

# WHAT HAPPENED TO OUR DREAM OF DEMOCRACY?

## AND WHY DEMOCRACY WILL, AS ALWAYS, PREVAIL

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Ukraine has been the center of worldwide attention since the start of the year, following a long run of anti-government protests which eventually resulted in a regular government coup, a military intervention, an annexation of its territory by another country, and persistent threats of a fully pledged war. The protests started as a peaceful rally back in November 2013 to end Russia's influence over Ukraine. The trigger was the Ukrainian President Yanukovich's refusal to sign a free trade agreement with the EU and choosing Russia's help instead. The initial student protesters were calling for a more EU-oriented Ukraine. They were led by a desire to fight for a better democracy than the one they had.

In the mean time lots of things went out of hand and even though some kept their initial goals of a pro-European Ukraine, many other, darker things also surfaced. There are a lot of people in Ukraine who are pro-Russian as well as pro-European. Many don't share the image of the EU being the convergence machine it was designed to be. They don't consider a democracy to be the best system out there. According to many surveys done on individual values and perceptions in post-communist East European countries, people are split over the optimal role and perception of democracy. Issues such as having a strong, authoritarian leader and high state involvement in the economy are reasons for concern in the Ukraine over what kind of a system they are hoping to ensure. For a country geographically and ideologically divided as Ukraine currently is (political science terminology often uses the term Two Ukraines, similarly to the story of Two Polands), the democratic order itself as well as its national sovereignty is jeopardized.

Even before Ukraine, last summer mass protests were arising in many developing nations. In addition to Egypt's and Syria's ongoing revolutions, countries like Turkey, Brazil, Indonesia, Bulgaria, just like Ukraine, all had a seemingly irrelevant event trigger the protests (building site in Istanbul, bus fares in Sao Paulo, fuel prices in Indonesia, or the nomination of a media mogul as the head of the national security agency in Bulgaria), however each of these events signaled that the government has gone too far in its expropriation and corruption, so the people rebelled. Because of the reliance on social networks the protests were characterized by an amazing level of spontaneity. They spread quickly cross-country as they shared a common goal: to change a corrupt and unjust system. Indulgence and inefficiency of poorly skilled political leaders and their often even worse alternatives has reached a boiling point.

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Particularly in those countries which have experienced rapid economic growth in the past decade, and from which the majority of the people were partially or fully excluded.

Ultimately, all these protests were much more than the usual anti-government rallies. On one hand they presented a resistance against an entire system, in which political, corporate and media elites in addition to a series of well-organized interest groups have captured most of the newly gained wealth. On the other hand, in cases of the Arab spring, protests are a consequence of a fragile and unfinished democratic consolidation process. In both cases the effect of globalization has resulted in more de facto power held by the lower and middle classes who now demand higher inclusion in the democratic decision-making process. First and foremost through greater accountability and less corruption.

Many commentators have stated how all these protests were aimed against democracy or even against capitalism itself. I disagree. These protests aim for *more* democracy not less. They desire a *better* democracy, characterized by greater accountability of politicians, less corruption, and altogether a strong plea against crony capitalism. They seek changes, reforms that will bring more justice, more human rights, and higher living standards. They represent a quest for political and economic inclusiveness.

## **THE FRAGILITY OF A YOUNG DEMOCRACY**

However democratic consolidation takes time. A lot more time than the current voters are prepared to wait for, which is exactly why the initial democratic consolidation is so fragile and often ends in disarray. The Arab spring testifies to this argument.

Autocratic or semi-autocratic regimes get replaced first by anarchy and then by a woeful inability to consolidate the young democracy. According to Acemoglu and Robinson's theory (popularly explained in their 2012 hit book "Why Nations Fail") this reeks of a typical 'iron law of oligarchy' - where one tyranny is simply being replaced by another.

Democratic consolidations fail when they fail to create institutions which limit political power. Protests and revolutions are a natural reaction to years of extractive institutions in which the ruling elites had little or no constrain on their power. In other words they had strong incentives of expropriation and wealth extraction. An elite overthrown by a revolution is replaced by a new one often continuing to cause even worse havoc than before thus strengthening the iron law of oligarchy. Countries such as Sierra Leone, Congo, Ethiopia, Zimbabwe, Guatemala, Uzbekistan, Argentina, Libya, Syria, or Egypt all seemed to be trapped by this perpetuating negative feedback loop. It's happening to Ukraine as well.

