



USAID
FROM THE AMERICAN PEOPLE

USAID KNOWLEDGE SERVICES CENTER (KSC)

SUMMARY OF *THE DEMOCRACY ADVANTAGE*

February 23, 2010

SUMMARY OF *THE DEMOCRACY ADVANTAGE*

MICHAEL ARDOVINO, PH.D.

KSC Research Series

ABSTRACT: This document is a one page summary of *The Democracy Advantage: How Democracies Promote Prosperity and Peace* by Morton H. Halperin, Joseph T. Siegle and Michael M. Weinstein using USAID guidelines.

The USAID Knowledge Services Center is operated by Bridgeborn, Inc. and Library Associates, and funded by M/CIO/KM and M/HR/TE under contract AID-OAA-C-08-00004. The contents of this document are the sole responsibility of the Knowledge Services Center and do not necessarily reflect the views of USAID or the United States Government.

THE DEMOCRACY ADVANTAGE: HOW DEMOCRACIES PROMOTE PROSPERITY AND PEACE

By Morton H. Halperin, Joseph T. Siegle and Michael M. Weinstein

In The Democracy Advantage (2005, Routledge), the authors declare that democracies have compelling advantages over authoritarian governments in promoting social and economic development and donor agencies should use scarce donor resources to assist freely-elected governments under most circumstances.

- Despite the success of China and other East Asian countries, a **myth** exists that **authoritarian** states outperformed democracies over the past forty years according to Polity III data and the World Bank.
- The **East Asian exceptions** were largely due to good economic policies, Chinese businessmen, Japanese capital, access to markets, collective interests, capital mobilization, external influence, info flows and, importantly, institutions.
- **Democracy** is characterized as having popular participation, real competition for elected office and institutional checks on power. Economically, show higher average growth in GDP capita growth in countries with less than \$2000 per capita as well as higher life expectancy, school enrollment and cereal production. This is largely due to the advantages of shared power and adaptability.
- Formerly democratic countries in Latin America, Africa and the former USSR have **backslid** or reverted to more authoritarian tendencies during more difficult economic times but some countries are **resilient** because of **more independent finance ministries, control over inflation and lower debt-service levels** (i.e. results of their democratic rules).
- Democracies tend to avoid conflict internally and war externally better reducing the **costs of displacement** and the **culture of terrorism** that exist in Egypt and Pakistan. U.S. security assistance to authoritarian-led states in the Middle East has only hurt economic development and delayed democratization, perpetuating a vicious cycle.
- Bulgaria, Ecuador, Russia, Nigeria and Indonesia are all examples of how economic growth without true democratization hinders long-term development, making **sequencing** and **customized reforms** necessary for each situation. Donors must take care to recognize the importance of **civil society** and working with real democratizers who can spend money more effectively. Donors should also avoid obstacles such as **a lack of administrative discipline and relying too much on aid volume**.
- Donors should use **democratic selectivity** and tie aid to political reform in the way the Millennium Challenge Account does with economic reform. The **SEED program** from the 1990s is also a model for **needed structural changes in U.S. bilateral assistance**. A **coordination panel** and a **security waiver** for aid to autocrats are needed. Help to institutions and civil society groups, not individual political elites, is recommended. Overall **bilateral donor coordination has to be linked to democratic guidelines**.

The authors conclude that the **European Bank of Reconstruction** has been the most successful **international financial institution** in promoting economic growth and democracy while the World Bank, IMF and other post-WWII regional banks have focused too much on economic reform due to past aversions to “political solutions”. Donors need **democracy reform** in projects and must use historical reviews, impact statements and evaluations in

doing so. This **“new” approach** will more easily facilitate greater public levels of participation in the development process, thus contributing better to better development performance.

ADDENDUM FOR PROGRAM OFFICERS

THE DEMOCRACY ADVANTAGE: HOW DEMOCRACIES PROMOTE PROSPERITY AND PEACE

By Morton H. Halperin, Joseph T. Siegle and Michael M. Weinstein

In The Democracy Advantage, the authors make several recommendations to make development assistance more useful in programming. These recommendations result from a review of the practices of post World War II multi-lateral donors like the World Bank and International Monetary Fund (IMF) and some regional banks such as the Asian Development Bank, Inter-American Development Bank and African Development Bank whom they see as ineffective in promoting democracy. Instead, their model is the post-Cold War European Bank of Reconstruction and Development (EBRD), an institution that tied much more of its assistance money to the advancement of democratic practices in countries that have been successful in transitioning out of formerly authoritarian, post-communist, command economy systems. The authors suggest:

- Avoid undercutting reformers in a transitioning country by **customizing assistance** to fit each unique country's situation. If Bulgaria, Russia, Indonesia and Nigeria had been planned differently and more carefully, each might have progressed more quickly to democracy and therefore more stable economies. **Avoid using a standard democracy assistance package blueprint in developing countries.**
- Importantly, **not rewarding autocracies with the same amount or more aid than democracies** as occurred in the 1990s is critical because it sends a message to nondemocratic leaders that they do not have to change.
- The reasons that autocratic leaders do receive equal or more assistance can be either 1) **SYSTEMIC IN NATURE** and include: **strategic considerations** or reasons related to security or historical/cultural ties as with UK aid to Commonwealth autocrats or French aid to West African dictators, **a failure to make a democratic distinction** or simply not differentiating between regime types as the World Bank and IMF has done for decades and **stipulations that International Financial Institution (IFI) resources pass through central governments** where aid can be more easily captured by predatory autocratic leaders or corrupt bureaucracies as in Indonesia under Suharto
- Or 2) **ADMINISTRATIVE IN NATURE** including: **a lack of donor discipline** or the inability of a donor to recognize aid to going to a corrupt regime and therefore not improving governance or economic performance

- Practical recommendations for donors include: **setting democracy as an objective in institutional (especially IFI) charters** in the way the EBRD did and **creating quantifiable measures for democracy** such as free elections, representative governments, a separation of government branches, fair criminal procedures, freedom of movement, a right to private property and ability to form trade unions and so on. Also, **reform internal lending structures and incentives** to help the middle class and **extend multilateral bank funding beyond the central government**
- Donors **should do no harm** by using a **mechanism to measure** what aid is doing. This includes: **creating democracy impact statements** that attempt to predict the impact of aid in a country in the same way environmental impact statements do. These statements would include a **historical review** (analysis of competitiveness, power-sharing, autonomy of civil service and political participation in a country), a **project or policy description** that list objectives, activities as well as specific costs, an **impact statement** on proposed project on democratic processes, **alternatives to the proposed course of action** and, importantly, a **measurement and evaluation** of proposed impact in annual or biannual reports.
- **Problems in measuring the impact** of aid to developing democracies include a **shortage of verifiable data** and **establishing valid causal relationships** between variables as well as having **enough qualified personnel** to carry out impact statements. Program decisions will have to be made on information that may be short term or the impact of the democracy program may not be felt for years to come, making public policy discussion of such programs more heated and subject to criticism. Finally, project impact statements must be done in a *timely manner* (in a matter of weeks ideally) and **project mission creep** (doing too much too long) must be avoided.

**U.S. Agency for
International Development**
1300 Pennsylvania Avenue NW
Washington, DC 20523
Tel: 202-712-0000
Fax: 202-216-3524
www.usaid.gov