

## Economic Crisis and Democratic Consolidation

### *The Third Reverse Wave?*

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*Can the consolidation of recently democratised countries be sidetracked or reversed by economic hardship? The third democratic wave has coincided with the fast introduction of the welfare state. The present troubles of the unsustainable welfare state can by association erode the credibility of democracy in general in the countries of the third wave. The most notable direction it can take is the “new authoritarian” Chinese model advertised by the example of Singapore – the sole non-democratic state poor in natural resources but with a GDP of a developed economy. The “new authoritarian” model’s supposed merits include the capability of withdrawing social benefits and cut public spending without incensing the public. It still risks, however, failing to deliver the public goods due to the lack of transparency and the erosion of civil liberties.*

*The paper sets the task to take account of the economic aspects of the consolidation of third wave democracies.*

*Keywords—Democracy; Democratic Consolidation; Political Economy; Economic Crisis; Third Wave; Welfare State*

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### *Introduction*

Whether a democracy can be considered consolidated depends primarily on the definitions we adopt (NOVA 2011). Various definitions exist of both democracy (MILL 1859; LIPSET 1959; DIAMOND 1990 & 1999; HUNTINGTON 1996; SCHMITTER 2010) and of democratic consolidation (PRZEWORSKI 1991; PLATTNER 1998; SCHEDLER 1998; LINZ-STEPAN 1996b; ZAKARIA 1997). On top of the various definitions the sequence of events as well as local and historic circumstances matter during democratic transitions. There are more than a dozen aspects of democratic consolidation that may experience a reverse turn if circumstances turn sour. It has led to a list of problems newly democratised countries are bound to face.

This paper reflects on the chances and probable causes of an anti-democratic reverse wave in the third wave countries (HUNTINGTON 1991; SCHMITTER-SANTISO 1998; HUNTINGTON 1996; DIAMOND 1999). The paper reflects upon recent developments in Eastern Europe regarding the embracing of the Asian model.

The assumption is that economic hardship eroded the credibility of democratic political elites just as the existence of illiberal democracies eroded the respectability of the word “democracy” in general (ZAKARIA 1997) only to leave room for demand for a new, autocratic leadership style that is hoped to address recent economic mismanagement.

The recent “opening to the East”, the debates about the economic disadvantages of democracy and the benefits of strong leadership (especially the one of a kind example of Singapore) highlight the plausibility of these assumptions – along with the adoption of the Chinese model in terms of rhetoric by Hungarian politicians in particular.

### The Method

As it is suggested in the title we are going to utilise the conceptual model of Huntington and adopt the wave-model of democratisation for the purposes of this paper. According to the concept, we may be now experiencing both the fourth wave of democratisation (in the Middle East) or the third reverse wave of democratisation in, for instance, Eastern Europe. This paper focuses on the latter.

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For the purposes of this paper we have adopted Giuseppe di Palma's definition of democratic consolidation, according to which a democracy is consolidated when it becomes "the only game in town" (LINZ-STEPAN 1996a), namely when no one thinks of acting outside the democratic institutions and no significant political powers aspire to gain power by non-democratic means. Consolidation of democracies, however, does not mean that any recourse into the old authoritarian ways is rendered impossible. The real test of consolidation is thus, perhaps, whether a democracy can withstand authoritarian pressure at times of hardship. The paper aims to reflect on the attraction of the Eastern European third wave democracies to authoritarian tendencies during an economic downturn.

Before we attend to the issue of the economic aspects of democratic consolidation we will highlight the other possible causes of a reverse democratic wave and briefly reflect on their actuality.

### *Review of the Literature of Democratic Consolidation*

#### A. The Third Reverse Wave

Huntington has named five causes that have contributed to the third wave of democratisation. (HUNTINGTON 1991:4) Any reverse change in these prerequisites may indicate, although not predict, a possible reverse wave.

1) *The deepening legitimacy problems of authoritarian regimes have contributed to the third wave of democratisation*

The authoritarian regimes depended largely on successful economic (and in some cases military) performance for legitimacy, rather than political support. Can the issues regarding the economic performance of today's democracies similarly undermine the democratic regimes of the third wave?

