

# The Democratic Transition\*

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## Abstract

Over the last two centuries, many countries experienced regime transitions toward democracy. We document this democratic transition over a long time horizon. We use historical time series of income, education and democracy levels from 1870 to 2000 to explore the economic factors associated with rising levels of democracy. We find that primary schooling, and to a weaker extent per capita income levels, are strong determinants of the quality of political institutions. We find little evidence of causality running the other way, from democracy to income or education.

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# 1 Introduction

Over the last two centuries, many countries underwent a democratic transition, moving from autocratic regimes with low popular participation in political decision-making and weak constraints on the exercise of executive power, to more democratic regimes with broader political participation and greater limits on the exercise of political power. Figure 1 displays the average democracy score for a balanced panel of countries since 1800, using a commonly used measure of democracy (the Polity index). While democratization happened in fits and starts, and did not happen everywhere, there is a general upward trend: the democratic transition.

The democratic transition partly overlaps with other socioeconomic trends, chiefly the demographic transition, and the process of industrialization and modernization with which it is associated. As shown in Figure 1, the average level of GDP per has followed the same upward trend as the democracy index in a balanced panel. What are the links between these various transitions, and in particular, to what extent did socioeconomic modernization affect the transition toward democratic institutions? This paper’s main contribution relative to the existing literature is to take a long view of history, going back to 1870, to untangle the relationships between democratization and socioeconomic modernization, captured by expanding primary education and rising per capita income levels. We focus mostly on the question of whether education and income are determinants of democracy.

We examine the two-way relationship between education (or income) and democracy in a large panel of countries starting in 1870, using a variety of modern dynamic panel data methods, including system GMM. In a first step, we address the link from economic development to democracy, concentrating on two dimensions of socioeconomic modernity, namely GDP per capita and average years of schooling among the adult population. In a second stage, we investigate the potential effect of democracy on childhood education, measured by the average years of schooling completed by young cohorts, as well as on the (log) level or the growth rate of GDP per capita.

This paper is related to a large literature on the dual relationship between economic development and democracy. One strand of this literature investigated the relationship going from economic development to democracy. In “A Bill for the More General Diffusion of Knowledge” (1779), Thomas Jefferson argued that education was a cornerstone of democracy: “The most effectual means of preventing tyranny would be, to illuminate, as far as practicable, the minds of people at large, and more especially to give them knowledge of those facts, which history exhibiteth, that,

possessed thereby of the experience of other ages and countries, they may be enabled to know ambition under all its shapes, and prompt to exert their natural powers to defeat its purposes". This view was shared by other observers throughout history. For instance, Tocqueville (1835) noted that mass education was a significant factor in sustaining the vigor of democracy in the United States, a leading country in terms of educational attainment over the 19<sup>th</sup> century:<sup>1</sup> "The education of the people powerfully contributes to the maintenance of the democratic republic. That will always be so, in my view, wherever education to enlighten the mind is not separated from that responsible for teaching morality".<sup>2</sup> Building on ideas that go back in time as far as Aristotle, Lipset (1959) argued in a seminal article that improvements in economic standards would ultimately lead to democratization: "the more well-to-do a nation, the greater the chances that it will sustain democracy". Lipset's modernization hypothesis received empirical support from Barro (1999), who found, among other variables, that GDP per capita and primary schooling were positive determinants of democracy in a large sample of countries spanning the period from 1960 to 1995.

However, in two recent studies, Acemoglu et al. (2005, 2008) revisited and questioned the empirical significance of these two major determinants of democracy. They found that, after controlling for country fixed-effects, GDP per capita was no longer a significant determinant of democracy.<sup>3</sup> In other recent studies, Bobba and Coviello (2007) as well as Castello-Climent (2008) re-examined the evidence. The former isolated a significant effect of GDP per capita using a system-GMM estimator, while the latter found a significant effect of education attained by the majority of population, even after controlling for fixed-effects. Finally, Benhabib et al. (2011) recover a significant effect of GDP per capita even when controlling for fixed effects once taking into account the censoring of the democracy index.

Another strand of the literature explored the consequences of democratization on economic performance and on the expansion of schooling. The evidence in favor of such effects is mixed. For instance, Barro (1997) found a nonlinear effect of democracy on growth, with an initial increase in

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<sup>1</sup>See Lindert (2004), Murin and Viarengo (2010), and Morrisson and Murin (2009).

<sup>2</sup>Democracy in America, Volume 1, chapter 9, "The main causes that tend to maintain a democratic republic in the United States".

<sup>3</sup>Using a more micro approach in Kenya, Friedman et al. (2011) also find that "increased human capital did not produce more pro-democratic or secular attitudes and strengthened ethnic identification". Whether this holds more broadly at the level of countries and realized democratic institutions rather than attitudes remains debated.

growth and a negative relation once some modest level of democracy has been reached. Tavares and Wacziarg (2001) uncovered a positive effect of democracy on human capital accumulation and a negative effect on physical capital accumulation, while Rodrik and Wacziarg (2005) found a positive short-term effect of democratization on economic growth, but no effect at longer horizons and no effect when democracy was sustained for long periods. More specifically related to education, Lindert (2004) documented how the extension of the franchise in Europe's rising democracies gradually led to the introduction of public funding for education over the 19<sup>th</sup> and 20<sup>th</sup> centuries, but he did not provide empirical evidence on the direction of causality between schooling and democracy.

The two-way relationship between education and democracy is at the core of an important debate on the fundamental sources of economic prosperity. Does education help raise the quality of institutions as well as productivity, or is an efficient institutional framework a prerequisite for expanding education levels and economic growth? The issue of the direction of causality between education and democracy has ignited a debate between the advocates of institutions as the prime engine of growth (Acemoglu et al., 2001, 2002), and the proponents of a different thesis, who view human capital as the root cause of economic development (Glaeser et al., 2004, 2007, Glaeser and Campante, 2009). Sorting out the respective effects of democracy and education upon each other would shed some light on this broader debate.

This paper makes three contributions. First, using the Morrisson and Murin (2009) dataset of educational attainment in 74 countries since 1870, we find strong empirical support for the modernization hypothesis. Second, we show that primary schooling, more so than GDP per capita, has been a major trigger of the democratic transition over 1870-2000. Third, using state-of-the-art dynamic panel data techniques such as system GMM, we address the issue of reverse causality and find no robust evidence of an effect of democracy on education or GDP per capita.

Section 2 describes empirical facts related to democracy and development over the 1870-2000 period. Section 3 tests the modernization hypothesis using a long time series, while section 4 addresses the reverse relationship, from democracy to education and income. The last section concludes.

## **2 Democracy and Development, 1870-2000**

In this section, we describe the data and take a bird's-eye view of trends in democracy, income and schooling since 1870. Since differences across countries are central to our analysis, we focus on

convergence effects and on three particular periods: 1870-1910, 1910-1960, and 1960-2000. These broadly delineate the two periods of globalization and the protectionist period of the interwar years. The full sample is composed of 70 countries spanning every continent, of which 19 countries form a balanced panel starting in 1870.<sup>4</sup> Table 1 provides descriptive statistics.

## 2.1 Democracy

Our main measure of democracy is the combined polity score from the Polity IV dataset (Marshall and Jaggers, 2008), rescaled between 0 (full autocracy) and 1 (full democracy). This widely-used index consists of underlying components capturing key characteristics of executive recruitment, constraints on executive authority, and the degree of political competition. We plot the world distribution of democracy scores in Figure 2 (unbalanced panel) and Figure 3 (balanced panel). Boxplots represent the 25<sup>th</sup> and 75<sup>th</sup> percentiles as well as the median of the distribution. These two figures illustrate an overall increase in democracy between 1870 and 1920, followed by a marked decrease until the Second World War. The immediate postwar period witnessed a new rise in democracy that lasted until the end of our period in the balanced panel. In the unbalanced panel, democracy stagnated or even regressed between 1960 and 1980 but rose again since then. The world distribution of democracy widened from 1930 onwards, while at the end of the period, cross-country differences in democracy fell dramatically.

The latter observation is related to global inequality in democracy: Has democracy converged across countries over time? Consistent with findings in Barro (1999) for the postwar period, results from the full sample show that democracy has indeed converged within any of our three subperiods, at roughly the same pace. Indeed, when calculated on an annual basis, the speed of convergence of democracy happens to be equal to 4.7% over the 1870-1910 period, 3.4% in 1910-1960 and 3.7% in 1960-2000.<sup>5</sup> The three graphs at the top of Figure 4 illustrate these results.

How can (beta) convergence in democracy levels be reconciled with the increase in cross-country

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<sup>4</sup>When studying the relationship between democracy and income, the maximal sample size is 69 countries.

