

No Sustainable Economic Development Without Genuine Democratic Capitalism

WASHINGTON – Economic development specialist William Easterly pointed out recently that, reviewing all the speeches delivered by the past President of the World Bank, he could not find any reference to “democracy”.

Democracy?

The reason for this incredible omission is that the World Bank deliberately avoids any reference to politics or political systems. We are told that this venerable multilateral lending institution, whose mission is to end poverty by promoting development, does not favor any particular political system. Politics is a matter for individual countries. The World Bank will provide assistance to any country, irrespective of its political regime. The implicit assumption here is that sustainable development can and will take place irrespective of the political institutions of any given country.

Catching up with the West

But now, consider this. The International Monetary Fund (IMF) recently reassessed its prognostications about the time it will take for emerging countries to catch up with the developed West.

Previous IMF forecasts, based on some years of good data, indicated that in 44 years the rich-poor gap would be gone.

But that proved to be a fantasy justified by unsustainable growth in many commodity exporting countries. This growth was caused mostly by China’s incredible demand for enormous quantities of raw materials and other products needed for its

rapid industrialization.

300 years to bridge the rich-poor divide

Well, China's boom is over. As a consequence, the commodities driven export boom experienced by many emerging markets is also over. Hence the need to reassess growth rates.

Well, based on current trends, according to the IMF, it will take emerging markets (minus China) 300 hundred years to catch up.

Got that? The IMF revised its estimates about the time needed to have real standard of living "convergence" between developing countries and the prosperous West. They had predicted 44 years. Now they say 300 years.

Obstacles to growth

And what is the main obstacle on the way to higher economic growth? Of course, everybody has a theory.

And I have mine. Please go back to the initial point about the World Bank and its support for development, irrespective of political regime.

I would suggest that this very point –avoiding the obvious correlation between democracy and growth– is precisely the problem.

While it is indeed possible to have impressive economic growth without democracy –and China is the most obvious example– as a rule the two go together, if your goal is sustainable economic development. (From this perspective, the jury is still out about China's model. 30 years of growth is a lot. But the West has been growing for 300 years).

The ecosystem

The most prosperous Western countries engineered growth in

ecosystems in which there was and there is a combination of deeply rooted political and economic freedoms, with clear and transparent rules administered by an independent judiciary.

This ecosystem protects individual freedoms. It favors free enterprise, the pursuit of learning that makes innovation possible and a reasonably rational, market driven allocation of resources.

And let me stress that by pro-growth “ecosystem” here I am referring here to the existence of a widely shared and deeply understood “*democratic ethos*” underpinning laws and rules that protect individual freedoms, including economic freedoms.

You need more than periodic elections

This ethos goes way beyond the adoption by certain societies of a few rules generally associated with democracy. In other words, in order to have real democratic capitalism, you need to have much, much more than elections every few years.

And here is the problem affecting many if not most developing countries. They have yet to understand and fully embrace the principles of democratic capitalism and the impact they have in liberating and channelling society’s vital energies.

Sure, there is a lot of talk about “democracy”, “political freedoms” and “private sector-led development” in many developing countries. But in most instances it is adopted jargon, not the expression of genuine belief.

Poverty

Of course, poverty is a stubborn, self-sustaining obstacle. Poverty breeds more poverty, in an endless cycle of misery.

But poverty can be overcome when a country sincerely adopts real good governance, when it rejects abuse by the powerful, corruption and/or tribalism and exploitation.

Democracy makes development possible

A country that genuinely embraced the rule of law, that genuinely promotes education and the creation of an ecosystem that favors enterprise will attract investors. And this can help end the cycle of poverty.

I am not suggesting that democratic capitalism is the proven method to fast track development.

I am arguing, however, that without genuine democratic capitalism it is almost impossible to have sustainable economic development.