2) *The unprecedented global growth rate of the 1960s*

Can the current economic downturn negatively affect the consolidation of young democracies?

One could also speculate on the fate of the democracies of Western Europe after the second World War has it not been for a prolonged ban on the authoritarian (mostly communist) alternatives to access power. Communist parties were banned or not allowed to compete in democratic elections. Legitimacy of the governments was often weak, their public support meagre until the 1960s when the above-mentioned growth has finally stabilized the democratic convictions of the voters.

3) *The transformation of the Catholic Church and its national churches from the defender of the status quo to the opponent of authoritarianism in the 1960s*

This aspect carries low relevance today in the region regarding democratic development. The Catholic Church has not emerged as an opponent of democratic regimes in Eastern Europe.

4) *The role of external forces*

The weakening influence of the European Union and the waning interest of the United States are both present in Eastern Europe. The question is when Western indifference towards the region reaches the tipping point beyond which Eastern European political elites find themselves in the lure of the Russian, or more recently, the Chinese model.

5) "Snowballing"

Once the first third wave democracy falters, a domino-pattern may ensue. It may deepen the divide between countries whose elites choose further democratic alignment and others whose elites lapse back into authoritarian self-indulgence.

#### B. Risks to Consolidation

The consolidation of democracies is a more delicate matter than that of their establishment. During transitions, there is an overwhelming consensus about the desirability of getting rid of the old regime. During consolidation, however, decisions have to be made, dilemmas faced while the integrating force of a common enemy is absent.

The starting dilemma in this regard is that the new elites are not homogenous. While the abolishment of a dictatorship benefited all segments of the aspiring new elites, the set-up of institutions and the choice of their own type of democracy cannot benefit all. (SCHMITTER 1993:11-19) It also makes a difference whether the "founding fathers" of the new democracies are professional politicians or well-meaning democratisers of other vocations. The fear of not winning the (first) elections can make consensus hard to achieve.

Once in power, elites have certain incumbency advantages – that may easily lead to some form of oligarchy by lessening the exposure to challengers. The free-riding effect in citizen participation tends to underline this effect since voters may find that their marginal contribution to the public debate – by voting or

participation in movements – has little effect on the outcome as Mancur Olson theorised. (OLSON 1965) Most agree that a peaceful, consensual transition from dictatorship to democracy is more beneficial for the country. Such a pact between the old and the new elites, however, carries the potential to alienate voters. If the general public was reduced to mere bystanders during transition (the absence of a popular revolution) it can reduce the level of identification with the new political system. At times of hardship it affects the legitimacy not only of the actual governments, but the entire system of democracy.

Another dilemma is whether (and to what degree) capitalism is prerequisite for democracy. Playing “catch up” with more developed economies in order to achieve a similar level of economic performance can in itself cause a recourse to authoritarian methods. Striking the delicate (and dynamically changing) optimal balance between markets and the public sphere is difficult but necessary – in cases like welfare expenditure (see further on), monetary intervention, regulation, consumer and employee protection, industry promotion, etc.

Linz and Stepan argue that there is no reason why political and economic transitions should take place simultaneously since they both put a large burden on the population. An immature and weak democratic government is not best positioned to progress with privatisation, for instance. The ex-communist elites would take best advantage of the situation at an early stage – effectively re-establishing their former influence in the economic realm, which is, in this interpretation, undesirable. The example of Hungary is theorized in the argument for a delayed economic reform. (LINZ-STEPAN 1996a) According to the argument a weak and immature democratic structure in the wake of the collapse of the planned economy is not best positioned to create and maintain a functioning market economy.

In the transition phase the population tolerates a certain amount of economic hardship and individuals tend to view their own personal hardship as isolated cases and the overall economic situation positive – even during a recession. During political transition the legitimacy of the political system can remain strong despite an actual economic contraction. But the more political actors cultivate the view that actual well-being rather than political freedom constitutes democracy, the worse the disappointment when wealth remains elusive.<sup>1</sup>

## B. Performance Legitimacy

Insecurities (in welfare or warfare) tend to create yearning for strong leadership. Amongst generation that have experienced dictatorship, nostalgia prevails. The focus of that nostalgia is on the real or perceived safety of livelihood, rather than the lack of freedom and control over one's own life. Any threat to the physical or economic security of citizens thus carries the potential of paternalism. Apart from a military or terrorist attack it is thus an economic downturn that can create demand for strong leaders.