<sup>5</sup>The annual convergence rate is given by  $-\log(\rho)/T$  where  $\rho$  is the estimated coefficient of initial democracy in an absolute convergence regression, and  $T$  is the length of the period over which the difference in democracy is calculated. There are respectively 34, 39 and 59 countries involved in the latter computation. In the balanced panel, the results are almost identical: a convergence process has taken place in the 1910-1960 and 1960-2000 periods at an annual rate of respectively 3.2% and 3.6%. In the first period, convergence occurred but only among a club of advanced democracies.

democracy inequality observed between 1930 and the mid-1980s (sigma divergence)? Beta convergence entails inequality reduction if shocks affecting democracy are stationary over time. But as Figure 2 and 3 as well as Table 1 make clear, the occurrence of two world wars and the associated political turmoil have significantly widened the distribution of democracy. Hence, the evolution of democracy scores is driven by a convergence effect, but heteroskedastic time-specific shocks have considerably widened the distribution.

## 2.2 Income and Schooling

We capture economic development and modernization either by the level of GDP per capita or by average years of schooling among the adult population, these variables being highly correlated among themselves both across countries and over time. GDP per capita comes from Maddison (2006) while average years of schooling is from Morrisson and Murtin (2009). The latter have constructed a historical database on average years of schooling covering 74 countries since 1870. They combined data on total enrollments in primary, secondary and tertiary schooling with age pyramids, in order to calculate enrollment rates and the average number of years of schooling among the adult population.<sup>6</sup> Morrisson and Murtin (2010) cross-checked these series with historical data on literacy, finding a high level of consistency even at the beginning of the period. In other words, these are the most comprehensive historical data on educational attainment across countries and time available to researchers.

An extensive literature describes the global evolution of key aggregate socio-economic variables over the 19<sup>th</sup> and 20<sup>th</sup> centuries, and it is beyond the scope of this paper to comment extensively on all these well-known transformations.<sup>7</sup> Let us simply recall a few facts, mirrored by elementary statistics provided by Table 1: In broad terms, modern economic growth took off in Western Europe in the first half of the 19<sup>th</sup> century, and to varying degrees spread to Asia and Latin America at the

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<sup>6</sup>Before 1960, the main source for education data is Mitchell (2003)'s statistical yearbooks. After 1960, they relied on the Cohen and Soto (2007) series, adjusted for differential mortality across educational groups.

<sup>7</sup>A short list of references might include Bourguignon-Morrisson (2002), describing the world income distribution since 1820; Galor and Weil (2000) and Galor (2005, 2011), analyzing the joint variations of income and population over the long run as well as the structural forces that have triggered the Industrial Revolution; O'Rourke and Williamson (1999) and Hatton and Williamson (2005), focusing on the effect of globalization on economic performance; Morrisson and Murtin (2009, 2010), describing the spread of education at a global level; Murtin (2011) investigating the determinants of the demographic transition over the 20<sup>th</sup> century.

beginning of the 20<sup>th</sup> century as well as to Africa after Second World War. In terms of education, schooling was a quasi-exclusive feature of the Western world in 1870, but Eastern Europe as well as some fast-developing Asian countries, most notably Japan, have caught up over the 20<sup>th</sup> century. A polarized schooling distribution in 1870 turned to a substantially heterogeneous distribution in 2000: At the top, high-income countries reaching mass enrollment in primary and secondary schooling with growing enrolment in tertiary education. In the middle of the world distribution, Latin America, the Middle-East and North-Africa as well as most of developing Asian countries achieving mass schooling enrollment in primary and partly in secondary school. At the bottom, South Asia and Sub-Saharan Africa have barely achieved extensive levels of enrollment in primary schooling today.

In terms of differences across countries, economic development does not reflect the convergence in democracy described above. As is well-known, income inequality across countries has increased throughout the 20<sup>th</sup> century, except among a convergence club of relatively high-income countries before the First World War and after the Second World War. Similarly, there has not been any convergence in average education in any period, except among two clubs of advanced countries during the first and second globalization periods (see Morrisson and Murtin, 2009). These two facts are clearly illustrated by the second and third panels of Figure 4. We now examine the correlation between education, income and democracy in a more quantitative fashion.

### 2.3 The Joint Distribution of Democracy and Development

Figure 5 presents a kernel estimation of the bivariate distribution of democracy and average years of schooling within four different sub-periods: 1870-1970, 1920-1940, 1950-2000 and 1980-2000.<sup>8</sup> A similar graph can be obtained with log GDP per capita instead of education, and results are qualitatively identical. Some interesting facts emerge: On the eve of the twentieth century, the bivariate distribution of democracy and schooling was clearly bimodal, splitting rich and educated democracies on the one hand from poor and low education autocracies on the other. Over the next sub-period, a large share of initial autocracies witnessed economic growth and joined the club of democracies, ensuring a strong positive correlation between democracy and income or education. After 1950, and even more visibly after 1980, there have been two distinct groups of unequal size,

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<sup>8</sup>We have used an Epanchenikov kernel with bandwidth adjusted to the finite sample size. We used the balanced panel of countries, but results are qualitatively the same with the unbalanced panel.

poor and low-educated autocracies on the one hand and rich and highly-educated democracies on the other. Among the latter, the correlation between democracy and education or income has flattened out as countries had already reached high levels of democracy in 1950 while experiencing continuous economic development. In sum, this evidence is consistent with the idea that both development and democracy levels experienced a transition from a regime of low education, low income and low democracy to a regime of high education, high income, and high democracy. In what follows we seek to disentangle the directions of causality accounting for this transition.

### 3 Testing the Modernization Hypothesis Over the Long Run

#### 3.1 Democracy and Income

We begin with the following econometric framework to test the modernization hypothesis:

$$D_{it} = a_i + b_t + cX_{i,t-1} + u_{it} \quad (1)$$

where  $D_{i,t}$  is an index of democracy in country  $i$  in period  $t$ , ranging from 0 to 1,  $a_i$  and  $b_t$  are respectively country-specific and time-specific effects,  $u_{it}$  an idiosyncratic shock and  $X$  a variable that proxies for economic development such as log GDP per capita or average education among the adult population, lagged one period. As a benchmark, we consider a 10-year time span between subsequent observations (i.e. in our panel a period is defined as 10 years). Controlling for country-level fixed effects ( $a_i$ ) allows us to partial out the effect of country specific, time invariant factors, so we estimate equation (1) with a simple fixed effects estimator.

One may also include the lagged value of the dependent variable in the regression, since the political structure of a country changes slowly over time, as the introduction or the modification of laws, constitutions and the changes in political regimes meet resistance (Barro, 1999). Consequently, the democracy score is highly time persistent. We account for autocorrelation in the dependent variable using a dynamic panel model:

$$D_{it} = a_i + b_t + \rho D_{i,t-1} + cX_{i,t-1} + u_{it} \quad (2)$$

Since this is now a dynamic panel data model, fixed effects estimation is unsuitable. The specification in equation (2) can instead be estimated with GMM methods developed respectively by Arellano and Bond (1991) (henceforth AB) and Blundell and Bond (1998) (henceforth BB). Both estimators difference away time-invariant, country specific effects, and both rely on the dynamic

structure of the model for identification. In particular, the AB estimator uses lagged levels of the independent variables as instruments for the current differences, while the BB estimator involves additional moment conditions, which amount to using lagged differences as instruments for current levels. The AB estimator, however, has been found to be subject to small sample bias, so the BB estimator, which partly avoids this problem, is the preferred current estimator in the literature. Throughout, we report estimates based on both the AB and BB estimators, noting that BB estimates are likely to be more reliable.<sup>9</sup>

Table 2 focuses on log GDP per capita as the main explanatory variable and displays the estimates of equations (1) and (2) over the whole period as well as over three sub-periods, 1960-2000, 1930-2000 and 1870-2000, enabling us to gauge the influence of time-specific sample selection. Regarding the choice of countries, we first use the whole sample, then a sample that excludes countries already at the maximum level of democracy as of the initial year, and finally the more restricted balanced panel. Thus, Table 2 examines the relationships between democracy and development using a full range of econometric procedures, time-periods, and country samples.

The overall conclusion is as follows: Among 36 specifications, 24 involve lagged income having a positive and significant coefficient. Using a fixed-effects estimator (henceforth FE), lagged income is significant in 11 out of 12 cases. It is not significant over the 1960-2000 period, the time period emphasized by Acemoglu et al. (2008), but it is significant in all other sub-periods and highly significant over the whole period. AB estimates on lagged income are only significant in 3 of 12 regressions. However, as already noted this estimator is afflicted by problems of weak instruments (as demonstrated in Hauk and Wacziarg, 2009, among others). This is a major reason why the BB estimator was developed. Crucially, lagged income is significant 10 times out of 12 when using BB, the state of the art dynamic panel estimator, confirming with a longer panel results found in Bobba and Coviello (2007). Moreover, BB estimation passes all of the specification tests when using the full sample, even though a limited number of instruments was chosen in order to avoid instruments proliferation problems.<sup>10</sup>

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<sup>9</sup>For further details on the AB and BB estimators, and of their econometric properties in the context of cross-country dynamic panel applications, see Hauk and Wacziarg (2009).

