

ABSTRACT

The study of economic growth and democracy is one of the most discussed topics in political economy literature. In particular, Lipset Hypothesis proposed by Lipset (1959) states that high economic growth will lead to democratic transition. To empirically investigate this hypothesis, this study analyzes the effect of economic growth on democracy using panel data from 162 countries in the world during 2009 – 2018. The study measures democracy using Polity V dataset issued by the Center for Systemic Peace. By using the Fixed-Effects Model, this study shows inconsistent results. The comparative analysis among countries in the world confirms the Lipset hypothesis whereas within a country analysis runs counter to the hypothesis. When analyzing variation within a continent, data for Europe, and for Australia and Pacifics confirm the hypothesis. This also confirms that high economic growth provides suitable conditions for strengthening democracy.

Keywords: Economic Growth, Democracy, fixed-effects model.

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