The world recently witnessed a wave of democratic transitions sweeping across the Middle East and Southeast Asia at a moment when democracy’s star had appeared to be waning. After the Berlin Wall fell, democracy surged with the many “color revolutions” of the former Soviet bloc, but soon the gains in Eastern Europe, Africa, and Latin America stalled as fragile democratic institutions collapsed under the enormous challenges of governance. The failed attempts by the United States to impose democracy in Iraq and Afghanistan, and the economic rise of autocratic China, further undermined confidence in the inevitability and even desirability of democratization. However, if successful, the nascent democratic stirrings in Tunisia, Egypt, Libya, Myanmar (Burma), and elsewhere may help reverse this recent worldwide retreat of democracy.

Despite the vast amount of academic research regarding democratization, the forces that allow some democratic transitions to succeed while others stall or backslide still remain poorly understood by policymakers. This article focuses narrowly on three critical economic issues and their relationship to democratic transitions: economic crisis, economic growth and the middle class, and public expectations for social and economic opportunities. History provides compelling insights. First, short-term economic crises are often the proximate trigger of regime change. Second, economic growth under autocracy does not lead to political freedom, but the robust middle class that generally emerges as countries become more prosperous can prevent backsliding to authoritarianism once democracy is established. Third, the promise of political freedoms raises people’s expectations for material oppor-
tunities, so failure to deliver on these expectations makes a return to authoritarianism more likely.

The transition from authoritarianism to democracy is notoriously difficult. Many countries that were at one time budding with democratic promise now appear mired in political infighting; others are trapped in downward spirals of poverty and unemployment. Substantive democracy, characterized by majority rule with strong minority and civil rights protections, comes only slowly for most transitioning countries. As reformers in countries around the world struggle to consolidate fragile democratic possibilities, and as the international community tries to support them, gleaning policy-relevant insights from the trajectories of other democratic transitions is now more important than ever.

In order to distill practical lessons for policymakers and reformers, this article looks carefully at the statistical evidence and at landmark country transitions that occurred over the past 25 years—Brazil, Mexico, Indonesia, Thailand, Poland, Ukraine, and South Africa—with a diverse range of experiences and outcomes. The evidence from the case studies and the statistical research helps clarify why some democratic transitions have succeeded while others have stumbled, and reveals several important insights. Equity, inclusion, and a strong middle-class are linchpins of an enduring social contract.

**ECONOMIC CRISIS**

Many democratic transitions in recent decades have been triggered by serious economic shocks that inflicted intolerable costs on citizens, rupturing the authoritarian bargain under which citizens had traded political freedom for economic prosperity.

In Brazil, “the end of military rule was precipitated in large part by a deep structural economic crisis” (Pio 2013). As Carlos Pio elaborates,

[t]he economic and financial crisis of 1979 that followed the second global oil shock damaged the image of the
military as a competent organization capable of steering economic growth better than civilian politicians under democratic rule, and undermined the trade-off of repression for economic growth. Brazil’s economy staggered under an external debt crisis, the rapid depletion of international reserves, and spiraling inflation. . . . As a result of the ensuing harsh economic conditions, a wave of social mobilizations blossomed in the nation’s manufacturing heartland (56–57).

Mexico shared a similar trajectory. Citizens were no longer willing to accept limited freedoms as their confidence in the authoritarian regime’s ability to stimulate economic growth fell. As Shannon O’Neil writes,

> [t]he 1982 debt crisis and the ensuing “lost decade” of limited economic growth halted the previous decades’ long upward trajectory, throwing millions into poverty. This poor performance was repeated during the 1994 peso crisis, when poor economic choices, overspending, and dwindling international reserves forced a devaluation and initiated another severe economic recession, further eroding the trust and backing of Mexico’s interest groups and population in general (2013, 32–33).

Similarly, 15 years later Indonesia’s remarkable and relatively sudden transition to democracy was instigated by the 1997 Asian financial crisis, which “[exposed] the weaknesses of Suharto’s economic policies, namely excessive cronyism and corruption; unsustainable levels of foreign debt; weak corporate governance and insufficient financial regulation” (Kurlantzick 2013a, 133). Suharto was helpless to reverse the crisis as national companies went bankrupt, foreign capital fled, and many Indonesian banks collapsed. His administration was forced
to accept aid from the International Monetary Fund to meet budget and foreign exchange obligations, further diminishing his stature and influence. With Suharto’s power declining, and amid plunging currency values, a shrinking economy, and rising prices for staple goods, the Indonesian people were emboldened. As street protests in Jakarta transformed into a strong opposition force, Suharto stepped down in 1998, creating an opening for democratic consolidation of power.

The three cases of Indonesia, Brazil, and Mexico demonstrate how economic crises under autocracy have the potential to trigger democratic transitions. In Brazil, an economic shock that began in 1979 paved the way for an opposition victory in the presidential election six years later; in Mexico, poor economic performance, punctuated by the debt and peso crises, began a 20-year downward slide until the Institutional Revolutionary Party (PRI) finally lost elections in 2000; in Indonesia, the Asian financial crisis led almost immediately to Suharto’s downfall. Economic conditions were an unmistakable trigger of change in all three of these countries.