<sup>10</sup>As described by Anderson and Sorenson (1996), Bowsher (2002) and Roodman (2009), instruments proliferation generate implausibly low values of Hansen tests of instruments exogeneity. This is because the size of the variance matrix of the moments is too large to be estimated accurately within a finite sample. Reducing the number of instruments therefore limits this problem. We also use Windmeijer (2005) finite sample correction of standard errors

A feature that could explain the non-significance of some estimates in the previous exercise is sample selection. Countries already at the "democratic frontier" at initial date are unlikely to experience large decreases in democracy (even if this has actually been observed several times in history, notably after the First World War).<sup>11</sup> To gauge the influence of this group of countries, we ran the former regressions while excluding the countries that were already at the maximum level of democracy at the initial date. As shown in the second part of Table 2, excluding these countries from the analysis has an important effect on the results, as the 1960-2000 fixed-effects estimates and the two most recent AB estimates of the coefficient on log per capita income become significant.

Sample composition could further affect our results as the sample does not remain fixed over time. In practice, countries join the sample at their date of independence, but many young countries have experienced erratic political processes, including declines in democracy in some cases. Their inclusion in the sample could create composition effects and spuriously affect the long-term interpretation of our results. In the last part of Table 2, we therefore restrict the sample to a balanced panel of nineteen countries observed since 1870. Within this sample, lagged GDP per capita appears to be a strongly significant determinant of democracy in 7 out of 12 specifications.<sup>12</sup>

In terms of magnitudes, in the BB regression using the full sample over the 1870-2000 period, the coefficient of lagged income is equal to 0.146. This implies that doubling GDP per capita entails closing 10% of the gap between the most dictatorial regime and the most democratic one.<sup>13</sup> Recalling from Table 1 that available countries had an average GDP per capita of \$1,523 in 1870 and \$8,465 in 2000, started at a level of democracy equal to 0.41 and ended up at a level equal to 0.77, this means that economic development accounts for 70% of the progress of democracy within this sample.<sup>14</sup> A similar calculation over the 1960-2000 period, over which sample composition is less variable, suggests that economic development accounts for 80% of observed democratization.

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in order to increase robustness.

<sup>11</sup>In statistical terms, this raises the issue of the measurement of democracy, which is proxied by a bounded variable. Even if some countries have already converged towards the maximum reported level of democracy at the initial date, institutions have kept on evolving, most likely improving, within these countries. Benhabib et al. (2011) account for the censoring of the democracy variable and find, similarly to us, a significant coefficient on log GDP per capita.

<sup>12</sup>However, in this restricted sample BB estimation conducted over the 1870-2000 period fails to pass the Arellano-Bond first-order autocorrelation test.

<sup>13</sup>As  $0.146 \times \log(2) = 0.101$

<sup>14</sup>Since:  $0.146 \times \log(8465/1523)/(0.77 - 0.414) = 0.703$

These findings differ from Acemoglu et al. (2008) who showed that the relationship between democracy and lagged income is statistically insignificant when calculated over the 20<sup>th</sup> century, and turns significant only over the very long term, say between 1500 and 2000. Figure 6 best illustrates their result. It shows the seemingly null correlation between the change in the Polity IV score of democracy and growth in GDP per capita between 1900 and 2000.

The non-significant correlation depicted in Figure 6 can be explained by the omission of the initial level of democracy from the regression. Indeed, the pairwise correlation between growth of GDP per capita and the change in democracy can be spuriously contaminated by unobserved variables. Among those, the initial level of democracy is a potential candidate, since, as described earlier, convergence in democracy occurred in every periods. The negative correlation between the change and the initial level of democracy might therefore contaminate the relationship between the change in democracy and per capita GDP growth. Table 3 presents a simple set of regressions where the dependent variable is the change in democracy between 1900 and 2000, while explanatory variables include per capita GDP growth (column I), then adding initial democracy (column II), and finally adding initial log GDP per capita (column III). As is clear from these simple cross-country regressions, per capita GDP growth is highly significant once the initial level of democracy is included in the specification, as in columns II and III. This suggests that the non-significance of per capita GDP growth in column I results from omitted variable bias arising from the exclusion of the initial level of democracy. Interestingly, both the initial level and the growth in GDP per capita bear a significant positive association with the change in democracy over the period, suggesting the presence of both accumulation and level effects.

The divergence in results with Acemoglu et al. (2008) can also in part be explained by the difference in the time span used across the two analyses. Acemoglu et al. (2008) consider 25 year time spans, while the present study focuses on decennial time spans. When using a longer time span of 30 years, we also found that lagged income was insignificant. This is mostly explained by a smaller sample size. Indeed, regressing democracy on log GDP per capita lagged 30 years, but using a 10 years time span as in our study, we still found a highly significant coefficient on lagged income.<sup>15</sup> Whether a 10 years or 25 year time span is more appropriate is left at the appreciation of the reader, although simple econometric intuition would plead for a larger sample size - it is not

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<sup>15</sup>In this case we were using a sample of 456 observations and 67 countries rather than a sample of 156 observations and 61 countries. Using log GDP per capita lagged 10 years while using a 30 years time span, we also found a significant coefficient on lagged income at the 10 percent confidence level.

surprising that results would become weaker with a smaller sample.

We now examine the findings obtained with a different proxy for economic development: education.

### 3.2 Democracy and Education

In this subsection, we analyze the determinants of democracy focusing on education. We consider years of education at various levels (primary, secondary and tertiary), focusing particularly on average years of primary schooling in the adult population (aged 15 years and older).

Columns IV-VII of Table 3 display cross-sectional regressions of change in democracy between 1900 and 2000 on the corresponding change in mean years of primary schooling among the adult population, initial democracy and initial average years of primary schooling. We find qualitatively the same results as for income. The change in primary schooling is highly significant in column IV and remains significant at the 5 percent confidence level in columns VI and VII once other explanatory variables are added. Controlling for the whole set of income and education-related variables as in column VII, we find positive and significant coefficients for both the changes in log GDP per capita and average primary schooling, as well as for the initial level of primary schooling. The relationship between democracy and primary schooling is illustrated by Figure 7, which depicts a significant and positive correlation between changes in democracy and changes in average years of primary schooling between 1900 and 2000.

Returning to higher data frequency (using a panel with decade averages), Table 4 reports results that can be directly compared to those of Table 2. In this setting, we estimate equations (1) and (2) using various samples and econometric methods, replacing log GDP per capita by average years of primary schooling. Again, in 24 out of 36 specifications, the coefficient on lagged primary schooling is positive and statistically significant at the 10% level (and in 23 cases, at the 5% level). Crucially, in 11 out of 12 cases, BB estimates display significantly positive coefficients (in 10 of those cases, at the 1% significance level).<sup>16</sup> Fixed effects estimates also generally display a positive effect of primary schooling on democracy, as 10 out of 12 coefficients are significant at the 5% level. As before, AB estimates are less significant and more volatile, which again can be explained by the well-known weak instruments problem plaguing this estimator.

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<sup>16</sup>The BB estimator passes specification tests in 8 out of the above 11 cases. As before the Arellano-Bond autocorrelation tests are not satisfied in the balanced sample.

In terms of magnitudes, the BB coefficient on primary schooling is equal to 0.074 for the full sample over the whole period, entailing an increase in  $0.074 \times 6 = 0.44$  points in the democracy score when the country shifts from complete illiteracy to full literacy (assuming a duration of 6 years for primary schooling). Since, in the full sample, the average democracy score has increased by 0.36 points, and average primary schooling by 2.3 years between 1870 and 2000, this means that  $0.074 \times 2.3/0.36 = 47\%$  of the average variation in democracy in high-income countries between 1870 and 2000 can be accounted for by the increase in primary schooling and associated literacy achievements. Over 1960-2000, this magnitude rises to 54%.

To see if primary schooling is the main variable driving democracy or if education at other levels of attainment matters separately, we reran the regressions (over the full sample) using secondary and tertiary schooling. We also ran a horse race between primary, secondary and tertiary schooling. Results are presented in Table 5. As in Tables 2 and 4, most of Hansen specification tests for AB regressions fail, so we rule out the AB estimator in the remaining sections of the paper, and we focus on both the FE and BB estimators. The first panel of Table 5 confirms that average years of primary schooling is a strongly significant determinant of democracy in both FE and BB regressions, and across all periods. All specification tests are valid and point-estimates of primary schooling are consistent across all regressions. By contrast, we find little evidence that secondary and tertiary schooling matter much for democracy - the signs on these variables are sometimes negative, often insignificant, and generally unstable across time periods and estimation methods. We do find that, using the BB estimator, secondary schooling consistently turns out positive and significant irrespective of the time period, with satisfactory specification tests, but this is not robust to using the simpler FE estimator

One of the main findings of this paper is the horserace between education measures at various levels, in the bottom panel of Table 5: When disaggregating average years of schooling into its three main components, primary schooling "wins out" - it bears a consistently positive and statistically significant estimated coefficient while the other measures of schooling are generally insignificant statistically.<sup>17</sup>

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<sup>17</sup>We also ran regressions using the total number of years of education in the adult population (the sum of primary, secondary and tertiary). We found mixed evidence that the overall stock of education was significantly associated with democracy: this held in only 14 of the 36 specifications corresponding to those in Table 4. Results were strongest using the state-of-the-art BB estimator irrespective of the period under consideration, with 8 significant estimates out of 12. This held when excluding initial democracies but not when focusing on the balanced panel only. Results

These results suggest that progress in democracy is achieved mostly when countries are still in their infancy in terms of educational development. In other words, increased political participation might involve the transition between illiteracy and literacy rather than further developments of secondary schooling and higher education, which often take place in already mature societies. What matters for democracy is the average number of years of primary schooling in the adult population rather than the average total number of years of schooling. Since higher education reached mass enrolment rates in high-income countries over the last quarter of the 20<sup>th</sup> century, when democracy was already well-established, it is not surprising that higher education cannot explain the emergence of democracy.

