Economic and Social Determinants of Democracy: An Empirical Evidence from Pakistan

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Purpose: The purpose of this paper is to understand the dynamics of democracy through empirical analysis of socio-economic determinants of democracy

Design/Methodology/Approach: This is an empirical study based on secondary data from 1980-2018. This research employs the Auto-Regressive and Distributive Lag (ARDL) econometric technique to find short-run and long relationships between democracy and its influencing factors.

Findings: This paper’s findings unearth that education expenditures and economic growth are positively associated with democracy and are statistically significant in the long run. Furthermore, government expenditure, trade openness, corruption, and law & order are negatively associated with democracy and statistically significant in the long run.

Implications/Originality/Value This research suggests that it is importantly needed for the democratic government to rise the education expenditure and take an initiative for the better education of the voters, and make them able to understand their manifestos and the effects of their policies on the betterment of society. From top to bottom corruption and uncertain law & order situation in Pakistan would reduce trust in democracy and increases the level of frustration among citizens. The responsibility of improving the law & order situation and the eradication of corruption comes to the current Democratic government through strengthening the institutions and effective implementations.

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Introduction
Democracy in Pakistan does not remain in the discussion but it is beyond the discussions into the core feeling of political party workers. Since the 1970s public of Pakistan is not only fighting for democracy but has also been victimized through physical violence, sentenced to prison, and death. These are the triggering reasons for the motivation behind the study. It is very important to explore the following questions What is a democracy? How can Pakistani people enjoy it? What are the prerequisites for a strong democracy? What benefit can the common person get from it? And finally, what are the determinants of democracy? Friedrich, C. J. (1964) Democracy is a political setup that makes the people aware of the policies prepared by the government and the government accountable for their actions. The ex-president of America Abraham Lincoln defined democracy as “Government of the people, by the people, for the people” and he emphasized that it shall not perish from the earth.

Among all the forms of government, democracy is indeed the best form of government. So far none of the other forms of the political system yet introduced could perform political affairs better than a democracy. Democracy is defined by Samuel (1991) as “one public virtue” and the relation of democracy to other public virtues can only be understood if democracy is clearly distinguished from other characteristics of the preexisting political systems”. Generally, Democracy involves forming political groups, having the right to vote and to be elected Polterovich et. al (2007). According to Tavares et.al (2001) democracy is “a body of rules and procedure that regulates the transfer of political powers and the free expression of disagreement at all levels of public life”. Diamond (2005) explains democracy as “A system of government in which the people choose their leaders and representatives and can replace them, in regular free and fair elections”. From all the above statements, it can be concluded that democracy is the participation of every resident of society for the betterment of the economy.

People are interested in democracy because, only in democracy grassroots responsibility is functionally organized, as every local citizen is expected to participate in the decision-making, and his or her participation is expected to count in the final working of a common social decision. Acemoglu, et al, (2008) It is established in previous studies that democracy can play an important role in defining the economic fortune of a nation, Democracy is highly an expensive form of government, it takes a significant number of national resources to conduct general elections across the country. Other than the economic dependencies of democracy, there are several other dependencies and multiple influencing factors that determine the strength of a democracy Diamond, L. (2011).

This paper intends to disseminate policy-level information, on the macro perspectives of democracy in the selected countries. Governance and education are important aspects of policymaking and understanding the smoothing implementation of policy on the ground. It helps to form a better style of government. Literature has been highly debated around policy-oriented questions, e.g. what stages an economy will have to pass to achieve transparent and a vibrant democracy? Now, this question carries equal importance for the developed and developing countries across the world. Rustow (1970) provided two major explanations to achieve a good democracy in his paper. In 1st explanation, he assumed that a stable democracy is possible with good social and economic conditions such as income (PCI), good education, and widespread urban residence. In 2nd explanation, he provided certain characteristics of political and social setup, which are associated with democracy.

Moreover, in the consensus theory writers such as have emphasized that disagreement and reconciliation are important elements of a democracy. Dahl, R. A. (1967) argued that democracy needs a commitment to democratic norms, not along with the electorate at large but also with the politician experts. Every one of these presumable is linked to others through effective ties of a
political grouping. Eckstein (1961) said convergence creates a stable democracy, and the arrangement of power throughout society, such as trade unions, church, family, and business must prove the more democratic and more directly they impose on the method of government. Lipset (1959) found there exists a significant association between economic development and rising education in a democracy. He argued that education paves the way for the promotion of democracy as it modifies the political attitude of the common masses. It creates an environment for political harmony and increases patience among various political parties. He also claimed that economic development changes the entire hierarchical structure of a social system with a major portion of the poor population, to a diamond-shaped structured system, having a majority of the middle class. It makes poor communities better off on a macro level.