The robust cross-national statistical evidence confirms that economic crisis “bodes ill for authoritarian regimes . . . [;] deteriorating economic performance, and the austere policy measures it provokes, undercuts the power bases of authoritarian regimes” (Teorell 2013, 24). This continues to be the case around the world, as shown by the Arab uprisings of 2011, which were sparked, in part, by rising wheat prices and limited economic opportunity for young people.

**ECONOMIC GROWTH AND A STRONG MIDDLE CLASS**

Many experts once believed that economic growth led inexorably to democracy. However, while most wealthy countries in the world today are relatively democratic, some countries—Equatorial Guinea, Saudi Arabia, and Kuwait, to name a few—have enjoyed growing economic prosperity without realizing increases in substantive political freedoms.

Cross-national statistical evidence demonstrates the complex relationship between political freedom and economic growth
As Jan Teorell shows, “growth in GDP per capita does not in itself make an autocracy more likely to democratize, presumably because people are happy with their rising fortunes. Increased national income does, however, make democracy likelier to endure once it arises” (2013, 24). It is not income level per se that prevents backsliding once democracy begins to blossom, but rather the existence of a robust and resilient middle class that can mobilize to demand democratic accountability.

In Poland, a robust middle class and other trappings of a solid middle-income country were instrumental in the consolidation of democracy once it emerged. Due to its existing middle income status, “post-communist Poland inherited comprehensive state institutions run by professional bureaucracies, an egalitarian social order, an educated and skilled labor force, and a diversified industrial base—all factors that helped to ease the transformation unleashed in the aftermath of 1989” (Ekiert and Soroka 2013, 77–78). Poland further bolstered this initial endowment with economic policies that nurtured and expanded the middle class in the years following its transition.

Conversely, neighboring Ukraine, an entirely new entity created after the collapse of the Soviet Union, had none of the economic stability, state institutions, or strong middle class that Poland possessed during its transition period. As Andrew Wilson explains:

As a nascent state after the Soviet Union’s collapse, Ukraine had to build institutions, international relations, and an economy more or less from scratch. This new state had and still has weak outreach to its regions. In the center, it has been both too strong and too weak: too strong because Ukraine’s leaders have sought to recreate the security culture and economic control mechanisms of the Soviet Union, too weak because most new institutions lack the resources to provide social justice or the organizational strength to resist capture by vested interests (2013, 181).
Consequently, Ukraine was easily captured by autocratic elite holdovers from the Soviet era, and though the country “is committed to at least the discourse of democracy,” the people have been unable to rise up and wrest power from the ruling class (Wilson 2013, 181).

The relationship between economic growth, economic crisis, and transition to democracy has significant policy implications, illuminating, for example, the chances of democratization in a country such as China. As Jan Teorell explains,

As opposed to traditional modernization theory, quantitative evidence indicates that China’s impressive growth is not likely to produce democracy. However, a serious economic contraction would be a major threat to China’s one-party regime. But if an economic crisis or other force leads to democracy after China reaches a fairly high level of economic development, the prospects are good that this democracy would endure (2013, 23–24; emphasis added).

Conversely, countries entering a democratic transition period before a sizeable middle class has emerged will face numerous challenges. Policymakers should therefore be prepared for years of serious but turbulent economic and political engagement as lower-income countries like Egypt begin to democratize.

**DELIVERING ON EXPECTATIONS FOR SOCIAL AND ECONOMIC OPPORTUNITIES**

The trajectory of emerging democracies depends fundamentally on whether newly elected governments deliver on equity, shared opportunity, and inclusive growth to visibly improve the lives of their citizens. When citizens enjoy social inclusion and rising living standards, they generally reward the politicians who provide them, creating a powerful feedback loop that helps consolidate democracy. However, if a transition fails to deliver material benefits, a return to autocracy, perhaps
under a populist authoritarian, becomes probable. Merely providing the civil freedoms of the ballot box and marketplace participation is not enough; citizens must also realize substantive freedoms that generate the capability to live full and meaningful lives.

Statistical studies have thus far provided weak support for a connection between socioeconomic inclusion and democratization (Teorell 2013). This could be due to poor data—reliable cross-country research is difficult due to a lack of comparable quantitative measures of wealth distribution and social cleavages. But the case study evidence is compelling that inclusion supports durable economic and democratic gains once a transition has begun.

Brazil’s democratic transition was legitimated and consolidated largely due to the widely shared benefits generated by socially inclusive growth. Starting in the early 1990’s, Presidents Cardoso and then Lula embarked on a plan to foster new talent and investment through anti-inflationary, anti-monopoly, and pro-market measures. These economic policies and corresponding legal reforms promoted Brazilian exports, ended the corrupt distribution of subsidies, expanded opportunities for new entrepreneurs, and slowed inflation—leading to strong economic growth. At the same time, government spending on programs to improve equity and opportunity for the poor and middle class increased dramatically, facilitating economic inclusion for a broad cross section of society (Pio 2013). Conditional cash transfers such as Bolsa Familia (Family Stipend), which is “used to encourage school enrollment, bolster health, discourage child labor, and advance other goals” (Pio 2013, 75–76), efficiently targeted the neediest while also encouraging investments in human development, and provision of social and economic rights (health care, education, and labor protections) expanded to include blacks and other disadvantaged groups. The growth of the Brazilian economy as a result of the implementation of market reforms alongside the simultaneous expansion of social spending targeted to the least advantaged were critical to Brazil’s achievement of socially inclusive growth (Teorell 2013).
Much like Brazil, Mexico has also consolidated democracy over the past decade by delivering on economic opportunity for an ever growing number of citizens in a significant departure from earlier decades. Previously, even as political participation expanded in past decades, the government had provided little in the way of social and economic opportunities for the poorest and most vulnerable groups. As Shannon O’Neil explains,