### **3.3 Channels of Democratization: Income or Primary Education?**

The results discussed above provide empirical support for a central issue in political economy: The quantitative evidence demonstrates that economic development and modernization, captured either by log GDP per capita or average years of primary schooling, are strongly significant determinants of democracy. This result is robust to controlling for country fixed-effects, accounting for persistence in the dependent variable and instrumenting using lagged explanatory variables in both levels and first differences.

Table 6 investigates which of the two variables - log GDP per capita or average years of primary schooling - has the greatest explanatory power using the full sample of countries. Primary education appears to be a more robust determinant. Indeed, it is significant in all 8 specifications, while lagged log GDP per capita is significant in 3 regressions out of 8. Focusing on FE regressions, lagged income and primary education are both highly significant over any period, except for lagged income in the 1960-2000 period. Focusing on the BB estimator, we find satisfactory specification tests in all cases, and a significant coefficient for primary schooling over *every* period. In contrast, lagged GDP per capita is never significant when using the BB estimator and controlling for primary schooling. The coefficient on the latter variable over the 1960-2000 is equal to 0.107, explaining about 78% of changes in democracy observed over the same period.

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for overall educational attainment are available upon request.

### 3.4 Robustness Analysis

In unreported work, we have run robustness checks.<sup>18</sup> First, we defined subperiods differently, and found that our main results still hold over the two globalization periods (1870-1910 and 1960-2000) and the period of retreat from globalization that corresponds roughly to the Interwar period (1910-1960). Using a BB estimator, we found that primary education has been the key determinant of democracy in all these sub-periods. In terms of the magnitude of the effect, it is comparable across all three sub-periods and similar to the one described above. Interestingly, income has not been a significant determinant of democracy until the postwar period. Second, we found that our results are unchanged when using a different democracy index, namely the Freedom House indices of political rights and civil liberties over the period 1960-2000.

## 4 From Democracy to Modernity?

### 4.1 From Democracy to Education

This section focuses on the reverse causality from democracy to economic development. We start by examining the link from democracy to schooling. Two classes of theories aiming to explain the historical increase in schooling have emerged from past studies. The first one is again linked to Lipset's modernization hypothesis, as it emphasizes the role played by economic development and technological progress. It includes Unified Growth Theory (Galor and Weil, 1999, 2000, Galor, 2011), which explains the take-off in public schooling among advanced countries by the rising demand for skills at the onset of the second Industrial Revolution. To say this differently, the spread of education originates from "the race between education and technological progress" (Tinbergen, 1975) that started in the second half of the 19<sup>th</sup> century.

The second class of theories highlights the role played by cultural or religious factors (Weber, 1905, Becker and Woessmann, 2006) and institutions (Acemoglu and Robinson, 2000). In particular, Lindert (2004, chapters 5 and 15) documents how the gradual extension of the suffrage as well as decentralization fostered the development of a publicly funded mass education system among advanced countries over the 19<sup>th</sup> century. He concludes that "there is a strong link from the spread of political voice to the rise of tax-based primary education" (Lindert, 2004, chapter 15, p.50). According to the "Lindert's hypothesis", democratization should entail an increase in schooling.

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<sup>18</sup>The corresponding empirical results are available upon request.

In this subsection we aim to formally test whether educational attainment of young cohorts is determined by economic progress or by democratization, while accounting for cross-country differences in cultural factors. Measurement issues are addressed as follows:

First, the educational attainment of the youth is defined as the average years of schooling of pupils aged between 5 and 14. In practice, the latter variable is proxied by the observed average value of schooling among the cohort aged between 25 and 34 years twenty years later (i.e. observed at time  $t+2$ ).<sup>19</sup> It is worth noting that at date  $t+1$ , the latter cohort corresponds to the population aged between 15 and 24 years, in other words pupils in mid-secondary or at the end of tertiary schooling. Consequently, changes in democracy taking place between two subsequent observations of our panel should affect the whole spectrum of pupils in school.

Second, standards of economic development are proxied by two variables, namely log GDP per capita and average years of schooling of the adult population. Regressing the flow of education (i.e. education of young generations) on the stock of education (i.e. education of the adult population) could generate spurious correlations if the flow variable displays some autocorrelation. To avoid this problem, we control for the lagged dependent variable. Finally, country fixed-effects account for time-invariant factors such as religion or culture. We assess the following dynamic panel data model using the same instrumentation techniques as before:

$$E_{it} = a_i + b_t + \rho E_{i,t-1} + \alpha D_{it} + \beta S_{it} + \gamma y_{it} + v_{it} \quad (3)$$

where  $E_{it}$  is average years of schooling completed by the cohort aged between 25 and 34 twenty years later,  $D_{it}$  the democracy score,  $S_{it}$  average years of schooling of population older than 15,  $y_{it}$  log GDP per capita,  $a_i$  and  $b_t$  respectively country and time fixed-effects. In particular, this specification allows to test whether  $\alpha > 0$ , namely whether Lindert's hypothesis holds holding fixed past increases in schooling and improvements in living standards.<sup>20</sup>

Table 7 presents the results of OLS estimates (imposing  $a_i = 0$  and  $\rho = 0$ ), panel fixed effects ( $a_i \neq 0$  and  $\rho = 0$ ) and BB estimation, controlling or not for the level of development. We ran two sets of regressions, one spanning the whole period, the other focusing on the period 1960-2000. In

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<sup>19</sup>This variable is taken from the data on education by age borrowed from the same sources than those underlying Morisson and Murtin (2009).

<sup>20</sup>In results available upon request, we introduced a cubic in the level of democracy to detect potentially non-linear effects as suggested by Lindert (2004). We could not find any evidence of non-linearity.

order to eliminate some persistence (unit roots) in the residuals, all variables were first-differenced in BB regressions, and as a result, Arellano-Bond autocorrelation tests on the BB residuals and the Hansen test of joint exogeneity of the instruments were satisfied in all cases.

Overall, weak results arise regarding the potential role of democracy as a determinant of human capital. Over the 1870-2000 period, democracy is a significant determinant of average years of schooling attained by young cohorts in OLS and FE regressions in columns I and III, but it is no longer significant once the level of development is controlled for, as columns II and IV demonstrate. In BB regressions, democracy is never significant (columns V and VI). Over the 1960-2000 period, democracy is significant in one OLS regression (Column VII) but switches sign when other variables are introduced (Column VIII). In FE and BB estimation, it is never significant (columns IX through XII). In sum, democracy is a positive and significant determinant of schooling attained by young cohorts in only 3 specifications out of 12. When the level of development is controlled for, it is never significant among the 6 corresponding specifications. Hence, we find little evidence that democracy leads to higher educational attainment.

## 4.2 From Democracy to Income

Turning to the relationship between GDP per capita and democracy, we simply run our dynamic panel data specifications, running income as a function of lagged democracy and (where appropriate), lagged income. In other words, we "reverse" the baseline specification of Section 3.

We find no robust effect of the lagged level of democracy on log per capita income. As reported in Table 8, we find a significant correlation between log GDP per capita and lagged democracy when using FE. However, this correlation vanishes once we control for the lagged level of log GDP per capita and use either AB or BB estimators, whatever the period and country sample. Similarly, in results available upon request, we find that growth of GDP per capita and lagged democracy are never significantly associated, whatever the period and country sample and independently from whether we control for lagged per capita GDP growth (AB and BB estimators) or not (FE estimators).

In sum, the empirical evidence suggest that the level of income is more likely to be a determinant of the level of democracy than the other way around once we control for income persistence, and that the level of democracy has hardly been a significant determinant of economic growth over the 20<sup>th</sup> century.

