

DEMOCRACY'S DIMENSIONS: IMPLICATIONS & A CASE STUDY

Roger R. Betancourt*

Revised, February 2011

* University of Maryland and Development Research Center (betancou@econ.umd.edu). Seminar participants at the IADB Research Department, George Mason University's School of Public Policy and Rutgers University's Division of Global Affairs as well as Ariel BenYishay, Jonathan Brooks, Rolando Castañeda, Teresa Fort, Victor Macias, Ramkishen Rajan, Carlos Quijano, Razvan Vlaicu, and John Wallis provided insightful reactions to these ideas at an early stage. Barbara Bergmann, Frank Bohn, Juan Buttari, Virginia Haufler and Dennis Mueller provided useful comments on the previous version of the paper. I am very grateful to all of them while retaining sole responsibility for any errors or misinterpretations.

Democracy's Dimensions: Implications & a Case Study.

Abstract

It has become customary in the political economy literature to define democracy in terms of a single dimension, the political rights dimension, and to concentrate on analyzing the private benefits and costs to democratic participants in this dimension. In this essay we redirect attention to several aspects of democracy neglected in this literature. Two important ones are a second explicit dimension of democracy, civil liberties, acknowledged in earlier literature and economic consequences of both dimensions. Hidden or 'opportunity' economic benefits to society that arise as a result of the exercise of political rights in a democracy are an example of the latter. The inclusion of civil liberties as an explicit dimension of democracy casts doubts on one of the most often cited conclusions of the recent empirical literature on development and democracy: namely that there is no causal connection between the two. We also introduce a third implicit dimension of democracy often ignored by economists, legitimacy. After defining it carefully, we draw and illustrate many of its important implications, especially the ones determining democratic outcomes in the explicit dimensions as well as the survival of fragile democracies. Finally, we use the Honduras crisis of 2009 as a case study that illustrates how relying on all three dimensions provides valuable insights for understanding critical events in the evolution of democracies that may be unattainable otherwise.

Key Words: political rights, civil liberties, legitimacy, democracy and development, institutions, Honduras 2009 crisis.

JEL CODE: P16; O43; H40; N46; P14.

For those writing on political economy topics, it has become common practice to view democracy in one-dimensional terms, primarily in terms of political rights and sometimes even more narrowly by focusing on just the free and fair elections aspect of the political rights dimension. This common practice can be quite misleading. If essential dimensions of democracy are completely ignored, it becomes difficult if not impossible to understand democracy and its evolution in general. This is especially the case in the context of fragile democracies or in transitions toward possible democratizations such as those taking place in Egypt or toward possible de-democratizations such as those taking place in Venezuela. This common practice can also cloud our understanding of long term relationships of interest to economists and political scientists such as the relationship between democracy and economic development.

While political rights are an undisputable explicit dimension of democracy, the same applies to civil liberties. At least no one disputes that many civil liberties were embedded in most countries constitutions when these started to become fashionable over 200 years ago after the American and the French Revolution. Since that time, however, civil liberties, which correspond to first and second generation human rights, have had their ups and downs in terms of whether or not they have been viewed as an essential characteristic of democracy.¹ The downs have become particularly glaring in the empirical literature on the relationship between democracy and economic development.

¹ In political science views of democracy tied solely to the holding of free elections are referred to as minimalists and they are contrasted to an alternative insisting on "...a more ample degree of protection of political and civil liberties.", e.g., Plattner (2002, pp.56-57).

Incidentally, civil liberties are also frequently ignored in analytical modeling of political economy issues of economically developed democracies. Lagunoff (2001) is an exception that illustrates the generalization. He derives tolerance for unpopular views, which he calls civil liberty, from the preferences of rational voters under either uncertainty about the application of the views or the composition of the society. This is a clever exercise that makes the emergence of tolerance as a civil liberty an endogenous equilibrium consequence of majority rule. Yet, it fails to address either the historical or spatial evolution of civil liberties or differences among civil liberties relevant to economic development.

One suspects that an important reason for the differential treatment of these two dimensions lies in greater difficulties of conceptualizing the link to democracy in the case of civil liberties than in the case of political rights. For instance, a very distinguished student of democracy emphasizes several features as essential to understand the evolution of democracy as a process, Tilly (2007). Two of these features are: 1) breadth and equality of rights, or extent and differences in equality of citizenship (or subject) rights enjoyed by different members of society; 2) protection and mutually binding consultations, or protection against arbitrary action by the state or other citizens and rights and obligations for both agents of the state and categories of citizens. These categories are useful to understand democratic processes and their evolution through history.

In terms of recent literature, however, we would associate issues in the first category with political rights whereas issues in the second category would be associated with civil liberties. Indeed, we even have aggregate empirical measures of these two concepts that have been available in similar forms for over 40 years thanks to Freedom House's indexes of political rights and civil liberties, for example Piano and Puddington (2006). While the conceptual distance

between Tilly's first category and political rights is small, the same is not true for the distance between Tilly's second category and civil liberties. A reason for the longer distance in the case of civil liberties is the greater complexity of thought necessary to arrive at the equivalence.

In the case of political rights, the only step to establish the equivalence is to substitute political for citizenship (or subject) in Tilly's conceptualization while acknowledging that in modern democracies these are usually presumed to apply to all citizens. In the case of civil liberties, however, establishing the equivalence requires more subtle or complex thinking. For instance, what is the connection between the prevalence of the rule of law and civil liberties? This connection can be derived from Olson (2000). Civil liberties correspond to the secure and well defined individual rights and the absence of predation by the state that Olson views as necessary for modern markets to function at high levels of transactions. Thus, they play a critical role as an indicator of the essential public good provided by the state through the prevalence of the rule of law in a democracy. It is the latter concept that relates directly to protection against arbitrary action by the state and the rights and obligations of state agents with respect to citizens.

In this paper we treat both categories as essential explicit dimensions of democracy. In the first substantive section of the paper we discuss important economic aspects of political rights in a democracy that have been ignored in the literature. These aspects are in the nature of hidden or opportunity economic benefits which have the characteristic of externalities to society from the exercise of political rights in a democracy. An important example is the set of benefits to society that flow from the systematic non-violent transmission of power inter-temporally that characterizes a democracy. We also discuss other economic consequences of the exercise of political rights and the provision of civil liberties in a democracy. Nonetheless, we do so briefly since these other consequences have been addressed in the literature. A very well known

illustration would be the literature on benefits and costs of exercising the right to vote, for example Fedderer (2004).

