


# Chapter 10

## The Effect of Democratization and Economic Freedom on Economic Growth

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### ABSTRACT

*This chapter examines the impact of democratization and economic freedom on economic growth. For this purpose, according to the classification issued by the World Bank, three groups of countries, developed, developing, and underdeveloped, were included in the study. The impact of democratization and economic freedom on economic growth was tested by panel data analysis in the period of 1995-2012. As a result of the analysis, the relationship between democracy-economic freedom and economic growth has been different according to country groups. While there was a positive relationship between economic growth and democracy-economic freedom in developed and underdeveloped countries, a negative relationship was found in the developing country group.*

### INTRODUCTION

The notion of democracy dating back to the 5<sup>th</sup>B.C. is one of the concepts that have been discussed and kept important until today. Since the emergence of the concept of democracy, different theories of democracy have emerged and at the same time different definitions of democracy have emerged. Among these definitions, democracy is the most general definition of the basic principles of democracy; it is defined as the form of government that aims to enable people to have a better life standard based on the freedoms of individuals, to give them the right to choose, to be elected, to decide and to control.

The association of democracy with the economy gained momentum in the Second World War after some underdeveloped countries had declared freedom. The first study to link democracy to the economy was conducted in 1959 by Lipset. In this study, Lipset investigated the level of income and the sustainability of democracy. It was concluded that the countries with lower income levels are less democratic

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and the countries with higher income levels are more democratic. Other studies conducted on the subject showed similarity with Lipset's work.

Similarly, another variable associated with the economy is the notion of economic freedom. The economic freedoms that advocate the freedom and individual welfare of individuals in their economic activities were among the defences of the founder of classical economics Adam Smith and have been the subject of many researches until today. As a result of research on economic freedoms, the prevailing opinion is that economic performance will increase with the provision of freedoms in politically transparent societies.

In this context, since democracy and economic freedom have similar characteristics at many points, both concepts will be analysed in the same model and the effects of these concepts on economic growth will be analysed. In this chapter, firstly, after giving information about the concepts of democracy and economic freedom, previous studies on the subject will be included. Then, the findings obtained from the analysis will be included. Finally, results and evaluation will be presented.

## **THE CONCEPT OF DEMOCRACY**

*“Democracy is derived from the combination of the words “demos” and “keratin” in Ancient Greek. In this case, the most classical definition of democracy is the self-governance of the people.” (Schmidt, 2001) Aristotle, an ancient Greek philosopher, describes democracy as a deviation from politia (Dursun, 2002).*

In the definition of democracy based on freedoms, democracy; can be defined as a system where people only listen to the voice of their conscience and the administration is based on the consent of the people and the coercion is eliminated (Yılmaz, 2000). The freedoms contained in democracy by this definition of democracy; guaranteeing the physical and spiritual existence of the person freedom of expression, assembly and association and freedom of the press. Democracy in another study is defined as anything that allows the expression of freedom, and it is stated that freedom here means choosing any political system, lifestyle, religion and work (Stefan & Guimaraes, 2003). Keeping this in mind, Stefan reveals that democracy is a form of government in accordance with the decision of the majority, in accordance with the arrangements made to ensure the protection of individual and social rights of people.

When the historical development process of democracy is examined, it is seen that there are many period points. Magna Carta Libertatum, the Renaissance movements in Italy in the 1350s, the 1776 American Declaration of Independence, the 1789 French Revolution played an important role in the progress of democracy. In addition, it had a significant impact on the development of democracy in the first and second world wars. Samuel Huntington summarizes the development process of democracy as follows: (Huntington, 1991)

1. First, long wave of democratization (1828-1926)
2. First reverse wave (1922- 1942)
3. Second, short wave of democratization (1943- 1962)
4. Second reserve wave (1958-1975)
5. Third wave of democratization (1974 -)

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