Will the Shifting Economic Power Balance Topple Democracy?

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A view on where global democracy stands and where it’s headed in the new economic world order.

Over the past decade, academics, politicians and journalists have raised concerns about the state of democracy worldwide in books, academic publications and newspaper articles. The topic has been discussed both through a narrative approach and quantitative analysis. Undoubtedly, data can reveal dynamics and patterns that are not immediately apparent. In fact, many publications have used data to present the dynamics of democracy, focusing on the deteriorating quality of democratic institutions in a specific country.

However, to gain a good understanding of the global dynamics of democracy, we need a quantitative measure of democracy in relation to economic power. Only then can we fully appreciate the implications of the dynamics.

How to measure global democracy
There are many ways to construct an indicator of world democracy. Invariably, one would start with a standard source of democracy scores for individual countries and aggregate the country data. Here is a non-exhaustive list of possible aggregation approaches.

1. **Proportion of democracies**: Count the number of countries classified as a democracy and divide by the total number of countries.

2. **Average democracy score**: Use an index of democracy for all countries and average these figures every year. This measure will differ from the previous one because most rating agencies do not see democracy and autocracy as a 0-1 dichotomy. Instead, they use a range (for instance, 0 to 5) or a mix of variables.

3. **Population-weighted democracy score**: Each country's democracy score is weighted according to its share of the world population. In this case, China's and India's democracy scores are weighted at roughly 18 percent each, while the United States has a weight of about 4 percent.

4. **GDP-weighted democracy score**: Each country's democracy score is weighted according to its share of global GDP.

Versions of the first two indicators were recently presented by Daniel Treisman in his 2023 paper "*How great is the current danger to democracy?*". The author concluded that there is no imminent danger to democracy on a global scale. He wrote: “While eroding democratic quality in some countries is indeed a cause for concern, the fear of a global slide into autocracy appears premature.”

Using data from various sources, he demonstrated that the proportion of countries considered democracies has been quite stable over the past 30 years. In a graph showing the biggest decline in the indicator, the proportion of democratic states peaked in the early 2000s and declined only slightly to levels comparable to the mid-1990s, which is considered the heyday of democracy. The figure from the paper (see Figure 1 below) shows the average score using two measures of democracy from 1900 to 2022.
If we want to know the average democracy score today versus 10, 30 or 100 years ago, these graphs provide good answers. But if we want to know whether the average person today lives in a democracy or not, the democracy indicators of countries must be weighted based on their population using the third approach described above.

What I am more interested in, however, is where the world is heading. To get a better sense of this, I believe that the democracy indicators should be weighted based on the economic size of the country, i.e. by its share of global GDP.

**Painting a fuller picture of democracy**

To capture the state of democracy worldwide, I used data from the Varieties of Democracy (V-DEM) project and GDP (adjusted for purchasing power parity) from the World Bank to construct the indicator described in the fourth approach above. As data from the Soviet republics was not available before 1990 (except the democracy score for Russia), additional calculation was required.
I assigned the score for Russia (as published in V-DEM) to each of the Soviet republics to make up for the lack of democracy score for the rest of the Soviet Union. This implies a similar democratic regime in the 15 republics within the USSR. For GDP, I used data from Angus Maddison’s study to construct growth rates of the USSR from 1960 to 1990. Using these growth rates, I reconstructed the GDP in these republics prior to the fall of the Soviet bloc by extrapolating backwards from 1990. Clearly, these are shortcuts, but a more sophisticated technique would be unlikely to have a material effect on the results reported below.

To offer a broader measure of the state of democratic institutions, I used the “accountability” series as an indicator of democracy. This indicator combines “vertical accountability” (politicians being accountable to the electorate), “horizontal accountability” (the presence of functioning checks and balances between institutions, e.g. the judiciary and the government) and “diagonal accountability” (the ability of the civil society and media to hold the government accountable). This measure has been calibrated with a mean of zero and standard deviation of 1 for the entire population. It offers nearly identical results as the more traditional “regime” measures of democracy.

![Average worldwide democracy scores based on two measures](image-url)
Changes in the graph (Figure 2) may result from changes in the relative share of global GDP of a country (even if the democracy scores are constant) or from changes in the individual democracy scores (even if GDP shares are constant). For example, from the late 1970s to 1989, the western world was growing much faster than the Soviet Union, and because of this, the world democracy score weighted by GDP increased. One might argue that the imbalance of economic power in favour of democratic states precipitated the demise of the Soviet regime. The collapse of the Berlin Wall led to the creation of many democratic states in Eastern Europe, which in turn led to a further increase in the world democracy score.

**Democracy through the lens of history**

Since 1999, the global democracy indicator has been on a clear downward trajectory – presenting a very different picture from the averages depicted in the first graph above. The decline is driven predominantly by the rising economic power of non-democratic states like China. You may notice that the value in 2022 is roughly the same as in the late 1970s, when the world was in the midst of the Cold War. What is more worrisome is that a reversal of the downward trend is unlikely in the near future.

The graph poses a very important question: Will the dynamics from 2000 onwards precipitate a seismic shift in the world political order as seen during 1976 to 1989? Of course, correlation is not causation and there were many reasons for the collapse of the Soviet bloc. But to ignore the role of economic power in determining the future of the world order is naive. There is no shortage of books and articles about economic statecraft and the role of hegemons in determining political and economic outcomes. A recent paper creates a sophisticated theoretical model to show how hegemons can coerce other countries into specific actions.

More concretely, there are hundreds of articles documenting how China’s rising economic power is associated with its impact around the world. In

However, China is but one part of the explanation for the dynamics of the democracy indicator. Interestingly, the graph would not change much if we were to remove China and the United States from the data set: The value of the indicator would decline 40 percent from the peak (instead of a 65 fall when the US and China are included).

This implies that the decline in the GDP-weighted democracy score is much more widespread. In other words, even if China were to stagnate, many other economies would continue to drive the decline in the indicator. Arguably, the success of China in creating an economic miracle in a non-democratic political setting may have convinced other countries that they can do away with democracy in their economic pursuits.

**Drivers of the economic power balance**

In addition, there are well-founded concerns that social media and the use of AI tools throughout the world (including democratic states) may have drawn the public closer to anti-democratic politicians, especially where advocates of democracy are less active. Even an abundance of publications on the collapse of democracy may not be sufficient to counteract the opposing forces on social media. Without an active and aggressive strategy to raise awareness about the perils of losing to autocracy, non-democratic states will continue to grow their economic power and overwhelm those that still count as democracies.

On 8 June 1982, then US President Ronald Reagan addressed the British Parliament, speaking about the contest between democracy and authoritarianism. He stated: “the march of freedom and democracy [...] will leave Marxism-Leninism on the ash-heap of history as it has left other tyrannies which stifle the freedom and muzzle the self-expression of the people.”

At that time, the democracy indicator was gaining momentum, giving Western politicians confidence that democracies were gaining the upper hand. Today, President Biden has resuscitated this debate, stating repeatedly that the world has engaged in “a battle between democracy and autocracy”. Alas, this time democracy might be on the losing end. The global
slide into autocracy might be unfolding at this very moment, as the data suggests.

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https://knowledge.insead.edu/economics-finance/will-shifting-economic-power-balance-topple-democracy

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