## 5 Conclusion

Schumpeter (1942, chapter 22) argued that “modern democracy rose along with capitalism, and in causal connection with it (...). Democracy in the sense of our theory of competitive leadership presided over the process of political and institutional change by which the bourgeoisie reshaped, and from its own point of view rationalized, the social and political structure that preceded its ascendancy (...). Modern democracy is a product of the capitalist process”. This paper provides empirical support for this view. Using modern dynamic panel estimation methods and long run historical data going back to 1870, we documented an empirical link from the level of development, especially the level of primary schooling, to democracy. Investigating reverse causality from democracy to the educational attainment of young cohorts over the long run, we found little evidence of a positive and significant link. While democracies may not entail a larger quantity of schooling among young cohorts, they may be conducive to higher educational quality, for instance in the form of higher teacher-pupils ratio or higher expenditure per pupil at each stage of education. We leave this question open for future research.

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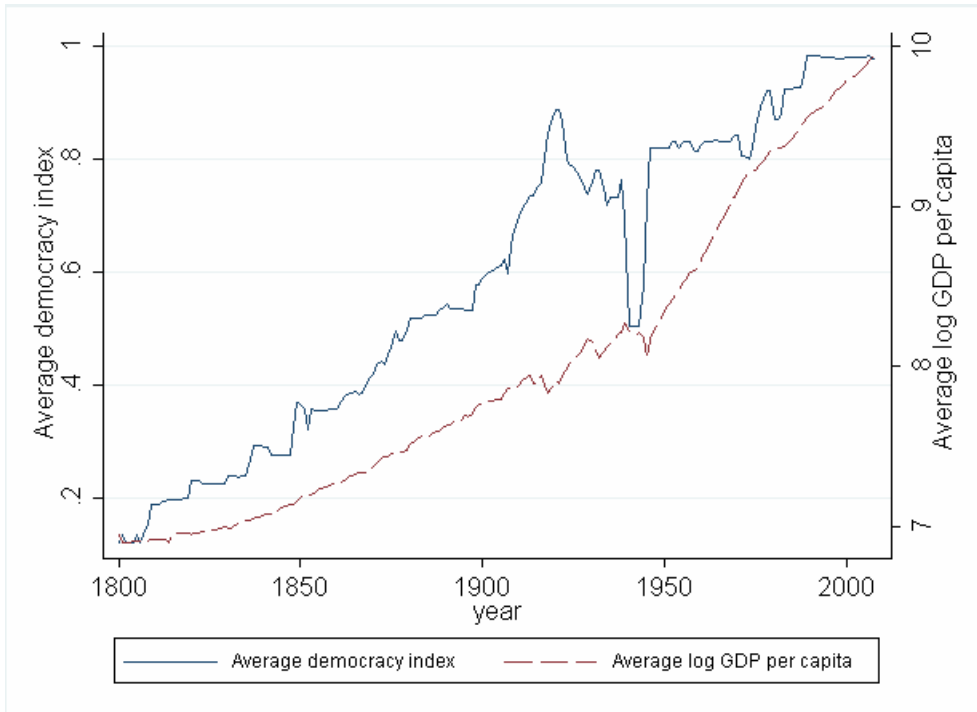
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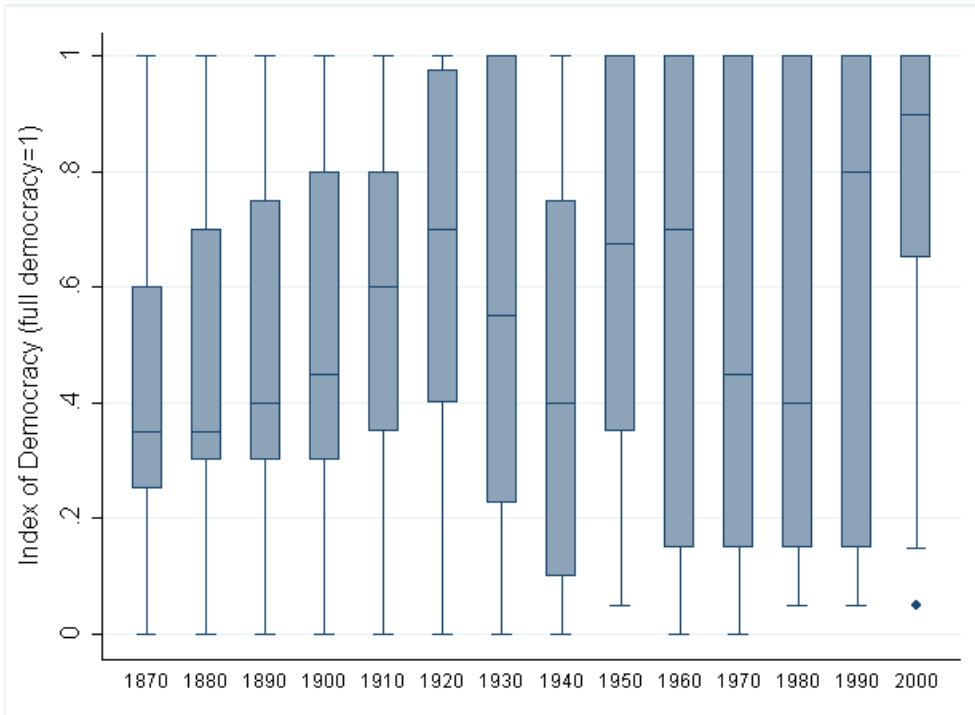
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## **FIGURES**

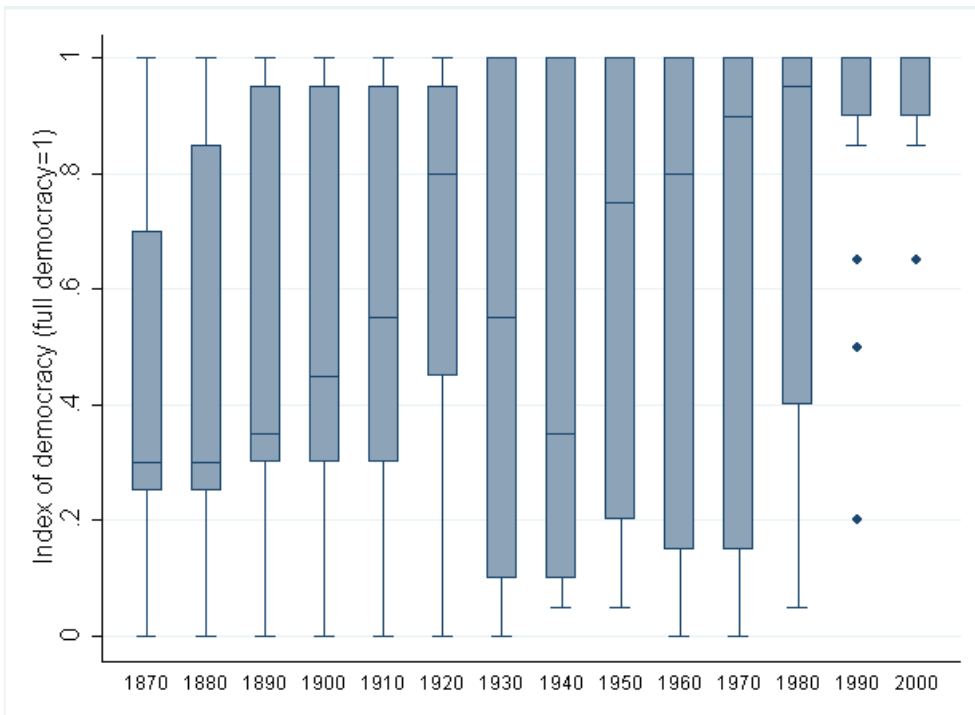


**Figure 1 - The Democratic and Economic Transitions**

*note:* the balanced sample is composed of Austria, Belgium, Chile, Denmark, France, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Turkey, United Kingdom, and the United States over the 1800-2000 period. Log GDP per capita is taken from Maddison (2006) and democracy is the Polity index. Missing observations are interpolated.



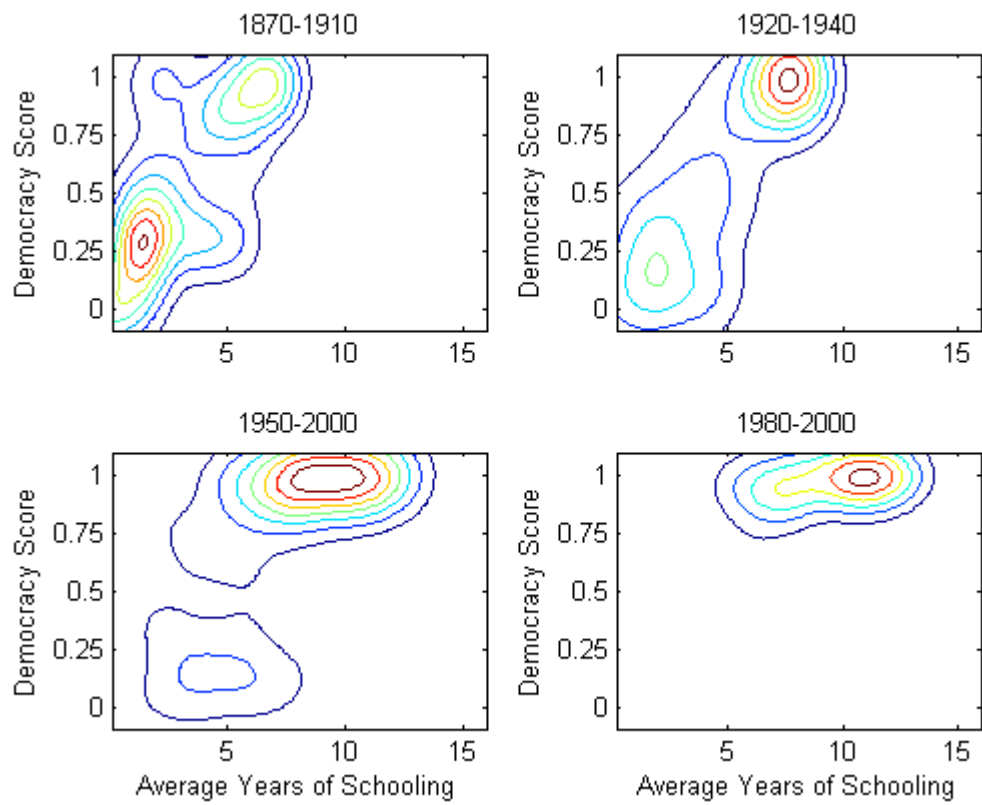
**Figure 2 – Distribution of the Democracy Index Over Time - Unbalanced Panel of 70 Countries**