As Linz and Stepan observed the transition from post-totalitarian systems (such as Hungary) creates, in a sense, more fragile democracies because legitimacy of the old regime has already been based on (primarily economic) performance rather than some utopian ideology. (See the case of Hungary's “premature welfare state” from the 1970s). The resulting new democracy must face these inflated expectations – especially in economic terms – while political rights are only secondary. (LINZ-STEPAN 1996b:295) As a result, the population has greater tolerance for the limitations of their civil liberties than that of their social benefits and welfare.

Eastern Europe is an example where the promise of future returns made economic difficulties temporarily tolerable during the democratic transition so they did not threaten the legitimacy of the political system. Przeworski points out, however, that the population will be less willing to accept short-term difficulties if the long-term usefulness of the reforms is highly uncertain. That is when there are no ambivalent feelings regarding the transition like the loss of an empire (in Russia) or statehood-related controversies (in the FSU). (PRZEWORSKI 1991:163-165)

### *Democracy and Economic Growth*

*“Few relations between social, economic and political phenomena are stronger than that between the level of economic development and the existence of democratic politics.”* (HUNTINGTON 1991:21) Democracy, however, does not exclusively depend on the state of the economy, and economic weakness does not translate directly into the impossibility of democracy.

Lipset, too, warns against such crude determinism. A certain level of wealth (the size of the middle class, better and widely accessible education) is indeed a prerequisite for democracy, but does not necessarily make

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<sup>1</sup> Especially, as it was the case during the transition in Eastern Europe, there is no equivalent to a Marshall plan or conditioned aid to consolidate the new system.

it happen. (LIPSET 1959) "...the two most decisive factors affecting the future consolidation and expansion of democracy will be economic development and political leadership. ...Economic development makes democracy possible, political leadership makes it real." (HUNTINGTON 1991:24)

It is not a certain level of wealth that creates the demand for democratic institutions but rather the fact of economic growth. Similarly, the electorate will punish a democratic government for stagnation as opposed to relative poverty. (FERGUSON 2001:364)

#### A. Polity vs. Economy, or Democracy vs. Economic Growth

Given the strong relationship between economic development and democracy the question arises as to whether a democratic or an authoritarian regime is more conducive to further economic development?

When it comes to economic success, market players expect freedom (i.e. stable and non-intrusive regulatory environment and sound observance of property rights) while voters prefer security of livelihood (commonly expected through political activism in redistribution) making the oldest dilemma of philosophy manifest in politics. The dilemma can be ignored during the good years but it must be addressed as soon as the economic tide goes out. According to Ferguson there is a conflict between democracy and economic development in that the first demands equality, while economic development benefits more from freedom. (FERGUSON 2001:353) This ambivalence between economy and democracy thus ensures further economic cycles.

Others opine that there is no statistical trade-off between democracy and economic development. According to Przeworski, democracies are less prone to economic miracles but they are also better at avoiding economic tragedies by being better at negotiation and problem solving. These two result in stable increase of wealth. It is also open to argument whether democratic systems increase income equality but they are certain to be better in articulating the discontent of the worst-off through political means. (DIAMOND 1999:7)

Much research has been devoted to the question whether democracy positively correlates to economic success and many have given their quantitative best to prove that there indeed is a positive correlation between the two but the result is arguably inconclusive. The question arises whether democracy is good for economic growth and thus beneficial for the consolidation of or, oppositely, whether it creates a sense of entitlement that strangles economic growth in the long run.

The pessimistic view on the relation between democracy and growth is that the rent-seeking behaviour of the interest groups, the political short-termism of politicians and the tendency for redistribution in democracies would eventually dampen economic growth. The situation is further worsened by what is called the "time-inconsistency problem" where economic activism of governments is strongly linked with the election cycle.