In the second substantive section of the paper we provide a careful review of the empirical literature on the relationship between democracy and development. This review shows that the empirical literature ignores civil liberties as a dimension of democracy in two different ways. First, no contribution views them as an intrinsic aspect of the phenomenon to be explained when discussing the determinants of democracy, e.g., Acemoglu, Johnson, Robinson and Jared (2008). Second, the strand of literature that attempts to use democracy as an explanation for long-run economic growth or development fails to find a direct causal relationship when using political rights as the only dimension, e.g., Mobarak (2005), or even a robust positive association when using the Freedom House civil liberties index as a determinant of economic growth, for example Levine and Renelt (1992). This finding, however, changes dramatically when civil liberties are disaggregated into their basic components. For one component, Personal Autonomy and Individual Rights, there is a robust positive causal relationship, BenYishay and Betancourt (2010).

In the third substantive section of the paper we introduce a third implicit dimension of democracy, legitimacy. While political scientists use this concept frequently and feel no need to even explain the concept, for example Diamond (2008), economists usually ignore the concept. By legitimacy we mean the willingness of the governed to accept the right of those who govern them to do so. We show that the concept has *de jure* or formal features as well as *de facto* or informal features, which is also the case for most important institutional concepts as argued by Acemoglu, Johnson and Robinson (2005). We show that there are different sources of legitimacy and that legitimacy interacts with the two explicit dimensions of democracy

considered earlier in determining democratic outcomes as well as having intrinsic effects of its own.

By its very nature legitimacy is a context dependent concept. For instance, it varies with the historical time one is considering and it also varies with the societal space one is considering. In the literature on economic development context dependence has led some writers to advocate the use of the analytical narratives approach to the topic, for example Rodrik (2003). Similarly, context dependence has led the political science literature on democracy to adopt this approach, albeit earlier than in economics, for example O' Donnell (1973). Its application to the evolution of democracy is well established, for example Tilly (2007).

Interestingly, in the analyses of institutions the use of analytical narratives is also becoming the practice without necessarily adopting the label. For instance, North Wallis and Weingast (2009) have recently proposed a framework in terms of what they call limited and open access social orders for analyzing the evolution of societies. This framework has been implemented through case studies presented at a World Bank Conference on "The Interplay of Economics and Politics in Determining Development Outcomes: Evidence from Nine Case Studies.", June 3-4, 2010.

In the fourth substantive section of the paper we apply what may be viewed as a version of the analytical narratives approach by using the concepts and analyses of the previous three sections to understand a critical event in the evolution of a fragile democracy that attracted considerable attention in the popular press and from policy makers all over the world, the Honduras political crisis of 2009. We show that the constructs developed here allow for an explanation of the evolution of the crisis and the incentives driving the participants that are difficult if not impossible to derive from alternative accounts that do not rely on these constructs.

Summing it up, various aspects of legitimacy and their interaction with political rights and civil liberties are shown to drive the behavior of the main participants in the crisis. We conclude the paper by highlighting opportunities for future research relying on the constructs developed in the paper.

DEMOCRACY'S EXPLICIT DIMENSIONS: SOME ECONOMIC IMPLICATIONS

While political rights have several closely intertwined aspects that have important economic consequences, discussions of these rights usually focus on its most obvious aspect: namely, the electoral process and whether or not there are free and fair elections. This is an essential characteristic of democracy. It provides a well known, reliable and especially a non-violent mechanism for the inter-temporal transmission of power.² A very important economic benefit from a free and fair electoral process is what we may call an “opportunity benefit”. That is, the savings in terms of destruction of life and property of alternative mechanisms for the transmission of power, especially the more violent ones.

In practice attention often concentrates on presidential elections, leading sometimes to the neglect of legislative and local elections. When publicly provided goods have benefits and costs with principal incidence in a particular jurisdiction, however, they are more efficiently allocated at the local level, e.g., Oates (1999). Thus, an important “opportunity benefit” from a democratic process that includes local elections is the prevention of serious economic inefficiencies that can arise when the process does not encompass this level. Along the same lines if politicians benefit from experience in plying their trade, a related “opportunity benefit” from local elections is the practice provided to politicians at this lower level.

² The importance of violence throughout history in an economic context is brought to the fore recently by the work of Findlay and O'Rourke (2007).

A related aspect of political rights, besides freedom from intimidation and coercion in the exercise of the vote, is the provision of an environment for participation by candidates and parties that is open to competition. Indeed, the extent and nature of participation in the process is one of the three categories used by Freedom House to construct their political rights index. The “opportunity benefits” generated by competition at the local and legislative level include more efficient policies due to the incentive for experimentation at the local level and scrutiny at the legislative level generated by the competitive process.

Finally, another important aspect of political rights in a democracy is that the actual policies undertaken are controlled by elected leaders. Thus, kitchen cabinets and corruption devalue the democratic process while accountability and transparency of decisions and information enhance the democratic process. In particular, the accountability of elected leaders for the selection and implementation of policies provides “opportunity benefits” by providing incentives for economic performance that benefits all constituents rather than small groups of insiders.

Our discussion of economic consequences associated with political rights has emphasized “opportunity benefits” to society at large. There are also economic costs to society at large of having a free and fair electoral system in terms of registering voters and parties, supervising and implementing the process, etc. Indeed these social costs acquire a larger magnitude when developing an electoral system from scratch, which can be quite expensive in terms of time and money. In contrast to these economic social benefits and costs of political rights, which are largely neglected in the literature, the private ones relevant for citizens as voters, politicians as candidates and parties as organizations have received attention.

For instance, there are some economic costs for citizens voting in elections and the costs often seem to outweigh the benefits for any given individual. This feature has led to a substantial academic literature in economics and politics trying to rationalize why citizens vote on a voluntary basis, which is viewed as paradoxical from a self-interest point of view, e.g., Feddersen (2004).