**Figure 3 - Distribution of the Democracy Index Over Time - Balanced Panel of 19 Countries**



**Figure 4 - Convergence in Democracy, GDP per capita and Average Years of Schooling by Period**



**Figure 5 - The Joint Distribution of Democracy and Schooling by Period - Kernel Estimation**

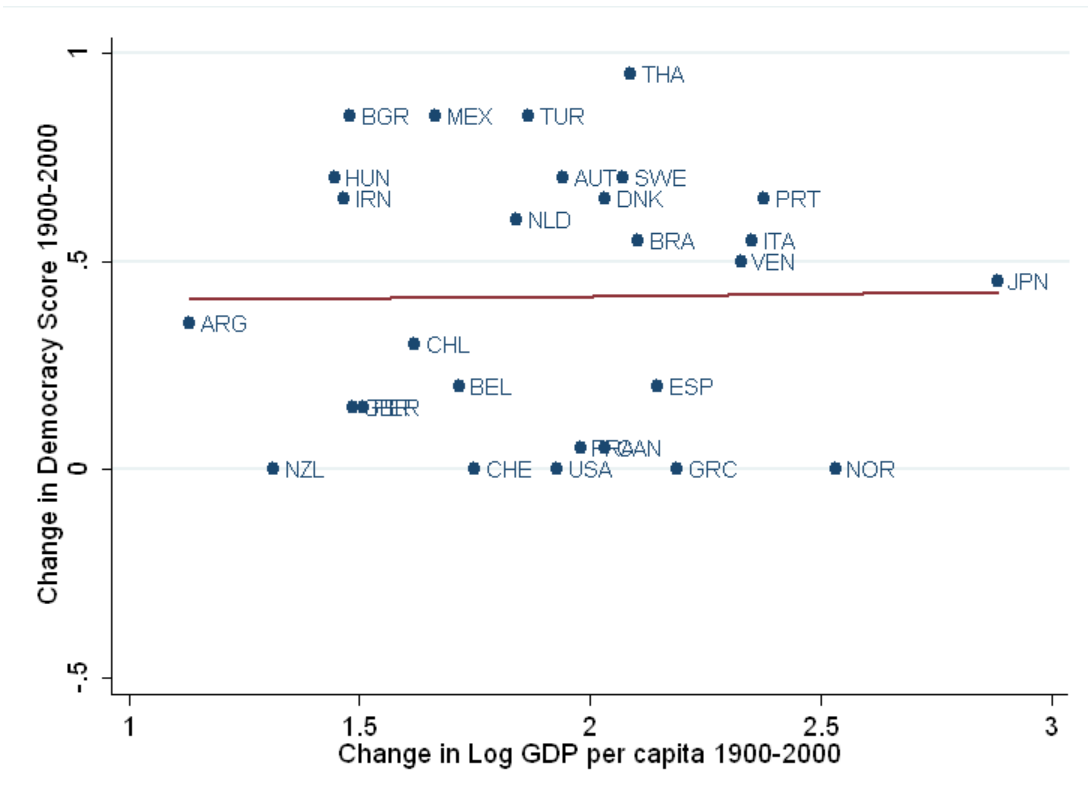


Figure 6 – Change in Democracy and Economic Growth 1900-2000

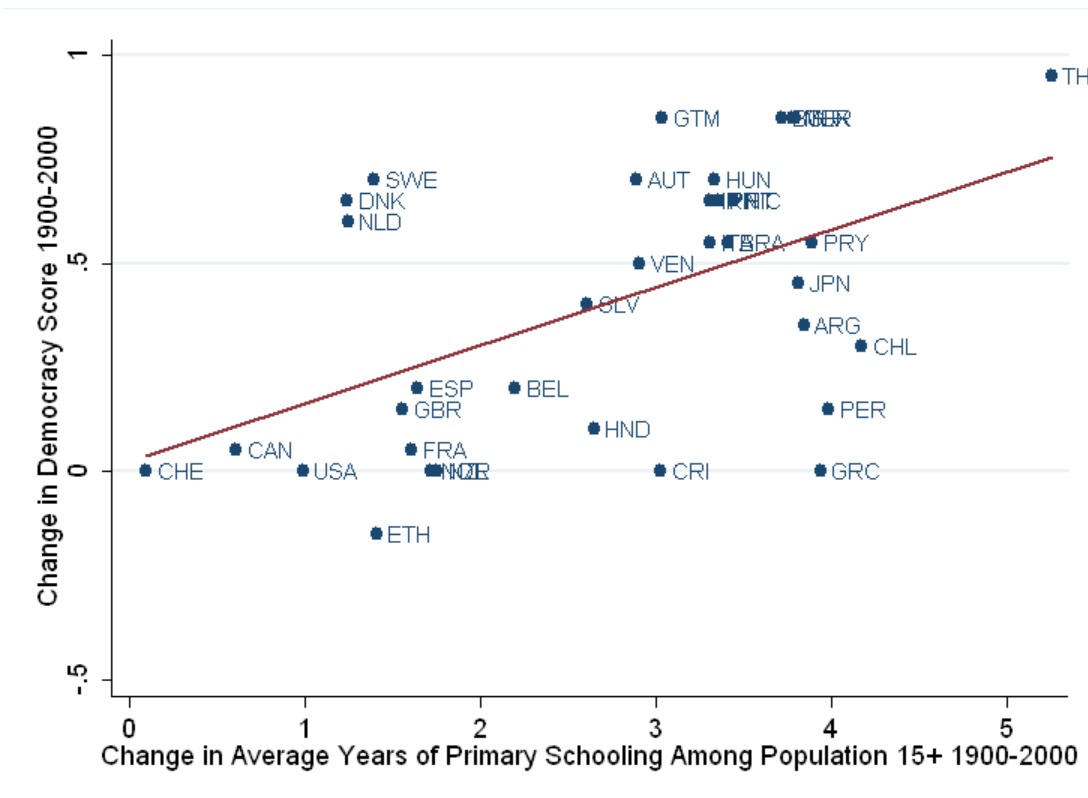


Figure 7 – Change in Democracy and Average Years of Primary Schooling 1900-2000

## TABLES

**Table 1 - Descriptive Statistics**

	Full sample				Balanced sample			
	1870	1910	1960	2000	1870	1910	1960	2000
<b>Democracy</b>								
average	0.41	0.60	0.58	0.77	0.44	0.61	0.64	0.95
coefficient of variation	0.74	0.52	0.65	0.36	0.73	0.56	0.62	0.09
p25	0.20	0.38	0.15	0.65	0.25	0.30	0.15	0.90
p75	0.65	0.90	1.00	1.00	0.70	0.95	1.00	1.00
<b>GDP per capita</b>								
average	1523	2913	3825	8465	1489	2947	6109	14602
coefficient of variation	0.52	0.48	0.82	0.98	0.53	0.50	0.56	0.48
p25	737	1694	1378	1433	719	1794	3072	7218
p75	2003	4064	6230	16010	1876	4198	8753	20321
<b>Average Years of Schooling</b>								
<i>Total</i>								
average	2.80	3.98	4.17	7.28	2.53	4.09	5.95	9.51
coefficient of variation	0.72	0.63	0.72	0.45	0.74	0.64	0.46	0.25
<i>Primary</i>								
average	2.16	3.00	3.07	4.45	2.02	3.18	4.24	5.49
coefficient of variation	0.72	0.60	0.64	0.33	0.73	0.58	0.35	0.12
<i>Secondary</i>								
average	0.61	0.94	1.02	2.44	0.49	0.87	1.57	3.43
coefficient of variation	0.98	0.91	1.09	0.68	1.01	0.99	0.83	0.46
<i>Tertiary</i>								
average	0.03	0.04	0.09	0.39	0.02	0.04	0.14	0.59
coefficient of variation	1.17	1.00	1.11	0.89	1.06	0.90	0.96	0.65
<b>N<sup>1</sup></b>	27	32	59	69	19	19	19	19

<sup>1</sup>Number of countries with information available on democracy, average years of schooling as well as GDP per capita.