Greater transparency and political accountability, however, are meant to keep the negative effects at bay. (FIDRMUC 2003) Mancur Olson and Amartya Sen argued, that democracy has a positive impact on economic development and social welfare, at least compared to the monarchies that preceded them. If nothing else, democracies are better at avoiding economic disasters due to their better feedback mechanisms. (FERGUSON 2001:348-349) Secure property rights also have a positive effect on economic development, while democracies, in general, provide a more stable form of government by better reflecting on the risk-aversion of voters. (QUINN-WOOLLEY 2001)

Voters punish governments for economic volatility and do not tolerate economic cycles even in return for bigger growth on the whole. Thus, even if positive correlation between economic growth and democracy is not proven, democracies are still better at providing political stability because they reflect voters' aversion to volatility, claimed Quinn and Woolley while comparing the volatility of democratic and non-democratic regimes. (QUINN-WOOLLEY 2001:641) Economic growth has lower volatility in democracies than in authoritarian systems, conclude Quinn and Woolley. Until the beginning of the 2000s, that is.

While none of the above arguments are conclusive and no quantitative analysis could provide decisive proof of the economic superiority of democracies – given, if nothing else, the varying circumstances, life-span and historic background of the democracies under research – the historian, Robert Barro has voiced a more nuanced view when researching the political determinants of economic growth. He observed that there is a non-linear relationship between democratisation (measured by the expansion of political rights) and economic growth.

There are few elements that can be considered separately. Extension of political rights initially enhances economic growth through secure property rights, better maintenance of the rule of law, smaller government consumption and lower inflation. Improving life expectancy, schooling and lower fertility rate also stimulate

growth. Further increase in political rights, however, tends to retard growth once a moderate level of democracy has been attained. (BARRO 1996:70-71)

Additional public policies that are likely to be important for growth include tax distortions; public-pension and other transfer programs; and regulations that affect labour, financial, and other markets. Also likely to be important are infrastructure investments, the quality of education, and the distribution of income and wealth. But the ever-increasing level of social rights tends to retard growth in the long run. As Mancur Olson theorised the free-riding effect, each player in a democracy can find ample reasons not to contribute to and ample opportunity to benefit from redistribution. (OLSON 1965)

Elected officials find themselves under two-way pressures in a democratic political system. They must meet the demand of both the electorate for greater redistribution and that of the market players for various exemptions and limiting competition. Meanwhile, a democratic elite can defer the consequences of failed economic policy measures. In the economic realm democracy tends to leave all risk and losses socialized while all benefits privatised with no accountability for long-term political decisions.

It is not any particular economic policy or economic activism in general that is conducive of economic growth, but political stability – wrote Huntington. (HUNTINGTON 1991b:59-60) But political stability is can arguably be better achieved by dictatorships.

Periodic political instability caused by regular elections is the inevitable result of democracy, says Przeworski, but it is still better to deal with than in dictatorships, where the smallest sign of instability may mean the end of the regime. (PRZEWORSKI undated: 18) Moreover, an authoritarian regime can fail even if it succeeds in meeting its economic objectives. (HUNTINGTON 1991b: 59)

Perverse incentives are hard to avoid once the government stepped in. While way market participants tend to resort to the state for limiting the competition in their favour, social transfers are prone to create welfare trap for the most vulnerable.<sup>2</sup>

## B. Welfare vs. Economic Growth?

What constitutes economic success: a well-functioning market or an enviable welfare state? Which of the two translates better into votes?

In a democracy politicians are torn between two economic initiatives: voters tend to gauge economic success by the size and range of welfare benefits while market players tend to prefer economic freedoms. The two rationales often clash since bigger redistribution means more votes but less economic freedom.

Przeworski points out, that the markets and the general public have different views as to the optimal level of redistribution. The majority vote in democracies would thus serve those without property in their effort to restrict the property rights of others. (PRZEWORSKI 1991:34; FERGUSON 2001:352)

There is a fundamental difference between market participants and the polity regarding the measurement of good economic policy. Very simplistically, market players consider democracy useful if it provides a stable economic environment, while the general public tend to measure it on the size of the welfare state.