Along the same lines, there are also substantial economic costs to the politicians and parties that participate in the elections. These range from opportunity costs of income foregone during campaigns to the direct costs of participating in terms of travel, advertising or more generally providing information about candidates and policies and salaries of associates. In this case, however, the economic benefits can be substantial for those elected and participation is not framed in terms of paradoxes.

Instead, in early literature participation is framed in terms of politicians characterized as partisans (driven by preferences for a policy position), opportunistic (driven by the desire to get re-elected) or both, e.g., Drazen (2000, Ch. 7). Presumably, these drives are due to the associated economic and/or other benefits of their positions prevailing and of re-election. Recently, however, a new stream of literature has begun to consider more systematically the role of economic and other benefits in determining the career choices of both types of politicians. For instance, Keane and Merlo (2010) provide a quantitative analysis of how politicians' career choices respond to monetary incentives, for example a change in wages, as well as non-pecuniary ones, for example a change in the probability of being named to an important committee.³ Incidentally, the latter non-pecuniary incentives can have a very high associated monetary value due to their influence over specific policies.

³ These responses apply to politicians of both types, who are now labeled skilled (focused on re-election) and achievers (focused on policies), and are framed in a dynamic setting.

A second dimension of democracy that is widely recognized as an essential characteristic is the protection of individual rights. Indeed, first generation human rights such as freedom of expression and assembly have been recognized as essential characteristics of democracy over the last two hundred years by having them embedded in most countries' constitutions. Second generation human rights, for example secure ownership rights and individual mobility (in the pursuit of economic betterment with respect to location, education and employment), are of more recent vintage. Nonetheless, they have been viewed over the last several decades as part of the array of civil liberties to be provided and protected by a democratic government; for example Freedom House includes them as part of their civil liberties index.

Just as in the case of political rights, however, there are economic benefits and costs in the provision of these civil liberties. Some costs are shared with the provision of political rights, for example an independent judiciary for the adjudication of disputes is required by both dimensions. Other costs can be specific to the protection of some civil liberties, for example land registries and title certifications. The economic benefits of second generation rights are very direct in that output tends to increase as a result of the lower uncertainty and transaction costs as well as of the improvements in resource allocation. Yet, even the first generation ones -- for example freedom of speech and assembly -- have indirect economic benefits in terms of facilitating the generation and distribution of knowledge. The latter underlies modern economic growth, Aghion and Howitt (1998).

A government's protection of civil liberties provides the best measure of its commitment to ensure the prevalence of the rule of law in a society. Many important economic benefits to society derive from the provision of the rule of law. The latter is an essential public input in the operation of modern markets at a high level of transactions due to the separation of the benefits

and costs of these transactions across space, time and agents. A detailed discussion of this role of civil liberties in the functioning of markets is available, for example, in Benyishay and Betancourt (2010).

RECENT EMPIRICAL LITERATURE ON DEVELOPMENT AND DEMOCRACY

One important economic issue that has attracted attention in both the economics and the political science literature is the relationship between democracy and long-term economic growth or development. In this section we focus on the empirical analysis of this issue in terms of the two explicit dimensions of democracy discussed in the previous section: political rights and civil liberties. While civil liberties have been acknowledged as an explicit intrinsic dimension of democracy at the conceptual level, the recent empirical literature has ignored this dimension as we demonstrate below.

Empirical analyses of economic growth and democracy emphasize the political rights dimension either directly through the electoral process or indirectly through limits on executive power. For instance, one of the most straightforward, clear statements of this view is in the book by Acemoglu and Robinson (2006). In their third chapter, titled “What do we know about democracy”, they quote approvingly the following definition of democracy by Schumpeter: “...the institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote.”

In discussing the measurement of democracy, they suggest as their main measure the Freedom House political rights index. The latter is an aggregation of three subcategories of political rights: (A) the freedom and fairness of the electoral process; (B) the political pluralism and competitiveness of participation in the political process by individuals and groups; and (C) the effectiveness of governance with respect to influence of elected representatives on policies,

degree of corruption and degree of accountability and transparency. They also use as a secondary measure a composite Polity variable that captures the competitiveness of political participation and executive recruitments as well as constraints on the executive. The main attractiveness of this secondary measure is that it goes back well into the 19th century. Of course, this measure also captures political rights aspects of democracy.

Early empirical literature by political scientists on the relationship between democracy and economic development arrives at a very strong conclusion. For example, an evaluation of quantitative cross national studies asserts "...One massive result of these studies still stands: there is a stable positive association between social and economic development and political democracy. This can not be explained away by problems of operationalization. A whole array of different measures of development and democracy were used in the studies under review and this did not affect the results", Rueschmeyer, Huber Stephens and Stephens (1992, p. 29).

More recent empirical literature by political scientists has arrived at the following somewhat different conventional wisdom. By classifying regimes into two categories, democracy or dictatorship, and some clever reasoning Przeworski, Alvarez, Cheibub and Limongi (Ch. 2, 2000) obtain two main results. First, economic development, measured in term of per capita income, can not explain the emergence of democratic regimes. Second, the level of per capita income, however, is the best predictor of whether or not a democratic regime will survive.

One feature of this recent empirical political science literature is that they focus on democracy as the dependent variable, i.e., what is to be explained. They use political rights or their aspects, for example free and fair elections, as the only dimension of democracy that is

relevant. Variables representing these concepts are used to classify countries as dictatorships or democracies or to score them on a dictatorship or democracy scale.

A recent empirical study in economics that also focuses on democracy as the variable to be explained is Acemoglu, Johnson, Robinson and Yared (2008). They find that the use of either fixed effects or a correction for simultaneity eliminates the role of per capita income in explaining democracy. The latter is defined in terms of aspects of political rights as indicated earlier. The use of fixed effects contradicts the second result that has become conventional wisdom in the political science literature. Its implication and that of the simultaneity correction, however, is consistent with the first result that has become conventional wisdom in the political science literature. Economic development has no causal effect in explaining democracy when measured in terms of a single dimension based on political rights.