> During the protracted democratic transition inequality skyrocketed, first during the lost decade of the 1980s, and again during the early 1990s as the economy opened. Although the economic downturn and public neglect were country-wide, the more isolated and indigenous south felt them most acutely, helping foment the popular discontent that culminated in the Zapatista uprising in the southern state of Chiapas in 1994 (2013, 35).

Now, as with Bolsa Familia in Brazil, programs in Mexico such as Oportunidades give monthly stipends to low-income households that keep their children healthy and in school. In contrast to previous programs carried out under the long-ruling PRI, most independent evaluations find these conditional cash transfer programs to be efficient, objective, and generally corruption-free. As a result of such initiatives inequality has been falling in recent years, and although Mexico still remains one of the most unequal countries in the world, its Gini coefficient has declined more than 1 percent annually from 2000 to 2011. Poverty is also on the decline; in the mid-1990s, 70 percent of the population was defined as poor—today, that number is below 50 percent.

In contrast to these success stories, when democracy fails to deliver on the material expectations its citizens, those who are left out often embrace authoritarian populists who promise to fight against rich elites. In Thailand, the nascent democratic government instituted policies that were widely seen as benefitting only foreign inves-
tors and domestic elites, while the majority of the poor and middle classes continued to struggle following the Asian financial crisis. This widespread resentment created an opening for the populist Thaksin Shiniwatra to be elected, promising to deliver equity and opportunity. Instead, he established an “electoral autocracy” that led to a coup and a streak of violent unrest.

Likewise, South Africa now faces a difficult road, despite strong early hopes when apartheid was first dismantled in the early 1990s. South Africa’s inequality actually grew between 1995 and 2008 (Campbell 2013). The government’s failure to deliver for more citizens has given rise to populists like Julius Malema, the expelled African National Congress youth leader, whose firebrand rhetoric has tapped into the seething anger of disaffected groups like South Africa’s miners.

Democratic transitions are inherently messy, with newly empowered groups demanding different kinds of justice and equity from their new democratic governments. Implementing economic reforms in this volatile mix is never easy, and politics often constrains economic choices. Ensuring substantive freedoms in new democracies is an inherently adaptive process; however, underpinning successful transitions is the imperative of not only expanding the pie, but also materially improving the lives of those who for too long were excluded from power and prosperity.

CONCLUSION

For democratizing countries, pursuing reforms that can have an immediate impact on people’s lives but do not create unsustainable and distorting economic policies in the longer term is critical if transitions are to be sustained.

The best policy options for any country will depend on context, but restructuring and expanding social safety nets to more effectively target the poorest, while reducing the kinds of social spending that has been captured by elites and special interest groups, is the linchpin of a successful democratic transition. In this vein, an important but politi-
Cally difficult measure is likely to entail the elimination of expensive and inefficient subsidies, such as those for fuel, that impose significant costs on government budgets and distort investment incentives and economic growth. Such subsidies should be replaced by targeted cash transfers to the poor and to those who are hurt the most by rising fuel costs. Conditional cash transfers can also play a vital role in creating equity and shared opportunity by enabling struggling families to invest in health and education—simultaneously cushioning the hardships of the present while laying the foundation for future economic prosperity.

International actors can support the economic policies of democratic reformers in transitioning countries by providing assistance such as development loans, sovereign loan guarantees, and debt forgiveness. These measures would backstop external financing gaps and create important fiscal space for newly elected governments to deliver on the demands of the democratic social contract. The International Monetary Fund and World Bank—international financial institutions that arose from the ashes of a world war triggered in large part by severe economic hardships—were originally formed to provide economic lifelines for countries faced with current account and balance of payment crises, runaway inflation, and the inability to generate the funds for the immense expenditures required for development projects. These multilateral institutions should draw guidance from this original purpose and focus on providing emergency financial support to countries now transitioning to democracy.

Every country has its own specific set of challenges as it embarks on a democratic transition, and there are no one size fits all approaches to ensure success. Even under the best circumstances, and with the wisest decisions by policymakers and citizens, the road to democratic consolidation is long and difficult. Yet the lessons of history are clear: short-term economic crises can trigger regime change, economic growth that fails to expand the middle class threatens fragile democracies, and failure to deliver on social and economic opportunities makes a return to authoritarianism more likely. In short, economic austerity,
without due regard for equity, inclusive growth, and the economic and social rights of citizens, can derail nascent democracies before freedom begins to blossom.

REFERENCES