The welfare state emerged only in the second half of the twentieth century, along with the second wave of democratisation. In its current form neither the welfare state, nor Western-style liberal democracies have been very long lived.<sup>3</sup> The welfare state has in its current form not proved sustainable. Welfare transfers show typically two expansive trends: the expansion of beneficiaries (social rights instead of means-tested benefits) and that of the service. In the second half of the twentieth century it has led to sovereign debt mountains.

<sup>2</sup> Countries with exceptional natural resources could create welfare systems that have so far been sustainable, as was in the case of Sweden. (In the United Kingdom, however, oil and natural gas revenues were consumed as they hit the budget.) Countries without such good fortunes, however, have amassed massive sovereign debt by the end of the century. The traps of unsustainable welfare spending and unfounded social benefits (or social rights) presented themselves in most European democracies in varying severity.

<sup>3</sup> The first steps in the direction of the modern welfare state came, however, not from humanitarian reasons but were calculated to achieve political stability. The introduction of the welfare state has even preceded the universal suffrage – in order to forestall social discontent. (The old-age pension was first introduced by Bismarck in 1880. He argued that a man who has in his old age a pension to look forward to feels secure, is more manageable and predictable in his political behaviour. A recurring argument, especially among conservatives, is that property leads to conservative, status quo thinking. Bismarck openly acknowledged that state pension is a "state-socialist idea," but this did not prevent him from setting up the world's first public pension system. It was means-tested and applied only to workers of extremely advanced aged – with the retirement age set some 25 years above life expectancy at the time. (FERGUSON 2008:202)) With time, means-testing has gradually given way to automatic payouts while a kind of 'inverse means-testing' was introduced in the form of higher degree of contribution for those who can afford it in the form of progressive taxation.

### C. Welfare Legitimacy: Democracy For Good Times Only?

Democracy has long been considered a luxury applicable only in advanced, Western countries, because a peaceful and consenting society is prerequisite of a functioning democracy. (PLATTNER 1998) Democracy is, in other words, only achievable in a country where the electorate is largely content with the performance of its government.

Ever since the Second World War warfare has gradually ceased to be the major performance indicator in the Western world. Effective defence of territory against foreign invasion and population against domestic or foreign aggression (public safety) has gradually been replaced by economic (and welfare) success as primary source of performance legitimacy. The economic performance of the government is hard to measure – especially with diverging considerations of markets and electorate. Economic growth itself is not only insufficient as a performance indicator, it is also uncertain to bring along voter satisfaction. In summary, economic growth tends to stabilize a democracy. (PRZEWORSKI) The lack of it is, on the other hand, a good indicator of coming political discontent.

The emergence of the welfare state (and the creation of welfare legitimacy) has coincided with the second and indeed the third waves of democratisation in Europe. It is thus hard to tell whether the legitimacy of democratic elections arises from the freedom it means from the intrusion of the state in an individual's life or it is rather based on the popularity of welfare provision.

There are a number of directions in which the clash between majority voting and economic sustainability could be reconciled – none compliant with the complete set of criteria of liberal democracies. One such idea was the fiscal constitution (EUSEPI – GIURIATO 2008) already implemented in one form or another in, for instance, the United States, Poland and Germany. Even though debt ceilings meet many controversies when it comes to practical implementation and rigidity in the face of emergencies, the idea appeals to a wide audience along with that of disenfranchising people who pay no direct taxes – a subject public intellectuals contemplate more and more frequently.

### D. Consolidation Instead of Further Expansion

Democracy is not perfect – regardless of definition. The majority principle guarantees neither minority nor individual rights, let alone elevating the right politician to leadership. The constant flow of opinion polls encourages short-termism among policymakers and creates the atmosphere of a permanent campaign while party financing is the primary source of corruption.

“History unfolds in a dialectical fashion” – remarked Huntington. “Any substantial movement in one direction tends eventually to lose its momentum and to generate countervailing forces.” (HUNTINGTON 1996:5) According to this logic, every historic achievement loses from its impetus giving way to erosion of democracies or even a reverse move. Huntington is, therefore, on the opinion that emphasis must be placed on the consolidation existing democracies.