A different strand of literature on economic development and democracy aims at explaining the average rate of economic growth. This literature stems primarily from economics. An important conclusion that has become conventional wisdom in this literature is that democracy, measured with the above political rights indexes, can not explain the average rate of economic growth empirically. Without correcting for simultaneity, as in Barro and Sala-i-Martin (2004)⁴, it does not do so because the statistically significant correlations that are found are not robust to the addition of other explanatory variables or changes in samples of countries. Thus, the association between these two variables is not robust. When correcting for simultaneity or endogeneity, as in Mobarak (2005) for example, it does not do so because the correction eliminates statistically significant results found without the correction. Incidentally, Mobarak does find a robust negative association between democracy and the volatility of growth even

⁴ Barro and Sala-i-Martin (2004) in their textbook on economic growth also used the Freedom House index of political rights as their measure of democracy in their empirical analysis of growth determinants using a cross section of countries (Chapter 12).

after correcting for simultaneity. These results are consistent with the previous ones explaining democracy.

No empirical studies relying on democracy as the variable to be explained or on per capita income levels or the average rate of economic growth as the variable to be explained view democracy explicitly as a multidimensional variable, at least to my knowledge. Nevertheless, the latter strand of literature provides important evidence on at least one other dimension of democracy, civil liberties. This strand of literature sheds light on both the relationship of civil liberties to economic development and on why it may have been neglected in the literature.

Early work incorporating civil liberties in explaining the average rate of economic growth led to the conclusion that it did not matter. Levine and Renelt (1992) found that the statistical significance of the index was sensitive to the conditioning set of explanatory variables. For instance, King and Levine (1993) found in their analysis of the relationship between financial development and growth that civil liberties played no role in shaping economic growth. More recently, however, BenYishay and Betancourt (2010) considered the role of civil liberties in explaining long-term economic growth or development with disaggregated subcategories of civil liberties. While they found similar results to the earlier literature when using the same aggregate civil liberties index in explaining the level of per capita income, the situation changed dramatically when using the disaggregated subcategories that make up the index.

In 2006 Freedom House for the first time in its history made available the country scores on each of the four subcategories making up its civil liberties index. These subcategories are D) Freedom of Expression and Belief, E) Association and Organizational Rights (Freedom of Assembly), F) Rule of Law and G) Personal Autonomy and Individual Rights. The first two subcategories capture what are often called first generation human rights. The third one is a

mixture that captures aspects of due process, which is also a first generation human right, with procedural issues, the prevalence of law and order and discrimination by the state against minorities. The last subcategory indicates the ability of individuals to exercise their economic rights with respect to employment, location and ownership of property as well as personal social freedoms. This subcategory captures what are often called second generation human rights.

When using each of these individual subcategories to explain long-term growth and development, the authors find that the performance of the first three subcategories (D, E and F) is the same as that of the aggregate index. It is not robust to the inclusion of other variables nor to corrections for endogeneity. On the other hand, when they use the last subcategory, Personal Autonomy and Individual Rights (G), it survives the inclusion of other variables as well as corrections for endogeneity. Indeed, it performs better as a measure of property rights in explaining growth or long-term development than any of the measures previously mentioned here as well as others not mentioned before, e.g., the Economic Freedom Index developed by the Fraser Institute and its five subcategories. In sum, these results show that the civil liberties dimension of democracy, through its second generation human rights aspects, has a powerful effect in explaining long-term growth or development measured in terms of per capita income. Thus, they play a very different role in explaining economic development than the political rights dimension of democracy. The latter has no such effect in terms of the aggregate index or any of its subcategories.

One implication not to draw from these empirical results is that the only civil liberties that matter for economic growth are those associated with second generation human rights. The authors point out that it is difficult to conceive of mechanisms that allow high levels of second generation human rights to exist without some minimal levels of first generation human rights

also present. Indeed, they suggest how the higher levels of second generation human rights in countries such as Vietnam and China have raised their scores on other civil liberties capturing first generation human rights below minimal levels. The same conclusion, however, can not be drawn about their scores on political rights, which remain at minimal levels. These two examples provide additional evidence on the possibility of substantially divergent behavior by the two explicit dimensions of democracy stressed here.

DEMOCRACY'S IMPLICIT DIMENSION: IMPLICATIONS OF LEGITIMACY

Ignoring dimensions of democracy other than political rights becomes an even more pronounced phenomenon when we come to this third implicit dimension of democracy as a form of government, namely legitimacy. In this case it is usually ignored at both the conceptual and the empirical level by economists and at the empirical one by political scientists. While some political scientists use this concept routinely, most economists are uneasy with this term perhaps due to its intrinsic ambiguity. Consequently, it is usually ignored even in the area of political economy.⁵

By legitimacy I mean the willingness of the governed to accept the right of those who govern them to do so. Just as most features of institutions, legitimacy has a formal or *de jure* component and an informal or *de facto* component.⁶ For instance, in a democracy the formal or *de jure* aspect is acquired by attaining power through some form of free and fair electoral process. The informal or *de facto* aspect, however, is attained through the level of performance

⁵ An exception is the work of Collignon (2007) who argues that a technocratic or communitarian view of the legitimacy of the European Union is incapable of generating a fiscal policy consistent with its monetary policy. Only a deliberative democracy view of legitimacy, which leads to a political Union with respect to European collective goods that he calls the European Republic, can generate a fiscal policy consistent with its monetary policy.

⁶ Examples of other institutional settings where *de jure* and *de facto* distinctions are relevant are available in Acemoglu, Johnson and Robinson (2005).

of governmental functions by those elected, given the standards of the society at particular historical times.

Economic as well as other implications of the *de facto* aspect of legitimacy are far more difficult to analyze in general because of its context dependency. *De facto* legitimacy can depend on religious or economic considerations, political or historical ones, or a combination of these sources. For instance, a focus on improving the lot of the poor can be a source of legitimacy; a focus on improving the material standard of living of the population at large can also be a source of legitimacy; even providing national security, freedom from foreign interference or law and order in the territory under the sovereignty of a nation can be a source of legitimacy. Indeed, different aspects can be a source of legitimacy at different points in time for the same country.

One consideration that suggests itself from the previous discussion is that legitimacy is a dimension relevant to all forms of governments, not just to democracy. That is, one function of any form of government is to secure the willingness of the governed to accept the right of those who govern to do so and it can have *de jure* and *de facto* features in all forms of government. . This point also suggests that similar functional features apply to the previous two dimensions. For instance, another function of all forms of government is to provide mechanisms for the inter-temporal transmission of power. Similarly, a fundamental function of all forms of governments is to provide, for example, some level of civil liberties in the form of protection of property rights and mobility privileges for at least a subset of the population being governed. In performing these and other functions both of these dimensions, of course, have *de jure* or formal features as well as *de facto* or informal ones.