Young democracies are indeed fragile and unsustainable, particularly in the developing world, which is exactly why a strong democracy needs strong institutions. Institutions that limit the extractive political and corporate power and ensure a

functioning rule of law and constitutional order. This is much easier said than done. It's hard to ask for limiting political and crony power when those who hold on to power are the only ones able to change it. This leads to a paradox - a democracy, the so-called rule of the people, is unable to take power away from those who hold it. The principles (voters) are unable to control their agents (politicians). Sometimes this can go too far and result in a revolution which overthrows the current ruling elite. But institutions are still weak, so it's easy for the new group to rise to power and again maintain firm hold over it, implying that the democratic system has failed.

Ukraine is a good example. They overthrew Yanukovich during the Orange revolution in 2004 - a good example of democracy at work (even though Yanukovich refused to step down after electoral defeat - hence the revolution). Yushchenko, the new President promised a lot but delivered very little, so he too was ousted (punished) in the 2010 elections where he got around 5% of the vote - another good example of the democratic process at work. In this democratic process Yanukovich won again, this time narrowly against Yulia Tymoshenko, but with many accusations of fraud in the run-off elections. In the aftermath, Yanukovich imprisoned his main opponent Tymoshenko on charges of corruption and embezzlement (she was released in February this year mainly thanks to the pressure from the protesters). This represents one of the key problems with democracies, particularly the newly founded ones - very often controversial candidates can secure their firm hold on power riding on a legitimate electoral process. Putin and Erdogan keep getting away with it for years. The elections don't even have to be rigged. All it takes is to build a large and faithful support group (or groups) to whom you need to keep giving and promising concessions. An excellent book by Bueno de Mesquita and Smith "The Dictator's Handbook" provides the full story. The problem is self-perpetuating and it is easy to see how young democracies find it very hard to set up a proper set of institutions. Economic theory recognizes such democracies as examples of state capture.

## **DEMOCRACY'S CRITICS**

It is because of state capture and a fragile consolidation process that many suffer under the perception that some countries simply aren't fit to have a Western-type democracy. They have too long been embedded in an authoritarian system and cannot seem to shake some of its negative mentality. The people in such countries persistently yearn for strong leaders (when they lack one), call for nationalization of private companies in times of crises, and in general call for a more firm state control over the economy not realizing that the major problem of such countries is state inefficiency rather than market inefficiency.

On the other hand, the critics claim that the Western-type model of democracy isn't all that great either. The recent global crisis (along with the rise of China) has exposed all its problems; dysfunctionality and political gridlocks that only worsen the crisis have become a standard in US and Europe. Government bank bailouts and rapid accumulation of debt stroke a huge blow to the positive perception of Western democracy and capitalism itself. Many Western intellectuals changed their tune as

well, calling for "state capitalism" and boasting China as the new leading world superpower.

In addition the Western model of democracies is facing a serious problem with rising inequality (and to some extent the lack of social mobility). This too can be, in part, attributed to the negative outcomes of the political process in democracies. Various interest groups dominate the political spectrum in biasing budgetary expenditures towards their preferred goals leaving relatively less money for redistribution programs aimed at the poorer ends of the society, particularly in terms of education and health care. Politicians themselves engage in direct or indirect vote buying (either through gerrymandering or by giving direct concessions to their support groups), budget-maximizing bureaucrats also add to the rise in government spending which isn't targeted towards the general population, while political campaigns are financed heavily by the corporate sector desiring favorable legislation. All of this adds concerns over a poor image of the Western-type democracy. It has failed to become fully robust to cronyism. Western democracies which were successful in withstanding the pressure of cronyism are more an exception than a rule nowadays.

The problems of political gridlocks are doing no favors to democracies either. Unelected technocratic governments failed to solve the long term problems of countries where they were imposed. They lacked the political legitimacy to fully implement the necessary reforms. Italy is a case in point - the electoral process was brought to the utmost absurd when an anti-establishment comedian got 25% of the votes in the last general election. Italy has faced three unelected Prime Ministers since, each doing a decent job however but with further instabilities brought upon the system. Such political gridlocks often result in unstable coalitions and logrolling, very often against the best interest of the voters. The US political gridlock back in August 2011 almost caused the end of the Eurozone a few months later. Such is the strength of negative reinforcement in modern globalized economies. Their further gridlocks over the fiscal cliff and the government shutdown did spread panic but less than before as the markets accommodated to the possibility of such scenarios.

Furthermore, even when the electoral process works and doesn't deliver gridlocks it can still yield negative outcomes such as the abrupt rise of extremist parties in Europe (which is true not only in the so-called periphery but in the UK, France, Holland or Finland as well).

On the other hand all these examples are specific. Italy was always known as a country prone to political instability and parliamentary quarrels, the extremist parties in Europe are still marginal and lack any serious political clout, while in the US the Democrats and the Republicans are a mere consequence of a highly polarized electorate (or is the direction of causality reversed?) on the account of Obamacare. However this hardly justifies the failure of democracy in any of these cases.

