**Q. Explain how democracy and economic growth are interlinked.**

J.A Schumpeter in his landmark title “Capitalism, Socialism and Democracy (1943) called democratic outcomes ‘the will of the people’. Schumpeter defined democracy as “that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote”.

Economic growth and political regime in a country are correlated. This correlation raises the question whether democracy leads to economic growth or economic growth leads to a better democracy. Taveres and Wacziarg suggest that higher level of human capital is both a determinant of democracy and an outcome of democracy. Moreover, education is one of the important components of human capital and it increases both the demand for democracy and economic growth. An increase in physical and human capital primarily gives rise to economic development. The adoption of political institutions which put some constraints on government in democracies helps improve investment in physical and human capital and thereby increase economic growth.

A meta-analysis conducted in 2008 found that democracy does not have direct effect on economic growth but it has strong and significant indirect effects which contribute to growth. Democracy can lead to higher capital accumulation, lower inflation, lower political instability and higher economic freedom. Democracy can be a mechanism by which the political commitment problem can eventually be solved and the end result is rapid economic growth. As democracy expands in a country people have demand better living conditions, health care, access to clean water etc. which contribute to increased life expectancy and a result of which productivity of the workers increases.

However, sometimes premature democratic movement can lead to slow rate of economic growth. If a democracy is established without proper planning i.e without proper resource availability, inappropriate class structure, inequality in income and wealth etc. will threaten both economic growth and democratic development. Likewise political instability in a country can also retard economic development of a country.