Different forms of government, however, are associated with different mechanisms for addressing these three functions. These mechanisms provide different levels of accomplishment in the performance of these three functions and extend the performance of these functions to different subsets of the population. It is also the case that these three dimensions are not necessarily independent of each other from the point of view of the members of society in any one setting, including the democratic one.

For instance, many Singaporeans view as legitimate limitations on civil liberties (for example, freedom of assembly) and political rights (for example, the limited competitiveness of their elections). This is due, at least in part, to the *de facto* legitimacy conferred upon their system by the superior economic growth performance of their economy since 1959 and the government's intelligent use of the resources generated to provide substantial benefits to the population at large, e.g., Kuan Yew (2000).

Similarly, a number of Cubans and Venezuelans view as legitimate the far more severe limitations on political rights and civil liberties their forms of government impose on their citizens. This is the case, for instance, with respect to the competitiveness of political participation through parties and the exercise of first and second generation human rights. In these two cases whatever levels of *de facto* legitimacy one perceives would be related to factors such as real or perceived affronts to national identities, the pervasive corruption of previous democratic forms of governments, and the provision of substantial economic benefits to the poor at least in the short-run.

Currently, one of the most imminent threats to the legitimacy of fragile democracies is their inability to provide basic law and order in their territories as a result of various factors ranging from civil wars to the drug trade and related developments. Lack of law and order

undermines the *de facto* legitimacy of any democracy no matter how free and fair their elections are. It leads to the acceptance by large segments of the population of actions that can easily violate civil liberties in fragile democracies. For example, some of the actions undertaken by the Uribe government in Colombia during its struggle against the guerrillas were highly controversial from this perspective. Yet, Uribe enjoyed wide spread support, among other reasons, due to the perceived impact of these measures in substantially lowering the numbers of murders and robberies from the peak experienced at the height of guerrilla activity.

Ironically, the support expressed by some for Egyptian President Mubarak in the midst of the recent pro-democracy demonstrations after 30 years of dictatorship was often and explicitly related to the perceived 'law and order' he would provide in contrast to the potential for instability or lack of 'law and order' generated by the demonstrations. Assuming these expressions of support to be insincere and hypocritical, however, does not detract from the reality that this 'law and order' argument has been put out for many years and it is still resuscitated in critical times. Indeed, the protesters were also sensitive to this issue and provided 'law and order' in Tahir square as best they could to undercut the accusation.

Both sides behavior with respect to this issue is an indication of the importance of 'law and order' provision as a governmental function. A democracy's legitimacy can be profoundly affected by how citizens view its performance on this dimension. Needless to say, 'law and order' is quite different from the 'rule of law': No one claimed that the Mubarak government performed the latter function, precisely because of its violations of fundamental civil liberties. How the protesters would perform this function will become observable only if they hold the reins of power in a democratic government.

While the previous examples illustrate the potential interdependence between legitimacy, political rights and civil liberties, it is useful to summarize our argument, thus far, with an example in tabular form that also illustrates the differences between *de jure* and *de facto* in all three dimensions. We illustrate the general argument in Table 1 below using the performance of the law and order function of government in a democracy as an example.

Table 1: Democracy’s Dimensions: Performance of Law & Order Function

| | de Jure (Formal) | de Facto (Informal) |
|------------------|---|---|
| Political Rights | Law& order provision by democratic government | Failure to do so due to whatever reason |
| Civil Liberties | Freedom of Assembly | prohibited to preserve law & order |
| Legitimacy | Government elected in free & fair elections | inability of government to perform expected function; performance leads to violations of civil liberties. |

The economic consequences of legitimacy or its absence can be illustrated with the provision of law and order, for example, to control the drug trade. The economic costs will include all the additional resources required by law enforcement as a result of efforts to control this activity. More importantly, since the most valuable asset of a human being is his or her life, the human capital costs of a failure of legitimacy through lack of provision of law and order can be quite high. To this must be added the additional loss due to property destruction. In addition there is the opportunity cost of potential investments and transactions that are never carried out as a result of the increased uncertainties generated by a climate of widespread insecurity. Lack of legitimacy due to this source can have devastating economic consequences. Whether increased

law enforcement would eliminate the lack of law & order associated with the drug trade, however, is a separate issue.⁷

Mention must be made also of intrinsic features of legitimacy particularly relevant for the modern world. For, these features have important economic consequences that are independent of political rights and civil liberties as traditionally defined. In particular I am referring to economic protection for the poor or the provision of employment at high levels. One may call them ‘social rights’. These are easy to assign *de jure* but difficult to provide *de facto*, especially in poor countries.

If there is too big a gap between the *de jure* assignment and the *de facto* accomplishment by any one government, the result can be a profound lack of *de facto* legitimacy. Thus, governments should be careful in what they promise as repeated failures to fulfill these promises can imperil their survival. Democratic governments are even more exposed to this problem of a legitimacy gap between the expectations raised by the *de jure* assignment and the *de facto* accomplishments. For, freedom of the press and political competition lead to having this gap on ‘social rights’ exposed more clearly and forcefully, which is likely to generate a legitimacy crisis sooner than in more repressive settings.

Finally, one of the difficulties in dealing with this implicit dimension of democracy is the ease of overlooking its existence due to its implicit nature and sensitivity to context. Indeed, it is easy to fail to recognize its role because it appears under different names or forms. We illustrate this difficulty as well as the potential importance of this dimension of democracy in determining outcomes in terms of a novel paper by Dippel (2010). This paper establishes the role of forced integration in Native American reservations when they were created in the 19th century as the

⁷ For instance, a recent analysis of prohibition in the United States suggests that in the case of alcohol increased law enforcement was not successful in eliminating the associated crimes. Indeed, this failure is viewed as a critical factor in the repeal of the constitutional amendment, Garcia-Jimeno (2010).

causal factor in a mechanism that explains the substantial divergence in per capita incomes among these reservations in recent years.