According to Lipset (195a 9), change in social structure will reduce the intensity of class competition. The Poor segment of the population can be easily influenced by anti-democratic forces as compared to the middle class which is mostly pro-democratic class in the majority of the cases. The middle class acquires the formal education required for their occupations, which in turn promotes democracy. According to Arat, Y. (2014) large businesses serving the middle class is the prerequisite for enhancing democracy which becomes enlarged with socioeconomic development. Ober, J. (1999) In his book “The Athenian revolution: Essays on ancient Greek democracy and political theory.” mentioned that the Athens city-state allowed males to vote and females were ignored.

This indicates that participation in democracy is also associated with gender power in communities. A high rate of participation makes democracy strong and people do not vote due to several reasons in Pakistan [Khan, et al (2020)]. Trust in politicians, income and education are important aspects of vote casting in democracy and exhibits positive relationships across the country. Modern democracy started in European and American countries and that was the time of the industrial revolution in these countries.

The industrial revolution increases their education standards, trade, and per-capita income and strengthen the institutions of these countries. The social and economic developments of these countries force them to be free from a monarch or disagree with the Catholic Church. Yang, B. (2008) argued that democracy on the side reduces economic volatilities but on the other side, a study argued that in developing countries, social and economic development can bring strong democracy Hadenius, A. (1992). In response Welzel, C., & Inglehart, R. (2006) argued that democratic countries have issues of political instability which increase economic uncertainties. The evidence on determinants of democracy from developing and developed countries

Table 1 shows the evidence on the determinants of democracy in developing countries, which we mentioned above that, the key determinants of democracy are institutions and trade openness. So for the institution, we took data of the institutional index from the International Country Risk Guide, and it has been observed that developing countries have high tariff rates, whereas low institutional index score and therefore low average democracy score over the last 39 years. Table 2 shows the same evidence of determinants of democracy for developed countries, and in table 2 it is observed that in developed countries, there is a low tariff rate and high institutional index score and therefore high average democracy score over the 39 years.

From this data set, we can take the idea that democracy trade openness, and institution are very much important for Pakistan’s democracy.
Table 1: Evidence of Determinants of Democracy from Developing Countries

| Country Name | Average Democracy score over the 39 years | Institutional Index | Tariff rate All Product % |
|--------------|------------------------------------------|---------------------|---------------------------|
| Azerbaijan   | 0.06                                     | 5.97                | 8.70                      |
| Bangladesh   | 3.40                                     | 4.89                | 13.82                     |
| India        | 8.43                                     | 7.39                | 9.74                      |
| Kenya        | 2.66                                     | 6.25                | 12.07                     |
| Nepal        | 3.20                                     | 4.09                | 12.71                     |
| Pakistan     | 3.56                                     | 5.30                | 14.71                     |
| Somalia      | 0.25                                     | 2.62                | 15.75                     |
| Sri Lanka    | 0.76                                     | 6.40                | 11.32                     |
| Sudan        | 6.20                                     | 4.02                | 13.38                     |
| Zimbabwe     | 2.12                                     | 5.08                | 15.08                     |

Sources: (WDI) World Development Indicators and (ICRG) International Country Risk Guide

Table 2: Evidence of Determinants of Democracy from Developed Countries

| Country Name | Average Democracy score over the 39 years | Institutional Index | Tariff rate all Product % |
|--------------|------------------------------------------|---------------------|---------------------------|
| Sweden       | 10                                       | 10.76               | 2.15                      |
| Norway       | 10                                       | 10.55               | 2.23                      |
| New Zealand  | 10                                       | 10.67               | 2.61                      |
| Japan        | 10                                       | 9.76                | 3.27                      |
| Italy        | 10                                       | 8.42                | 2.15                      |
| Ireland      | 10                                       | 9.98                | 2.15                      |
| United States| 10                                       | 10.42               | 3.10                      |
| Denmark      | 10                                       | 10.75               | 2.15                      |
| Canada       | 10                                       | 10.73               | 4.17                      |
| United Kingdom| 10                                      | 10.29               | 2.15                      |
| Australia    | 10                                       | 10.41               | 4.25                      |

Sources: (WDI) World Development Indicators and (ICRG) International Country Risk Guide

