the people. According to Thomas R. Dye and Harmon Zeigler (1970), the fundamental ideas of democracy include:

1. Public participation in decisions that shape the lives of individuals within a society.
2. Governance led by the majority while recognizing minority rights specifically the rights to freedom of speech, association, assembly, access to

information, the formation of opposition parties, and the holding of public office.
3. A commitment to respecting individual dignity and upholding essential values, namely freedom and the right to property.
4. A commitment to providing equal opportunities for everyone to develop their personal capabilities.

Democracy cannot be separated from the welfare of a nation's people. Welfare is an inherent right of every individual; the right to welfare is enshrined in the United Nations Universal Declaration of Human Rights (UDHR).

Democracy is often expected to serve as a system capable of boosting a nation's economy. According to Artauli and Didin (2019), the goal of democratizing a country within the context of economic development that upholds human rights and prioritizes justice is to enhance participation and foster productive activities, thereby creating an environment conducive to economic endeavors that build the national economy. Citing Minxin, Witianti (2016) notes that successful development is more likely to occur in an open economy, which also promotes social, cultural, and political ties with the international community. These connections facilitate the flow of information, undermine the likelihood of authoritarian rule, and by exposing the economy to external influences serve to constrain autocratic leaders. To determine whether a causal link exists between democracy and a country's economic growth, an analysis of the relationship between the two is required.

The relationship between democracy and economic growth has been extensively studied by previous scholars. However, no clear consensus has emerged regarding the nature of this relationship. Linking democracy to economic growth is a subject that frequently sparks debate; questions arise as to whether democracy acts as a driver of economic growth or if economic growth is the factor that enables the realization of democracy. This paper examines the relationship between democracy and economic growth.

Based on the background of the problem outlined above, three research questions can be formulated, namely: "How does democracy affect economic growth?"

Literature Review

Theoretical Foundations of Democracy

Democracy is widely understood as a form of government exercised with the free consent of the people, or a system of governance where supreme authority rests with the people. According to Thomas R. Dye and Harmon Zeigler (1970), the fundamental ideas of democracy include:

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Zanini (2019) emphasizes that democracy encompasses not only the framework for state governance but also universal human values. Democracy fosters greater justice in communal life and provides adequate scope for individuals and associations to develop their humanity. However, democracy cannot simply be imposed on developing nations, as it involves not merely a concept but also tangible infrastructure and specific environmental conditions.

The Democracy & Economic Growth

The relationship between democracy and economic growth has been extensively studied, yet no clear consensus has emerged regarding its nature. This section reviews the existing literature on both sides of the debate.

Seymour Martin Lipset (cited in Witianti, 2016) posits that democracy can function effectively once a country has successfully built economic strength. Lipset argues that economic development enables the lower class to acquire wealth, education, and well-being, fostering political views aligned with democratic principles. Modernization creates opportunities for the middle class, which can either become an extremist group threatening democracy or emerge as the class that holds power.

According to Purwanto and Syawie (2012), there are two relevant theories: the regime hypothesis and the policy hypothesis, both positing that a country's economic factors significantly influence its politics.

1. Regime Hypothesis: The stability of democratic institutions in a country is influenced or conditioned by its level of affluence; democratic regimes tend to endure only in wealthy nations, implying that GDP per capita determines the longevity of democracy.
2. Policy Hypothesis: A country's public policy profile is determined by its level of wealth. Democracies emerge only in countries with established, prosperous economies, with GDP per capita serving as a determinant of both the quality and configuration of a nation's policies.

Democracy and Welfare

Democracy cannot be separated from the welfare of a nation's people. Welfare is an inherent right of every individual, enshrined in the United Nations Universal Declaration of Human Rights (UDHR). According to Zaini (2019), democracy should not be viewed as the primary objective in itself, as the functioning of a democratic system depends on the administrators, the implementation framework, and the democratic process itself. Although democratic systems have been adopted by nearly every country in the world, this does not automatically guarantee the well-being of the population.

Syahnaz et al. (2021) argues that well being is not merely a matter of physical needs but also encompasses respect, freedom, recognition, and state protection; this perspective positions democracy as a prerequisite for a society to be considered prosperous.

Democracy and Global Citizenship

The study of political systems or democracies falls within the field of comparative politics. Understanding the relationship between democracy and economic growth is essential for global citizenship, as it informs how citizens can participate in and influence developmental processes across different national contexts. Ridwan et al. (2022) and Widuri Ratih Dina (2021) have explored the connections between democracy and welfare in various national and regional contexts, contributing to a broader understanding of how democratic governance relates to human well-being.

Method

Research Approach

This study employs a qualitative literature review approach. This method is chosen because the research aims to synthesize and analyze existing knowledge regarding the relationship between democracy and economic growth, rather than generating new empirical data. The qualitative approach allows for a comprehensive understanding of the various perspectives, theoretical frameworks, and empirical findings that have emerged from previous studies on this topic.