Dippel finds anthropological data on intra tribal political integration in pre-reservation times and shows that when sub-tribal bands were forced to integrate into a reservation per capita income in recent times was much lower than when sub-tribal bands were politically integrated on their own in pre-reservation times. The causal mechanism he identifies is the existence of more parochial politics that diminished the contracting environment and the management of reservation owned businesses in the reservations where forced integration prevailed after democratically elected local governments start to function. An interpretation of these results is that forced integration diminished the *de facto* legitimacy of the current local government, despite its *de jure* legitimacy through acquiring power in free and fair elections. This lack of *de facto* legitimacy generates the parochial politics that lower its effectiveness in creating an economic environment leading to increases in per capita income.

HONDURAS 2009: POLITICAL RIGHTS, CIVIL LIBERTIES AND LEGITIMACY

In this section we apply the ideas developed and reviewed in the previous sections to gain an understanding of one of most striking or salient events of 2009 in terms of democracy: namely, the political crisis in Honduras. This event was extremely controversial at the time. It caught academics, journalists and policy makers by surprise. None of these groups were able to articulate sound interpretations of the event while it was happening. Our aim in this section is to use this event as a case study that illustrates the insights that can be gained from relying systematically on the constructs developed in this paper for understanding the evolution of democracies, especially fragile ones.

On June 28 2009 the elected President of Honduras, Manuel Zelaya, was arrested by the Honduran Army with the explicit approval of the legality of the action by the Honduran Supreme Court. The military decided to put him on a plane bound for Costa Rica rather than to hold him in Honduras, presumably to avoid the potential for bloodshed that would have arisen if he had been held within the country. There is not much dispute that these events created the crisis.

What led to these events is subject to differing interpretations. According to most accounts, for example Toiba and Zissin (2009), the critical issue was an attempt by President Zelaya to have a referendum on the 28th of June 2009. It would have been a poll on the desire of Hondurans to have a fourth ballot box in the November 2009 elections, which would then ask if the Honduran people wished to form a Constitutional Assembly in the term of the newly elected president. The Supreme Court upheld a lower court ruling that had found a prior referendum based on the same issue unconstitutional and had prohibited it. Zelaya decided to proceed anyway, basing his decision on the Law of Citizen Participation passed in 2006. Zelaya dismissed the head of the military command for disobeying an order to hold the poll, but the Supreme Court ordered his reinstatement.

Zelaya's actions were viewed by a substantial number of Honduras as an attempt to violate article 239 of the Honduran constitution, which is very clear on the basic point and its penalty, by opening the way to his re-election. To wit, the article translates as follows:

ARTICLE 239.-A citizen who has held the highest office in the Executive Branch can not be President or Vice President of the Republic.

Whoever violates this article or proposes its reform, just as those who may support them directly or indirectly, immediately foregoes the holding of their respective official titles

and remain proscribed from participating in any public activity for ten years.

While Zelaya's election in 2005 was accepted as free and fair during the 2009 crisis by everyone, the same free and fair elections also led to the Congress that voted for his ousting on more than one occasion and approved judges of the Supreme Court that validated his ouster. Focusing exclusively on political rights renders one incapable of addressing or understanding this crisis. Political rights generated by free and fair elections at the presidential level do not trump political rights generated by the same free and fair elections at the legislative level.

Bringing in the perspective of the two other essential dimensions of democracy enhances our understanding of this process. The fears of what would happen to their civil liberties and those of the citizens represented by them played a role in the decisions of the Honduran Congress to vote for the ousting of Zelaya once he decided to proceed with the referendum. Article 239 of the Honduras constitution and its interpretation by the Honduran Supreme Court provided *de jure* legitimacy for their actions. The desire to protect civil liberties of the substantial segment of the population represented by the overwhelming majority in the Honduran Congress that voted for Zelaya's ouster provided *de facto* legitimacy for their actions.

Another consideration that may have provided *de facto* legitimacy for these actions was nationalism. Given the widespread and well known involvement of Chavez in Honduras on the side of Zelaya, this interference by a foreign government, no matter how friendly and generous, in trying to determine national outcomes could have engendered nationalistic feelings in support of an alternative.

Without appeals to legitimacy as an essential dimension of democracy it is also difficult to understand or explain the actions of Zelaya and his supporters. Zelaya and those who encouraged him to have the referendum had to be aware of the constitutional issue generating *de jure* illegitimacy for their actions, especially after the first denial of its legality by the Supreme Court. Challenging it and taking the chance to be rebuked and its potentially serious consequences required a powerful rationale. The need to fight dire circumstances of poverty at very low levels of economic development provided *de facto* legitimacy for this risky strategy, at least for some.⁸

On the other hand, the June 28 actions of the military were viewed outside Honduras almost uniformly as a coup d'état. Ironically, while the military had a sound legal and constitutional basis for arresting Zelaya in article 239, it had an equally sound legal and constitutional basis not to send him out of the country in article 102. The latter translates as follows

ARTICLE 102.- No Honduran may be expatriated nor delivered by the authorities to a foreign State.

The military's decision to send Zelaya out of the country provides an illustration of the inter-dependence of the two explicit dimensions of democracy in determining outcomes. This action is illegitimate from the *de jure* point of view. It violated Zelaya's political rights. Just like Zelaya and his supporters had to be aware of article 239, the military had to be aware of article 102 of the constitution and that the action had no *de*

⁸ Honduras is one of the poorest countries in Latin America. In 2008 it ranked 145 in the world with respect to per capita income in PPP terms (\$3,870) as estimated by the World Bank (2009). Among Latin American countries only Nicaragua and Haiti are ranked below Honduras.

jure legitimacy. The *de facto* legitimacy for undertaking the action was the protection of the civil liberties of Honduran citizens against the potential for violence that could have been unleashed if Zelaya had been held prisoner in a Honduran jail or military barrack.

Subsequent measures undertaken by the provisional government to prevent violence once Zelaya took refuge in the Brazilian embassy in Tegucigalpa suggest that protection of civil liberties through violence prevention was a relevant consideration in sending Zelaya out of the country. For instance, some of the measures undertaken upon Zelaya's return were a *de facto* infringement on civil liberties. They were quickly rescinded after criticisms from a hostile international community on these grounds.