**Table 2 – Democracy and GDP per Capita 1870-2000**

	1870-2000			1900-2000			1930-2000			1960-2000		
	FE	AB	BB	FE	AB	BB	FE	AB	BB	FE	AB	BB
	Dependent variable is standardized Polity IV index of democracy											
<b>Full sample</b>												
D(-1)	0.266** (0.114)	0.411*** (0.097)	0.253** (0.116)	0.364*** (0.106)	0.193* (0.100)	0.316*** (0.110)	0.264** (0.105)	0.324*** (0.097)				
Log y(-1)	0.144*** (0.042)	-0.091 (0.170)	0.157*** (0.045)	0.159*** (0.029)	0.145*** (0.051)	0.183*** (0.027)	0.078 (0.060)	0.191*** (0.030)				
N	567	483	512	505	424	417	309	307				
N countries	69	69	69	69	69	69	69	69				
N instruments	58	83	55	78	56	73	45	56				
AB1 p-value	0	0	0	0	0	0	0	0				
AB2 p-value	0.34	0.28	0.36	0.3	0.29	0.22	0.71	0.58				
Hansen p-value	0.08	0.75	0.07	0.66	0.18	0.42	0.04	0.23				
<b>Excluding initial democracies</b>												
D(-1)	0.252** (0.110)	0.407*** (0.100)	0.259** (0.107)	0.384*** (0.107)	0.172 (0.108)	0.308*** (0.102)	0.150* (0.088)	0.286*** (0.100)				
Log y(-1)	0.146*** (0.043)	-0.088 (0.181)	0.172*** (0.047)	0.158*** (0.030)	0.198*** (0.058)	0.190*** (0.029)	0.259*** (0.077)	0.212*** (0.028)				
N	541	459	450	444	309	306	216	215				
N countries	67	67	63	63	54	54	50	50				
N instruments	58	83	55	78	56	73	45	56				
AB1 p-value	0	0	0	0	0.01	0	0	0				
AB2 p-value	0.35	0.27	0.44	0.37	0.47	0.36	0.80	0.71				
Hansen p-value	0.12	0.81	0.13	0.81	0.65	0.93	0.27	0.63				
<b>Balanced Panel</b>												
D(-1)	-0.017 (0.228)	0.081 (0.252)	-0.014 (0.256)	0.090 (0.239)	0.410* (0.219)	0.405 (0.287)	0.313** (0.144)	0.383* (0.199)				
Log y(-1)	0.235*** (0.069)	0.212 (0.579)	0.295*** (0.077)	0.384 (0.633)	0.356*** (0.102)	0.494 (0.676)	0.327** (0.124)	0.230* (0.127)				
N	247	228	209	209	152	152	95	95				
N countries	19	19	19	19	19	19	19	19				
N instruments	58	83	55	78	56	73	45	56				
AB1 p-value	0.24	0.17	0.27	0.17	0.04	0.05	0.08	0.06				
AB2 p-value	0.77	0.94	0.72	0.91	0.78	0.64	0.64	0.24				
Hansen p-value	1	1	1	1	1	1	1	1				

Note: second and third lags (respectively second to fourth and second to fifth) of democracy and log income as instruments over periods 1870-2000 and 1900-2000 (resp. 1930-2000 and 1960-2000). Robust standard errors and Windmeijer correction for standard errors in BB. All regressions include country and time specific effects.

**Table 3 – OLS results using long-differences between 1900 and 2000 –  
Log GDP per Capita and Primary Schooling**

	I	II	III	IV	V	VI	VII
<b>Dependent variable: change in score of democracy between 1900 and 2000</b>							
change in log GDP per capita	0.009 (0.129)	0.066* (0.035)	0.118*** (0.032)				0.088** (0.039)
initial level of log GDP per capita			0.108*** (0.022)				0.065 (0.045)
initial level of the score of democracy		-0.887*** (0.041)	-0.997*** (0.036)		-0.910*** (0.052)	-0.984*** (0.041)	-1.021*** (0.026)
change in average years of primary schooling				0.140*** (0.038)	-0.004 (0.018)	0.086*** (0.016)	0.100*** (0.025)
initial level of average years of primary schooling						0.087*** (0.011)	0.088*** (0.027)
R <sup>2</sup>	0.00	0.95	0.97	0.27	0.9	0.97	0.99
N	28	28	28	35	35	35	28

note: robust standard errors. \* (respectively \*\* and \*\*\*) stand for significance at the 10 (resp. 5 and 1) percent level.

**Table 4 – Democracy and Primary Schooling 1870-2000**

	1870-2000			1900-2000			1930-2000			1960-2000		
	FE	AB	BB	FE	AB	BB	FE	AB	BB	FE	AB	BB
	Dependent variable is standardized Polity IV index of democracy											
<b>Full sample</b>												
D(-1)		0.423*** (0.108)	0.470*** (0.087)		0.392*** (0.114)	0.449*** (0.091)		0.224** (0.108)	0.355*** (0.091)		0.189* (0.098)	0.291*** (0.094)
P(-1)	0.048*** (0.018)	0.036 (0.043)	0.074*** (0.018)	0.062*** (0.020)	0.050 (0.051)	0.077*** (0.019)	0.068*** (0.024)	0.036 (0.037)	0.083*** (0.018)	0.076** (0.034)	0.013 (0.045)	0.108*** (0.021)
N	657	534	613	583	498	540	465	389	427	335	278	310
N countries	70	70	70	70	70	70	70	70	70	70	69	70
N instruments		58	83		55	78		56	73		45	56
AB1 p-value		0	0		0	0		0	0		0	0
AB2 p-value		0.21	0.19		0.22	0.19		0.22	0.16		0.92	0.86
Hansen p-value		0.12	0.88		0.12	0.67		0.18	0.54		0.15	0.22
<b>Excluding initial democracies</b>												
D(-1)		0.411*** (0.103)	0.487*** (0.095)		0.392*** (0.117)	0.438*** (0.074)		0.255** (0.116)	0.405*** (0.099)		0.150 (0.107)	0.324*** (0.092)
P(-1)	0.046** (0.019)	0.061 (0.053)	0.074*** (0.019)	0.059*** (0.022)	0.075 (0.054)	0.085*** (0.018)	0.007 (0.034)	-0.005 (0.060)	0.067*** (0.016)	-0.011 (0.051)	-0.154* (0.082)	0.080*** (0.023)
N	631	510	587	518	435	476	349	283	316	240	193	218
N countries	68	68	68	64	64	64	55	55	55	51	50	51
N instruments		58	83		55	78		56	73		45	56
AB1 p-value		0	0		0	0		0	0		0	0
AB2 p-value		0.2	0.18		0.27	0.26		0.29	0.24		0.99	0.80
Hansen p-value		0.15	0.93		0.18	0.91		0.67	0.97		0.46	0.79
<b>Balanced Panel</b>												
D(-1)		0.062 (0.251)	0.106 (0.759)		0.036 (0.243)	-0.747* (0.405)		0.247 (0.208)	0.097 (0.246)		0.053 (0.136)	0.188 (0.136)
P(-1)	0.081*** (0.030)	0.835*** (0.390)	0.308** (0.150)	0.123*** (0.035)	0.526* (0.307)	0.379*** (0.109)	0.166*** (0.043)	0.165 (0.308)	0.199 (0.179)	0.215*** (0.063)	0.224*** (0.044)	0.132*** (0.043)
N	247	228	247	209	209	209	152	152	152	95	95	95
N countries	19	19	19	19	19	19	19	19	19	19	19	19
N instruments		58	83		55	78		56	73		45	56
AB1 p-value		0.65	0.56		0.23	0.60		0.06	0.15		0.13	0.08
AB2 p-value		0.46	0.99		0.90	0.19		0.75	0.99		0.04	0.07
Hansen p-value		1	1		1	1		1	1		1	1

Note: second and third lags (respectively second to fourth and second to fifth) of democracy and education as instruments over periods 1870-2000 and 1900-2000 (resp. 1930-2000 and 1960-2000). Robust standard errors and Windmeijer correction for standard errors in BB. All regressions include country and time specific effects.