The last wave of democratic disappointment swept across Europe between the wars. The United States is thus better off consolidating existing democracies by enhancing liberal constitutionalism instead of creating new ones. Without liberalism every democratic experiment is dangerous as it may lead to the erosion of civil liberties, and the abuse of power by the political majority as well as the inevitable renewal of ethnic conflict wherever it may apply.

There are optimists. Public debate will be about the improvement of democracy as opposed to seeking alternatives in the twenty-first century, Zakaria predicts. (ZAKARIA 1997) The existence of illiberal democracies, however, can still discredit democracy with the widespread ideological hegemony of democracy fading into disillusion with the actual performance of new democracies.

### E. The Absence of Alternatives?

Philippe Schmitter observed that the absence of credible “systemic” alternative to the spread of liberal democracy is bound to generate strains of its own within the democratic community. Lacking external comparison and a great power that promotes democracy pushes countries to assess their own development by their own standards, which is wide open to interpretation. (SCHMITTER 1993:2)

This observation, however, has been made in the wake of the communist collapse. Schmitter noted that Eastern European democracies, in particular, are “condemned” to remain democratic only because no feasible alternative exists. Their respective problem is re-lapse into some form of dictatorship but non-

consolidation. Democracies may persist but operate in an “ad hoc” or “ad hominem” ways in response to difficulties. (SCHMITTER 1993:9)<sup>4</sup>

It was, of course, before the unprecedented economic development of Asia. It provided an example for the advocates of a non-democratic alternative, especially after the economic problems became widespread.

### *“New authoritarian” alternatives*

According to Huntington there are two major alternatives to democracy in the post-communist world. One is the Islamist alternative. The other, much more significant potential alternative is what he called the “Asian authoritarianism”. (HUNTINGTON 1996:10-11) Given the scope of the paper, we are only going to deal with the latter. Especially since political forces in Eastern Europe have come to admire the model’s ability to deliver economic growth – and the lack of a nagging opposition.

The “Asian authoritarianism” has been expressed in the doctrine of “new authoritarianism” developed in China in the late 1980s to replace the old ideology of Marxism-Leninism. Its major attraction is the promise of economic success comparable to that of the East-Asian economies, notably Singapore. Singapore resists the Western concepts of democracy and human rights because that would inevitably lead to individualism and disrespect of authority thus leading to the erosion of the Asian community spirit and social decay, argued Lee Kuan Yew, former Singaporean Prime Minister in the spirit of the “Singaporean cultural offensive”. One must instead protect the Asian community spirit where the community stands before the individual who is disciplined, obedient, prone to the status quo and observes traditions under all circumstances. What people want is not a democratic government but good government, Lee argues. One that delivers economic well-being, political stability and social order through an efficient and honest administration.

This approach is rather optimistic with regards to human nature – at least when it comes to the elite. It puts much trust in the honesty and effectiveness of public servants as opposed to the American political system (where transparency and accountability are to serve the purpose of purging the elite of dishonesty and mismanagement). It regards, however, members of the public as too inconsiderate to arrange their own lives. According to new authoritarian approach individuals acting in their own interest are a potential source of trouble as opposed to an engine of development.

Another point of concern is that Singapore is the sole non-democratic state with a per capita GDP of advanced democracies that is not based on natural resources. (HUNTINGTON 1991:23) Its example is still often cited by politicians en route to establish an authoritarian political system in their own countries – hoping that economic success would automatically follow.

There are some inevitable drawbacks to the authoritarian arrangement. Not only does it rest on a simplistic appraisal of human nature (optimistic regarding the virtue of the elite while disappointed in the morale of the population) but also lack the feedback mechanism and the flexibility essential to the evolution of any political system. It also relies heavily on central planning or at least strong coordination with incentives to the markets to seek political patrons.