Econometric Model Specification: Determinants of Democracy

The political science variables are harder to estimate in isolation because every social science discipline can change the behavior of the political science variable. Therefore, it is too difficult to estimate the true determinants of political variable democracy. With the help of literature and data, we put our effort to represent true democracy determinants in this study. The preceding studies like Csordás, S., & Ludwig, M. (2011) and Moral-Benito, & Bartolucci (2011) suggest that the key determinants of democracy are trade openness, GDP per capita, education inequality, institutions, and middle-class population health facilities. Moreover, most of the studies are based on cross-countries analyses. Whereas this study focuses on a time series analysis of Pakistan. The current study estimates short-run and long-run relationships between democracy and the socio-economic characteristics of Pakistan.

For time series data where the order of integration is not the same, the most recently developed method is Autoregressive Distributed Lag (ARDL) approach, which was proposed by Pesaran et al. (2001), and in this study, it is used to estimate results. The ARDL approach can proceed on multiple registrations and it captures both long-run and short-run dynamics, for co-integration. The other edge of this method over other methods is that it can be applied when variables are I(0), I(1) or a combination of the two. But it is not applicable for I(2) series. However, the pre-testing for the order of integration of the variables in the model is required because the procedure is not valid for the I(2) series. Thirdly, it offers explicit tests for the existence of a unique cointegration vector rather than assuming one. Finally, the test is applicable for a small sample. So our model is as follows,

\[ DEM = \gamma_0 + \gamma_1 \text{EG} + \gamma_2 \text{TO} + \gamma_3 \text{EDU} + \gamma_4 \text{COP} + \gamma_5 \text{LO} + \gamma_6 \text{GEXP} + \mu_t \]

Where DEM is representing democracy score, EG is representing economic growth, TO is standing for trade openness, LO and COP are representing institutions, one is law and order and
the other is corruption, GEXP is representing government expenditure. The ARDL expression of above equation is as,
\[
\Delta DEM = \gamma_0 + \sum^n_{i=1} \gamma_1 \Delta DEM_{t-i} + \sum^n_{i=1} \gamma_2 \Delta EG_{t-i} + \sum^n_{i=1} \gamma_3 \Delta EDU_{t-i} + \sum^n_{i=1} \gamma_4 \Delta TO_{t-i} + \\
\sum^n_{i=1} \gamma_5 \Delta COP_{t-i} + \sum^n_{i=1} \gamma_6 \Delta LO_{t-i} + \sum^n_{i=1} \gamma_7 \Delta GEXP_{t-i} + \delta_1 EG_{t-i} + \delta_2 DEM_{t-i} + \delta_3 ED_{t-i} + \\
\delta_4 TO_{t-i} + \delta_5 CP_{t-i} + \delta_6 LO_{t-i} + \delta_7 GEXP_{t-i} + e_t
\]
Where,
\( \Delta \) represent First difference Operator
\( \gamma_0 \) Represent intercept component
\( e_t \) represent white noise error term

The equation two also represents the technique of short-run and long-run evaluation. First, six terms of the equation on the left-hand side exposed as \( (\gamma_1 \text{ to } \gamma_7) \) represent short-run dynamics and term shown as \( (\delta_1 \text{ to } \delta_7) \) represent the long-run dynamics of the model.

**Data Sources**
The above models have estimated long-run and short-run coefficients for (EG, TO, EDU, COP, LO, and GEX) in a time series relationship model with democracy for Pakistan over the period 1980 to 2018. The study has taken the data from the following sources respectively. Education data is taken from the Economic Survey Of Pakistan (Statistical supplement). Data from Democracy, Economic growth, and Trade openness is taken from world development indicators (WDI). Government expenditure data is downloaded from the State bank of Pakistan Website. Law & Order and corruption data are taken from International Country Risk Guide.

**Definition of Variables.**

Researchers always try to represent true theoretical relations of variables in the empirical results. But sometimes it is not possible to use the same variables which are required due to time constraints or resources constraint or does not availability of data. So for that researchers used a proxy of unavailable series. In our study, the data of Education and government size is not available over time. So, for education, we use education expenditure and for government size as well government expenditures use and both are taken as a percentage of GDP. The variable trade openness is the sum of export and import divided by GDP. Economic growth is also taken as the percentage increase in GDP over a year. The variables Corruption (COP) and Law & Order (LO) is an index that is taken from International Country Risk Guide (ICRG). Democracy is also an index constructed by Ted Robert Gurr and the details of definition is given as “The Democracy indicator is an additive eleven-point scale (0-10).