One expects most military leaders to be well aware that the use of violence against civilians, regardless of the reason, is frowned upon in modern civilized societies and undermines the legitimacy of any intervention both *de facto* and *de jure*. This is especially so in a country trying to perform well on the indicators of the Millennium Challenge Corporation, which include the rule of law as measured in the World Bank's governance indicators. It is also to be expected in a country where the military receives extensive training from the United States.

The consequences of these events for Honduras were severe in political and economic terms. It led to the widespread condemnation of the action as a *coup d'etat* by both democratic governments and not so democratic ones. Diplomatic pressure was brought to bear on the transition government to reverse itself. One international organization, the OAS, refused to monitor the presidential elections which were supposed to take place independently of the issue under contention. On the economic front

international assistance was withheld. Even bilateral US aid through the Millennium Challenge Corporation was halted, despite the fact that Honduras had been performing well by almost all criteria usually employed by MCC to select countries as worthwhile or deserving to receive aid because of their own efforts at improvements.⁹

Yet, the Honduran provisional government resisted the pressure, elections were held and the newly elected government of President Lobo was recognized by various governments, including the US. It helped that Lobo had taken an open minded approach to the issues dividing the country and a conciliatory attitude toward Zelaya and his supporters, for example Lisman (2009). By March of 2010, former President Zelaya had announced that he is writing a book on the crisis and the US government had announced that aid has been restored. The multilateral institutions followed suit. One unexpected consequence of the crisis was some loss of credibility and relevance for the OAS Secretariat as an organization devoted to the promotion of democracy.¹⁰

By July of 2010 most of the 65 countries that had broken diplomatic relations with Honduras had re-established them. Two of them, Chile and Mexico, did so in early August, bringing the total to 57, after the OAS issued a long delayed report on the Honduran crisis and its aftermath on July 29. This report

⁹ For instance, in 2009 Honduras scored above the median of the low income countries in 15 of the 17 indicators in the MCC scorecard, at the median in one and below the median in one. These indicators are the ones used to select countries as eligible for aid from MCC. This information is publicly available at the MCC website.

¹⁰ This was the result mainly of the incongruence between the positions taken by the Secretariat with respect to various dimensions of democracy in Honduras and in Venezuela during the same time period. The latter have been brought to the fore by a recent report on democracy and human rights in Venezuela by the Inter-American Commission on Human Rights (IACHR, 2010).

<http://www.oas.org/documents/eng/press/AGSC00258-ING.doc>) has a substantial part devoted to the steps already taken and in process by the Lobo government to provide civil liberties through the protection of human rights, including freedom of the press. Nonetheless as of early February 2011, Honduras had not been re-admitted to the OAS. While a majority of the members favor re-admission, these decisions had been traditionally arrived at by consensus and there seems to be no immediate push to break that tradition.¹¹

CONCLUDING REMARKS

The Honduran political crisis seems to have befuddled pundits, governments and international organizations in equal measures. Our analysis provides an application of the analytical narratives approach relying on two dimensions of democracy, civil liberties and legitimacy, to overcome the inadequacy of a third dimension, political rights, as an exclusive basis for understanding the crisis. These two dimensions are frequently neglected due to an excessive focus on the usual dimension, political rights. Using them explicitly demonstrates how our ability to understand critical events associated with democratic processes can be substantially enhanced by a systematic application of the constructs emphasized in this paper.

One of the obvious implications for future research is application of the analytical narratives approach, relying on the constructs developed here, to other critical events in the evolution of democracies. These critical events can be current ones or historical ones

¹¹ One very meaningful consequence of this impasse would be if Honduras was prevented from receiving assistance from the IADB as a result, but this has not happened despite the illegality of the situation due to the presumed requirement of OAS membership by IADB loan recipients.

such as those analyzed by Tilly (2007). Similarly, the approach can be concentrated on a short period of time or on a longer historical period such as the case studies undertaken under World Bank auspices to implement the North Wallis and Weingast (2009) framework. The subject of the evolution of democracies is sufficiently complex and difficult that the ideas in this paper should be viewed as complementary to the ones in these other works rather than as substitutes or alternatives.

Similarly, the adoption of the analytical narratives approach to incorporate legitimacy as a construct in the evolution of democracies should be viewed as a complement and not as a substitute for the employment of the usual standard tools of analysis employed in economics. It may surprise some but the analytical narratives approach is consistent with the use of models, for example see Bates et al (1998). Indeed, this complementarity has been explicitly recognized recently by one of the most accomplished users of models in development economics, Acemoglu (2010), where the agenda should be broad and “...we should strive to incorporate general equilibrium and political economy effects when we can, and we should be cognizant of their importance when we can not.” (p.30).

A systematic effort to conceptualize democracy in terms of these three dimensions can engage, indeed welcome any of the usual validation procedures. For instance, surveys can and have been used to show that citizens view political rights differently than civil liberties, e.g., Betancourt and Sanguinety (2009). More generally, standard ongoing public opinion surveys developed in recent years, for example the ones sponsored by the Latin America Public Opinion Project (<http://www.lapopsurveys.org/>),

can be adapted to identify the drivers of legitimacy in different contexts. Experiments can be used to deepen our understanding of these constructs and their interactions. For instance, recently experiments have been used to show that democratic participation has substantial effects on cooperation, e.g., Dal Bò, Foster and Putterman (2010).

Another attractive area for future research is the empirical analysis of the relationship between democracy and development relying on civil liberties as a basic dimension of democracy. While substantial attention has been devoted to explaining the determinants of democracy when the latter is defined exclusively in terms of political rights, no one has tried to capture the determinants of democracy while including civil liberties as an explicit dimension of democracy. It is highly unlikely that the determinants of these two dimensions are the same.

Last but not least a fascinating topic for future research is the potential incompatibility between some sources of legitimacy and democracy. For example, in a recent book Mueller (2009) argues that religious extremism is incompatible with liberal democracy. In his view (p. 1) systems of government "...are liberal in the sense that their citizens possess rights that guarantee them the freedom to go and do as they wish. They are democracies in that their citizens exercise significant control over the state." Religious extremism is harder to define in the abstract. Nevertheless in practice he includes (pp.416-417) "...Christianity in America, Islam in much of the rest of the world, Hinduism in India, and Judaism in Israel...".