This has not stopped Francis Fukuyama, for instance, from praising the Chinese on the grounds of their extremely centralised leadership.<sup>5</sup> He claimed that it has allowed China to execute infrastructure developments on a scale unimaginable, for instance, in India where democratic mechanisms and interest groups all but paralyse the system.

Lacking feedback, however, the Chinese elite has to second-guess the public demand in order to avoid the accumulation of grievances and the resulting public unrest. The lack of institutional channels to articulate public opinion can itself become a cause of tension in an emancipating society. Economic growth and the involvement of an ever-larger part of the population in the economy can postpone the demand for the extension of political rights but it cannot last forever. Especially if the elite fails to second-guess public needs on time.

There is a temporal dimension to the definition of democracy, as it changes throughout history. Self-correction is essential for democracies. Through it, democracies are capable of changing their entire structure while observing the established rules and procedures at any given time. Democracies have changed almost beyond recognition throughout history, observes Schmitter. They have moved from city states to entire nations embracing the principle of representation on the way, they oversaw the radical expansion of voting franchise as well as the expansion of the government (from national defence and public safety to regulatory,

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<sup>4</sup> Argentina is cited as an example of unconsolidated democracy. (No two successive elections held according to the same rules, parties have reason to fear the hegemonic aspirations of their opponents, there are dramatic shifts in voter preference and constitutions are no guarantee against government intervention. The executive power is exercised “in a personalised fashion” with the rule of law remaining shaky.

<sup>5</sup> Francis Fukuyama: US democracy has little to teach China, Financial Times 17 January 2011

redistribution and welfare functions). (SCHMITTER 2010:2-3) All this happened as a reaction to public demand and through reaching consensus among the elites. Self-correction is perhaps the most positive feature of democracies that authoritarian systems lack.

### *Conclusion*

Due to the recent economic downturn we may now be experiencing the third reverse wave of democratisation in Eastern Europe. Young democracies are suffering under the pressure from right wing, anti-EU political groups as well as the indifference on behalf of Western democracies. The symptoms are different in each country (rooted in political culture, history and special circumstances) but the trigger was invariably the recent economic downturn.

It has raised the question whether democracies can withstand the thunder of a serious economic downturn.

It has not been proved that democracy positively correlates to economic success, despite the best effort of the scholars of the subject. There was, however, a non-linear relationship found between democratisation and economic growth (the spread of rent-seeking behaviour, political short-termism and the “time-inconsistency problem” being the main culprits of turning growth into stagnation over time). Moreover, certain aspects of democratisation and liberalisation have indeed shown positive correlation with economic growth (secure property rights, the rule of law, smaller government consumption, greater transparency and political accountability).

While we found no meaningful correlation between democracy in general and economic growth, it appeared conceivable that a non-linear relationship exists between the size of the welfare state and economic growth (basic social security helping, but oversized welfare states retarding economic growth in the long run).

Third wave democracies had to face inflated economic expectations from the very beginning, while political rights were of almost secondary importance. The majority population has, as a result, more tolerance for the limitations of their civil liberties than that of their social benefits and welfare. The emergence of the welfare state has coincided with the second and indeed the third waves of democratisation in Europe. It is thus hard to tell whether democracy’s popularity arises from the freedom from the intrusion of the state or from the popularity of welfare provisions.

The resulting question is whether democracy is a luxury, affordable during the good years only. It also carries a policy implication regarding the allocation of resources between the further spread of democracies in the world and the deepening and consolidation of existing ones – especially the third wave countries.

According to Huntington there are two major alternatives to democracy in the post-communist world: the Islamist political systems and the “new authoritarianism” of Asia. Latter carries great appeal to the leaders of economically insecure Eastern European countries despite its uniqueness (Singapore being the only non-democratic state with a per capita GDP of advanced democracies that is not based on natural resources) and its relatively short historic lifespan.

Among the many drawbacks of authoritarian regimes the most important seems to be their rigidity compared with democracies that have often managed to engineer peaceful changes in their constitutional set-up as a reaction to public demand.

Possible extension of the research may include a comparative historical analysis of the pre-1938 era in Europe where hyperinflation and economic revenge on Germany has resulted in the second reverse wave of democratisation.

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