**Table 5 – Democracy and Average Years of Primary, Secondary and Tertiary Schooling**

	1870-2000		1900-2000		1930-2000		1960-2000	
	FE	BB	FE	BB	FE	BB	FE	BB
<b>Dependent variable is standardized Polity IV index of democracy</b>								
<b>Primary</b>								
D(-1)		0.470*** (0.087)		0.449*** (0.091)		0.355*** (0.091)		0.291*** (0.094)
P(-1)	0.048*** (0.018)	0.074*** (0.018)	0.062*** (0.020)	0.077*** (0.019)	0.068*** (0.024)	0.083*** (0.018)	0.076** (0.034)	0.108*** (0.021)
N	657	613	583	540	465	427	335	310
N countries	70	70	70	70	70	70	70	70
N instruments		83		78		73		56
AB1 statistics		0		0		0		0
AB2 statistics		0.19		0.19		0.16		0.86
Hansen statistics		0.88		0.67		0.54		0.22
<b>Secondary</b>								
D(-1)		0.609*** (0.094)		0.606*** (0.094)		0.500*** (0.093)		0.465*** (0.118)
S(-1)	-0.002 (0.021)	0.058*** (0.020)	-0.014 (0.024)	0.059*** (0.020)	-0.059** (0.029)	0.066*** (0.018)	-0.116*** (0.038)	0.081*** (0.026)
N	657	613	583	540	465	427	335	310
N countries	70	70	70	70	70	70	70	70
N instruments		83		78		73		56
AB1 statistics		0		0		0		0
AB2 statistics		0.16		0.16		0.11		0.55
Hansen statistics		0.85		0.74		0.40		0.12
<b>Tertiary</b>								
D(-1)		0.741*** (0.071)		0.733*** (0.072)		0.600*** (0.095)		0.638*** (0.115)
H(-1)	-0.147 (0.097)	0.139 (0.098)	-0.197* (0.101)	0.156 (0.102)	-0.297*** (0.114)	0.282** (0.126)	-0.321** (0.137)	0.248* (0.144)
N	657	613	583	540	465	427	335	310
N countries	70	70	70	70	70	70	70	70
N instruments		83		78		73		56
AB1 statistics		0		0		0		0
AB2 statistics		0.14		0.14		0.10		0.45
Hansen statistics		0.76		0.63		0.39		0.20
<b>All</b>								
D(-1)		0.517*** (0.085)		0.494*** (0.098)		0.373*** (0.105)		0.317*** (0.108)
P(-1)	0.042** (0.019)	0.069*** (0.023)	0.055*** (0.021)	0.070** (0.028)	0.054** (0.026)	0.067** (0.027)	0.062* (0.036)	0.087*** (0.028)
S(-1)	0.015 (0.028)	-0.002 (0.050)	0.010 (0.030)	0.000 (0.052)	-0.026 (0.036)	0.016 (0.059)	-0.105** (0.049)	0.029 (0.059)
H(-1)	-0.144 (0.130)	-0.064 (0.207)	-0.149 (0.133)	-0.085 (0.208)	-0.155 (0.147)	-0.092 (0.235)	-0.009 (0.181)	-0.152 (0.259)
N	657	613	583	540	465	427	335	310
N countries	70	70	70	70	70	70	70	70
N instruments		83		78		73		56
AB1 statistics		0		0		0		0
AB2 statistics		0.19		0.19		0.16		0.83
Hansen statistics		0.93		0.66		0.48		0.17

Note: second and third lags (respectively second to fourth and second to fifth) of democracy and education as instruments over periods 1870-2000 and 1900-2000 (resp. 1930-2000 and 1960-2000). Robust standard errors and Windjmeier correction for standard errors in BB. Comparable results are obtained with BB estimator when excluding initial democracies. All regressions include country and time specific effects.

**Table 6 – Democracy, GDP per Capita and Average Years of Primary Schooling**

	1870-2000		1900-2000		1930-2000		1960-2000	
	FE	BB	FE	BB	FE	BB	FE	BB
Dependent variable is standardized Polity IV index of democracy								
D(-1)		0.668*** (0.076)		0.649*** (0.078)		0.679*** (0.116)		0.755*** (0.156)
Log y(-1)	0.141*** (0.042)	0.011 (0.042)	0.152*** (0.044)	0.012 (0.041)	0.140*** (0.050)	-0.010 (0.042)	0.074 (0.059)	-0.093 (0.074)
P(-1)	0.045** (0.019)	0.046** (0.021)	0.073*** (0.021)	0.049** (0.020)	0.083*** (0.025)	0.064*** (0.023)	0.090** (0.036)	0.107*** (0.039)
N	567	560	512	505	424	381	309	307
N countries	69	69	69	69	69	69	69	69
N instruments		79		78		50		36
AB1 statistics		0		0		0		0
AB2 statistics		0.2		0.2		0.18		0.69
Hansen statistics		0.73		0.73		0.12		0.21

Note: third lags of democracy, primary education and log income as instruments. All regressions include country and time specific effects.

**Table 7 - Effect of Democracy on Average Years of Schooling of Young Cohorts**

	1870-2000						1960-2000						
	OLS		FE		BB <sup>2</sup>		OLS		FE		BB <sup>2</sup>		
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	
Dependent variable is proxied average years of schooling of population aged 5-14 <sup>1</sup>													
<b>Full sample</b>													
Lagged dependent variable					0.091 (0.171)	0.222 (0.242)						0.377 (0.258)	0.509* (0.309)
Democracy index	5.610*** (0.322)	0.050 (0.156)	0.450** (0.194)	-0.159 (0.173)	0.197 (0.346)	0.640 (0.557)	5.871*** (0.547)	-0.434 (0.269)	-0.235 (0.377)	-0.230 (0.372)	0.565 (0.509)	0.772 (0.676)	
Average Years of Schooling of population 25+	0.974*** (0.031)	0.511*** (0.058)	0.884*** (0.179)	1.626** (0.692)	0.939*** (0.054)	-0.444 (0.385)	0.733*** (0.171)	-0.318 (0.205)	1.309*** (0.431)	0.645 (0.906)	-0.566 (0.477)		
log GDP per capita	553	500	553	500	474	423	195	193	195	193	171	170	
N countries	70	69	70	69	68	67	69	68	69	68	67	66	
N instruments					63	63					34	34	
AB1 p-value					0.03	0.03					0.03	0.03	
AB2 p-value					0.61	0.48					0.61	0.44	
Hansen p-value					0.83	0.83					0.45	0.37	

Note: second and third lags (respectively second to fifth) of democracy and average schooling of population 25+ as instruments over periods 1870-2000 (resp. 1960-2000). Robust standard errors and Windmeier correction for standard errors in BB. All regressions include country and time specific effects.

<sup>1</sup> Proxy is average years of schooling of population aged 25-34 observed 20 years later.

<sup>2</sup> Dependent and explanatory variables are taken in first-difference.

Table 8 – Effect of Democracy on Log GDP per Capita

	1870-2000			1900-2000			1930-2000			1960-2000		
	FE	AB	BB	FE	AB	BB	FE	AB	BB	FE	AB	BB
<b>Dependent variable is log GDP per capita</b>												
<b>Full sample</b>												
Lagged log GDP per capita	0.462*** (0.152)	0.143** (0.070)	0.462*** (0.152)	0.144** (0.070)	0.418*** (0.132)	0.133* (0.069)	0.508*** (0.158)	0.151* (0.079)				
Lagged democracy	0.198*** (0.052)	-0.068 (0.076)	0.047 (0.046)	0.193*** (0.055)	-0.068 (0.076)	0.047 (0.046)	0.165*** (0.061)	-0.018 (0.095)	0.025 (0.046)	0.027 (0.074)	-0.100 (0.107)	0.015 (0.043)
N	579	424	489	524	424	462	428	340	377	310	245	275
<b>No initial democracies</b>												
Lagged log GDP per capita	0.495*** (0.144)	0.140** (0.069)	0.422*** (0.156)	0.133* (0.069)	0.371** (0.171)	0.177** (0.082)	0.483*** (0.169)	0.218*** (0.076)				
Lagged democracy	0.194*** (0.053)	-0.065 (0.073)	0.046 (0.043)	0.200*** (0.059)	-0.102 (0.097)	0.031 (0.047)	0.192*** (0.071)	0.013 (0.087)	0.015 (0.061)	0.095 (0.080)	0.002 (0.091)	0.006 (0.054)
N	553	402	465	461	365	402	313	237	268	218	167	190
<b>Balanced sample</b>												
Lagged log GDP per capita	0.158 (0.273)	0.522 (0.584)	0.158 (0.273)	0.524 (0.589)	0.503* (0.291)	0.287 (0.257)	0.730*** (0.128)	0.254 (0.226)				
Lagged democracy	0.191*** (0.067)	0.032 (0.107)	0.065 (0.273)	0.196*** (0.070)	0.032 (0.107)	0.066 (0.276)	0.177** (0.075)	0.023 (0.120)	-0.051 (0.152)	0.058 (0.107)	0.083 (0.156)	0.026 (0.136)
N	247	209	228	209	209	209	152	152	152	95	95	95

Note: second and third lags (respectively second to fifth) of democracy and average schooling of population 25+ as instruments over periods 1870-2000 (resp. 1960-2000). Robust standard errors and Windmeijer correction for standard errors in BB. Dependent and explanatory variables as well as instruments are taken in first-difference in BB. All regressions include country and time specific effects.