**The Review Results of Determinants of Democracy for Pakistan**

This part of the paper covers the estimation results of the econometric model in which we try to find long-run determinants of democracy. The determinants of democracy are economic growth, education, trade openness, corruption, Government size, and law & order. As we discussed our analysis is regarding time series data and to check the stationarity of the variables unit root test use. The results are demonstrated in Table- 5 that economic growth (EG), Corruption (COP), and Trade Openness (TO) are stationary at the level I (0), and other variables including democracy (DEM), Education (EDU), Government expenditure (GEXP), and Law & Order (LO) are stationary at the first difference I(1). The bound test is used to know the long-run relationship among variables. The bound test results are in table- 3. Where F-statistics calculated is 4.59, which is greater than all F-statistics critical at all levels. Therefore, here it is concluded that there is a long run relationship among variables.

| Test Statistics | Value | K |
|-----------------|-------|---|
| F-Statistics     | 4.59  | 6 |

Critical Value Bounds

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The co-integration test uses to find the long-run coefficients of determinants of democracy, and its results are given in Table- 5. The Co-integration result shows the determinants of democracy in long run. These results indicate that Economic growth EG has a positive impact on democracy but its insignificant. The second variable Education has a positive and highly significant impact on democracy. Gerring et al (2011) and Barro (1999) also find that GDP per capita has a positive and significant impact on democracy and Minier, J. A. (1998) also established the positive impact of education on democracy. Csordás et al (2010) concluded that income has a positive impact on democracy. Whereas, Muller (1995) found a contradictory result of GDP per capita on democracy for a middle-income group of countries. Li, Q et.al (2003), find a positive impact of economic growth on democracy and it’s statistically insignificant in all cases. The size of government is the third determinant of democracy, for this, we have used government expenditure. The GEXP has a negative and significant impact on democracy. Because when government size increases it increases the non-development expenditure, therefore, it has a negative impact on democracy. The fourth one is COP; it has a negative and insignificant impact on democracy and Drury et al (2006) investigated that corruption has a negative impact on democracy. The fifth one is LO; it has a negative and significant impact on democracy. Trade openness has a negative and significant impact on democracy. Li, Q et.al (2003), find a negative effect of trade on democracy in each case. Whereas Csordás et al (2010) investigates that trade openness does not have any impact on democracy using GMM. These results are in line with the first explanation of Rustow’s (1970) paper where he said that a stable democracy is possible with good socioeconomic conditions i.e income (PCI) good education and growth in urban residence.

| Significance | 10 Bound | L 1 Bound |
|--------------|----------|-----------|
| 10%          | 2.12     | 3.23      |
| 5%           | 2.45     | 3.61      |
| 2.5%         | 2.75     | 4.99      |
| 1%           | 3.15     | 4.43      |

Source: author computation

It is mandatory for the ruling political party that, it must focus on the education of the citizens or make an effort to educate the citizens as they understand their manifesto and the effect of their policies on living standards, as they elect their party once again.

Otherwise, it might be the case that the citizens think that dictator performance is better than a democratic government due to a lack of education and understanding of the system of government. The Pakistan and Pakistani people are same in the current situation. It is also discussed in the previous chapter that apparently dictator performance is better than democratic parties.
Table 5: The ARDL Long Run Coefficient Result of Determinants of democracy Model

| Variable | Coefficient | Standard Error | T-statistics | P-statistics |
|----------|-------------|----------------|--------------|-------------|
| EG       | 0.10***     | 0.05           | 1.82         | 0.118       |
| GEXP     | -0.30**     | 0.09           | 3.16         | 0.019       |
| EDU      | 0.49*       | 0.02           | 18.37        | 0.000       |
| COP      | -0.27       | 0.30           | 0.89         | 0.403       |
| LO       | -0.87**     | 0.26           | 3.33         | 0.015       |
| TO       | -0.24**     | 0.08           | 0.30         | 0.021       |
| Constant | 12.14       | 3.29           | 3.68         | 0.010       |

The significance indicate as 1% *, 5% **, and 10% ***

Table- 6 shows the short-run dynamics of determinants of democracy. Where the task is to calculate short-run behavior of variables and it is calculated through Error Correction Model (ECM). In the short run the D(DEM(-1)), D(DEM(-2)), D(EG), D(GEXP), and D(GEXP(-1)), is a positive and significant impact, it means these all variable play active role to reach long-run equilibrium. The D(EDU) is a key variable that is significant at 1% in long run as well as in the short run. So we can say that education expenditure plays a vital role to determine democracy. The error correcting term’s coefficient (ECT) is significant at 1% level and shows convergence towards equilibrium. The value of error-correcting term’s coefficient is-0.876 and it is highly significant in our model. It indicates that divergence from the long-run equilibrium is corrected by with a speed of 86% over a year. The lag length of the model is chosen based on the AIC. The graph of the model selection is given in figure- 1 and this study follows ARDL selected model (3, 2, 3, 3, 3, 2, 2).