Mueller devotes significant attention to the nuances of religiosity in the book and he views religiosity as a continuous variable. Nonetheless, the groups characterized as

extremists are broad. Perhaps the constructs developed in this paper can be used to analyze the conflict between religion as a source of legitimacy for democracy and the two explicit dimensions of democracy in less contentious terms. By identifying the aspects of political rights and/or civil liberties incompatible with certain aspects of religious extremism it may be possible to narrow the scope under which religious extremists can claim to operate in a manner consistent with democratic principles. If so, it could limit the claims of extremists using religion as a source of *de jure* or *de facto* legitimacy in a democracy.

REFERENCES

- Acemoglu, D. "Theory, General equilibrium and Political Economy in Development Economics." *Journal of Economic Perspectives*, vol.24 (Summer 2010), pp.17-32.
- Acemoglu, D., and J. Robinson. *The Economic Origins of Dictatorship and Democracy*. London: Cambridge University Press, 2006.
- Acemoglu, D., S. Johnson, and J. Robinson. "Institutions as the Fundamental Cause of Long-Term Growth." Ch.6 in P. Aghion and S. Durlauf (eds.) *Handbook of Economic Growth*. Amsterdam: Elsevier, pp.385-472.
- Acemoglu, D., S. Johnson, J. Robinson and P. Yared. "Income and Democracy." *American Economic Review*, vol. 98 (June 2008), pp. 808-842.
- Aghion, P. and P. Howitt. *Endogenous Growth Theory*. Cambridge: MIT Press, 1998.
- Barro, R., and X. Sala-i-Martin. *Economic Growth*, 2nd edition. New York: McGraw-Hill, 2004.
- Bates, R., A. Greif, M. Levi, J-L Rosenthal, and B. Weingast. *Analytic Narratives*. Princeton: Princeton University Press, 1998.
- BenYishay, A. and R. Betancourt. "Civil Liberties and Economic Development." *Journal of Institutional Economics*, vol. 6 (September 2010), pp.281-304.
- Betancourt,R., and J. Sanguinety. "The Political Will to Democratize in Cuba: An Implication for U.S. Policy." *Cuban Affairs*, vol. 4 (July 2009).
- Collignon, S. "Three Sources of Legitimacy for European Fiscal Policy." *International Political Science Review*, vol. 28, No.2 (2007), p.158-184.
- Dal Bò,P., A. Foster, and L. Putterman. "Institutions and Behavior: Experimental Evidence on the Effects of Democracy." *American Economic Review*, vol. 100, (December 2010), pp.2205-29.
- Diamond, L. *The Spirit of Democracy*. Times Books, Henry Holt and Company, LLC, 2008.
- Drazen, A. *Political Economy in Macroeconomics*. Princeton, NJ: Princeton University Press, 2000.
- Dippel, C. "Forced Coexistence and Economic Development: Evidence from Native American Reservations." Working Paper. Department of Economics, University of Toronto, 2010.
- Feddersen, T. "Rational Choice Theory and the Paradox of Not Voting" *Journal of Economic Perspectives*, vol. 18 (Winter, 2004), pp. 99-112.

Findlay, R. and K. O'Rourke. *Power and Plenty: Trade, War and the World Economy in the Second Millennium*. Princeton, Princeton, University Press, 2007.

Garcia-Jimeno, C. "The Political Economy of Moral Conflict: An Empirical Study of Learning and Law Enforcement under Prohibition." Working Paper. Department of Economics, MIT 2011.

Inter-American Commission on Human Rights. *Democracy and Human Rights in Venezuela*, 2010.

Keane, M. and A. Merlo. "Money, Political Ambition and the Career Decisions of Politicians." *American Economic Journal: Microeconomics*, vol. 2 (August 2010), pp.186-215.

Kuan Yew, L. *From Third World to First: The Singapore Story, 1965-2000*. New York: HarperCollins Publishers, 2000.

King, R., and R. Levine. "Finance and Growth: Schumpeter Might Be Right." *Quarterly Journal of Economics*, vol.108 (August 1993), pp. 717-737.

Lagunoff, R. "A Constitutional Theory of Civil Liberty." *Review of Economic Studies*, vol.68, No1 (2001), pp.109-32.

Levine, R., and D. Renelt. "Sensitivity Analysis of Cross-Country Growth Regressions." *American Economic Review*, vol.82 (December 1992), pp. 942-963.

Lisman, M. "Healing Time for Honduras." December 10, 2009, Guardian.Co.UK.

Mobarak, M. "Volatility and Development." *The Review of Economics and Statistics*, vol. 87, (May 2005), pp. 348-361.

Mueller, D. *Reason, Religion, Democracy*. London: Cambridge University Press, 2009.

North, D., J. Wallis, and B. Weingast. *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. London: Cambridge University Press, 2009.

Oates, W. "An Essay on Fiscal Federalism." *Journal of Economic Literature*, vol.37 (Sep. 1999), pp.1120-1149.

O'Donnell, G. *Modernization and Bureaucratic Authoritarianism*. Berkeley: Institute of International Studies, 1973.

Olson. M. *Power and Prosperity; Outgrowing Communist and Capitalist Dictatorships*. New York: Basic Books, 2000.

Piano, A., and A. Puddington. *Freedom in the World, 2005*. New York: Rowman & Littlefield Publishers, Inc., 2006.

Plattner, M. "Globalization and Self-Government." *Journal of Democracy*, vol. 13 (July (2002), pp.54 -67.

Przeworski, A., Alvarez, M., Cheibub, J.A., and F. Limongi. *Democracy and Development*. Cambridge: Cambridge University Press, 2000.

Rueschemeyer, D., E. Huber Stephens, and J. Stephens. *Capitalist Development & Democracy*. Chicago: Chicago University Press, 1992.

Rodrik, D.(ed.) *In Search of Prosperity: Analytic Narratives on Economic Growth*. Princeton: Princeton University Press, 2003.

Tilly, C. *Democracy*. Cambridge: Cambridge University Press, 2007.

Toiba, M., and C. Zissis. "Timeline: The Honduran Crisis." November 2, 2009, ascoonline.

World Bank. World Development Indicators database, 1 July 2009, retrieved March 12 2010.