Data Sources

The primary data sources for this research consist of:

1. Peer-reviewed journal articles focusing on democracy and economic growth
2. Academic books and book chapters on political economy and democratic theory
3. Research reports and working papers from academic institutions
4. Government publications and statistical reports related to democracy indices and economic indicators
5. Literature reviews and meta-analyses on the democracy growth relationship
6. Theoretical papers and conceptual frameworks
7. Comparative political studies examining multiple countries
8. Policy documents and institutional reports

Data Analysis Techniques

The data analysis follows these procedures:

1. Content Analysis: Systematic examination of the selected literature to identify key themes, arguments, and findings
2. Thematic Coding: Identification and categorization of recurring themes across the literature
3. Synthesis: Integration of findings from multiple studies to identify patterns and gaps
4. Critical Appraisal: Evaluation of the methodological quality and theoretical soundness of included studies
5. Interpretation: Development of meaningful conclusions based on the synthesized evidence

Result and Discussion

Research by Artauli & Didin (2019) indicates that the Political Rights Index and the Democratic Institutions Index have a positive and significant impact on economic growth, whereas the Civil Liberties Index shows a negative and significant impact. Therefore, to establish a stable democracy that supports effective economic growth, it is essential to uphold Good Governance ensuring transparency, participation, accountability, and the rule of law thereby achieving political stability.

Research by Hutasoit (2024) shows that the Indonesian Democracy Index has a positive and significant influence on the rate of economic growth. Wijaya and Suharto (2022) found that economic democracy comprising variables such as production democracy, democracy in the ownership of factors of production, allocation democracy, and the degree of economic exploitation positively and significantly affects economic growth in both natural resource-producing and non-producing regions in Indonesia.

Research by Yujie Zhang (1999) suggests that democracy can stimulate growth; however, while economic growth benefits democratic development to some extent, the analysis indicates that this influence is not particularly strong, especially when compared to the impact of democracy on economic growth.

In contrast to the findings mentioned above, other studies indicate that the relationship between democracy and economic growth is not positive. Research by Putri and Triani (2021) found no causal relationship between democracy and economic growth. Findings by Przeworski and Limongi (cited in Witianti, 2016) show that increased prosperity does not correlate with increased democracy, as observed in autocratic nations. Yujie Zhang’s (1999) research also highlights that while Indonesia achieved significant prosperity over a decade, the government failed to improve democracy; dictatorship and corruption remained rampant, and the public lacked substantial political rights, the rule of law, and press freedom. These studies demonstrate that a country's prosperity does not necessarily move in linear alignment with the state of its democracy.

Seymour Martin Lipset (cited in Witianti, 2016) posits that democracy can function effectively once a country has successfully built economic strength. Lipset argues that economic development enables the lower class to acquire wealth, education, and well-being, fostering political views aligned with democratic principles. He further notes that modernization creates opportunities for the middle class to ascend to the upper class or descend to the lower class; consequently, the middle class can either become an extremist group threatening democracy or emerge as the class that holds power.

Iversen and Soskice (2019) state that democracy and capitalist prosperity reinforce one another. The middle class which holds decisive electoral power benefits from the productivity gains of capitalism and thus supports policies that favor advanced sectors. Aspirational families encourage their children to pursue higher education and urge the government to build and maintain the necessary infrastructure for this purpose. As leading sectors expand, they create greater incentives for pursuing higher education, giving rise to a virtuous cycle that produces a modern, knowledge-based economy.

Yujie Zhang (1999) asserts that educational and cultural backgrounds are crucial determinants of a country's economic growth. Some nations may not need to prioritize democratization while developing their economies, as their widespread education and unique cultures already drive economic growth Singapore being a prime example. Conversely, for countries lacking a culture that accelerates prosperity, efforts to enhance democracy may offer a more effective path toward development.

According to Zaini (2019), democracy should not be viewed as the primary objective in itself, as the functioning of a democratic system depends on the administrators, the implementation framework, and the democratic process itself. Although democratic systems have been adopted by nearly every country in the world, this does not automatically guarantee the well being of the population residing within them. Syahnaz et al (2021). argues that well being is not merely a matter of physical needs but also encompasses respect, freedom, recognition, and state protection; this perspective positions democracy as a prerequisite for a society to be considered prosperous.

According to Purwanto and Syawie (2012), there are two relevant theories: the regime hypothesis and the policy hypothesis, both of which posit that a country's economic factors significantly influence its politics. The regime hypothesis argues that the stability of democratic institutions in a country is influenced or conditioned by its level of affluence; democratic regimes tend to endure only in wealthy nations, implying that GDP per capita determines the longevity of democracy. The second theory, the policy hypothesis, asserts that a country's public policy profile is determined by its level of wealth. Thus, democracies emerge only in countries with established, prosperous economies, with GDP per capita serving as a determinant of both the quality and configuration of a nation's policies. The study of political systems or democracies falls within the field of comparative politics.

Conclusion

The relationship between democracy and economic growth has been extensively studied by various scholars. However, no clear conclusion has been reached regarding the nature of this relationship. Linking democracy with economic growth is a subject that frequently sparks debate; questions arise as to whether democracy acts as a driver of economic growth or if economic growth paves the way for the realization of democracy. Based on the findings of various studies and analyses regarding the nature of this relationship, it can be concluded that the correlation varies depending on the specific subjects of study with some instances showing a positive correlation and others showing no correlation at all. Certain research findings and expert opinions indicate that economic growth can improve democratic conditions within a country, while other studies suggest that democracy can foster economic growth. Beyond democracy, cultural background and education are also significant factors in boosting a country's economic growth.

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