The point is that even if we somehow surpass an inefficient electoral process, it can still deliver faulty results. It can give power to corrupt or extremist candidates (the problem of selection into politics), it can result in cronyism and rising interest group

power linking up with rising inequality, and it can often prove to be very inefficient in making quick decisions. An example here are the many negotiations taking place back in 2011 among EU leaders on solving the Eurozone crisis. Their inability to reach a viable consensus almost ended the euro. Similar is their lack of responsiveness to the Ukrainian crisis.

One attempt to solve some of these deficiencies is by applying strong political will from those in power. A democracy infected by cronyism undoubtedly needs changes. This would be far more likely to achieve in a system with high levels of political freedom. Changing the corrupt political system is always going to be a hard, daunting and long-lasting process, but with higher public scrutiny and calls for bigger transparency of the political process, it is far more likely to image this happening in the West, rather than in state capitalism semi-democracies.

This however faces further problems: (1) if selection into politics is negative than how can we expect to elect someone who will be competent enough to pull the series of necessary institutional reforms? and (2) we're actually expecting from the politicians to undermine their own power.

This is where political inclusiveness and political freedom comes in. Even though politicians can do a lot in securing their electoral victories through vote-buying and gerrymandering, it will be hard for them to continue doing so indefinitely, particularly if transparency is higher and if the momentum for change is strong enough.

## **ALTERNATIVES TO DEMOCRACY**

Despite all its flaws, some of which desperately need to be fixed, the Western model of democracy has triumphed so many times in history against its many alternatives. Democracies are on average still richer than non-democracies (including those with state capitalism), have higher living standards, are better educated, and in many cases have lower inequality. But the historical quest for an alternative hasn't stopped despite the fact that each has failed systematically.

It was well documented that prominent Western economists back in the 1960s and 1970s made predictions on when the Soviet Union is to overtake the United States as the world's leading economic superpower. The most notable of them, Nobel Prize winning economist Paul Samuelson, only a few years before the collapse of the Soviet Union claimed that Russia would overtake the US as the world's largest economy somewhere between 2002 and 2012.

Going even further back in time to the 1920s and 1930s many nations in Europe envisioned their democratic and capitalist system as deeply flawed and in desperate need for change. The process of radical change commenced as the socialist Italy and Germany descended into Nazism and fascism. Russia on the other hand descended into the other ideological extreme - communism (in economic terms all of these rest upon the idea of collectivism and state nationalization). As the regimes of Mussolini and Hitler crumbled under the anti-fascist movement merely a decade later, it took

some time before the isolated central planning model of Russia and its satellite countries dissolved.

China on the other hand is a different story. Under Mao Zedong, China was the prime example of failure of the central planning model which almost completely destroyed the country. Mao wanted China to catch up with the West in terms of economic power. He wanted to show China's strength to the world by ordering unrealistic production quotas and exports (to match those of the UK at the time), leaving fewer resources for domestic consumption, which literally resulted in starvation. Many who opposed or failed to meet their quotas were killed. Many died of hunger. Coupled with the Cultural Revolution (aimed at fulfilling his utopian ideas) his regime is estimated to have killed around 45 million people.

Not until one of Mao's successors, Deng Xiaoping and his pro-market reforms (his most famous quote being: "It doesn't matter whether it's a white cat or a black cat, a cat that catches mice is a good cat."), did China start to embark on the road to greater prosperity, pulling 600 million people out of poverty. It took them 30 years to recover from Mao's socialist utopia.

Critics of democracy look at China today and say this is the system we should embrace. A mix of taking the best from both worlds - the so-called state capitalism. However, state capitalism is arguably the worst form of capitalism - characterized by deep cronyism, elitism, rising inequality and worst of all lack of political freedom. There is no scope for innovation within a system that lacks the incentives to change. China will soon realize this. Their enormous growth so far was fuelled by rapid industrialization (much like Russia's in the 1950s and 1960s), and a competitive labor force, enabling them to pull off the classical economies of scale advantage. However in the process their shadow banking system erupted, threatening to cause a deep credit bubble burst, as do their malinvestments, all as a consequence of faulty short-term targets set by the policymakers. In addition their ruling elites have accumulated far too much power and wealth, while the country is still operating as an extractive society. An example is the imprisonment of an entrepreneur who successfully competed with large government enterprises by being more flexible and innovative. In a country closed to positive change any model of economic growth is unsustainable.

Even though today one can look back and claim that none of the regimes mentioned above (communism, fascism, various forms of authoritarianism) ever proved a real threat to democracy at the time they were being imposed they were an extremely credible threat, especially in countries that implemented them. The same story is with China today. Many feel the West should emulate this system, which seems much more fair and successful than its own, but tend to completely overlook the biggest problems state capitalism is facing, along with its inherently unjust nature.