Table 6: The Error Correction Results of the Second Model

| Variable       | Coefficient | Standard Error | T-statistics | P-statistics |
|----------------|-------------|----------------|--------------|-------------|
| D(DEM(-1))     | 0.93**      | 0.40           | 2.33         | 0.058       |
| D(DEM(-2))     | 1.88**      | 0.52           | 3.57         | 0.011       |
| D(EG)          | 0.10**      | 0.04           | 2.22         | 0.067       |
| D(EG(-1))      | -0.07       | 0.06           | -1.12        | 0.302       |
| D(GEXP)        | 0.17****    | 0.09           | 1.90         | 0.104       |
| D(GEXP(-1))    | 0.51**      | 0.16           | 3.15         | 0.019       |
| D(GEXP(-2))    | 0.19        | 0.16           | 1.17         | 0.285       |
| D(EDU)         | 0.45*       | 0.02           | 19.61        | 0.000       |
| D(EDU(-1))     | 0.30***     | 0.19           | 1.61         | 0.157       |
| D(EDU(-2))     | -0.75**     | 0.20           | 3.60         | 0.011       |
| D(COP)         | 0.81**      | 0.32           | 2.48         | 0.047       |
| D(COP(-1))     | 0.31        | 0.31           | 1.02         | 0.344       |
| D(COP(-2))     | 0.48***     | 0.26           | 1.83         | 0.116       |
| D(LO)          | 0.23        | 0.32           | 0.73         | 0.489       |
| D(LO(-1))      | -0.43***    | 0.28           | 1.50         | 0.182       |
| D(TO)          | -0.03       | 0.05           | 0.66         | 0.531       |
| D(TO(-1))      | 0.17**      | 0.06           | 2.82         | 0.030       |
| CointEq(-1)    | -0.87*      | 0.39           | 4.78         | 0.003       |

The significance indicate as 1% *, 5% **, and 10% ***

Table- 7 shows the deduction result of heteroscedasticity White test, Breusch-Godfrey serial correlation LM test for autocorrelation, and Ramsey RESET Test model specification. And all tests are showing insignificant P Statistics and F statistics, which means that there is no autocorrelation, no heteroscedasticity and there are no any specification biases in the model.

Table 7: Econometric Deduction methods

| Name of the Test | F-value | P-value |
|------------------|---------|---------|
| 1 Heteroskedasticity Test: White | 0.65    | 0.78    |
| 2 Breusch-Godfrey Serial Correlation LM Test: | 2.52    | 0.19    |
| 3 Ramsey RESET Test | .50     | 0.51    |
Conclusion

It is too difficult to investigate the determinants of political variable democracy. With the help of literature, this study extends the key determinant of democracy. The study established that the key determinants of democracy are trade openness, GDP per capita, education, inequality, institution, and government expenditure, middle-class population, and health facilities. Our study also uses some of the above variables for Pakistan and finds that education expenditures and economic growth are positively associated with democracy. So this study suggests that all the political parties, who dream to see Pakistan as a welfare democratic state must focus on education and increase the share of education expenditure in GDP. Moreover, it is mandatory for the ruling political party that must focus on the education of the citizens or take the effort to educate the citizens as they understand their manifesto and the effect of their policies on living standards, as they elect their party once again. Otherwise, it might be citizens think that dictator’s performance is better than a democratic government and it is observed in Pakistan. Finally, the study utilized the corruption index and the law & order index to analyze the impact of institutions on democracy. From the results of this study, we suggest that high corruption and uncertain law & order situation in Pakistan reduce faith in democracy and create frustration among citizens. Now it is the responsibility of the ruling party that must strengthen the institute as they perform their duties under the constitution of Pakistan and eradicate corruption from the country. Lastly, it is the responsibility of government and law enforcement agencies to create peace in the society which creates stairs for a strong democracy.

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