## **COMPETITION AND THE TRIAL AND ERROR PROCESS**

So how come democracy keeps winning? Democracies have a multitude of hidden strengths from which an authoritarian regime ultimately always fails. Democracies, as well as capitalism itself, strive on the idea of competition. And competition and selection of different alternatives implies more creative solutions when it comes to dealing with challenges. Certainly this sometimes implies poor judgments being made and dubious outcomes arising as a result (such as political deadlocks), but as the market system, democracy too relies on trial and error. Thinking of the nature of our society, we all strive on this system. It teaches us not to repeat the same mistakes of the past. An almost perfect example is the underlying idea behind the European project - never again to allow a war on the continent. So far the idea has been extremely successful in this regard, as the EU seems to be the last place on Earth where a war might take place. But even with such noble ideas it takes time for them to work and prove their resilience to outside shocks and disturbances.

This is why democracies appear to be more fragile than they actually are - they are characterized by a complex decision-making process, which need not always yield the best possible outcomes immediately. Where one can see a sign of weakness (gridlocks, slow responsiveness, negative political selection), this may just be a short-term response of the system to some earlier made errors. When too much of these errors pile up, they congest the system (corruption, cronyism, vote-buying and the consequential sovereign debt crisis) and signal to the electorate that things need to be changed. It will take time before the electorate recognizes the correct set of ideas and people to solve these piled up errors, but at one point they will be solved. Or at least within a democracy voters will be given this option. In the process, other errors will surely be made, but due to even closer scrutiny and transparency from the electorate, the process will inevitably end in a success. As it did many times before despite striking opposition and doomsday prophets.

The key to a successful democracy reached by a series of trial and error processes in Western history is to erect institutions which will limit political power. Democracy mustn't turn into a tyranny of the majority. This is why political freedoms are crucial and why institutions which enable transparency and scrutiny are essential in ensuring a long-run survival of a democracy. Particularly for a country new to the idea. Many new democracies get preoccupied with elections and fail to design institutions that prevent some of democracy's main failures. They fail to establish a good constitutional system with an emphasis on the rule of law. This is a typical reason for failure of democratic consolidation. Their trial-and-error process is arguably going to be much longer, particularly if new democracies quickly descend back into authoritarianism (which is an event with high likelihood, as the iron law of oligarchy teaches us). When long-lasting democracies exhibit signs of failure their trial and error process is quicker and such countries will resolve their structural problems relatively faster, despite the seemingly congested system they currently have to face.

There are many examples of democracies finding successful solutions to some of its mounting problems. Many governments adopted fiscal rules which help them balance budgets (some being more successful at it than others). In Sweden, non-partisan commissions of experts are appointed to propose long-term reforms, irrespective of the government in power. In Britain many laws are subject to sunset clauses which forces Parliament to renew laws every ten years or so. In Chile they have managed to control the populist notion to spend surpluses from their volatile copper earnings in positive times by appointing a commission of experts to deal with this issue. Switzerland has long been hailed as a prime example of a direct democracy where the citizens have a direct say on each issue via referendums. In order for such an idea to succeed one also needs to invest a lot in education, as a better educated voting population makes more prudent decisions. Even in California, which attempted to emulate the direct democracy approach which has failed at first, the results are now becoming better and better. It too has a long-term oriented committee overseeing the electoral reform with calls for greater transparency and a diminishing of interest group power.

These are all positive examples of institutional rules that guide individual behavior towards optimal outcomes. And all exist as an outcome of a democratic process.

Which brings me back to the initial point: it's much easier to change a faulty system when you have the possibility to do so. In a democracy people have an option to change an unjust and corrupt system, and they often seize that right. The great victories for liberty during the Civil Rights Movement or the emancipation of women, both of which signaled an end to a long run of unfair and unequal societies, testify to this argument. It took more than a hundred years from Lincoln's abolition of slavery for the African Americans in the US South to gain equal rights. In the mean time they suffered great inequality and almost zero social mobility, not to mention the lack of some basic human rights. And it all happened in a country that was supposed to be a prime example of an accomplished and fair democracy.

This simply shows that those periods were times of 'error', and it took a long time for them to get fixed. Democracy, just like an economy, always converges towards an optimal equilibrium but is never quite there. It presents a persistent notion of positive change. Along the way, during the convergence process, there will always be errors and concerns. Sometimes the trial and error process will seem to last too long, but eventually it always triumphs. This is the biggest advantage democracies have over any other system of governance, which is exactly why they will always be successful in fixing their problems.