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The Beauty and the Beast?
A Tale of Democratic Crises and Globalization

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Abstract
There are two competing hypotheses concerning the connection between democracy and globalization. The critics hold globalization responsible for an ongoing crisis of democracy. The enthusiasts highlight the positive contributions of financial openness and international political cooperation on the development of democracy. In this contribution I investigate the interrelation between globalization and the quality of established democracies. I introduce the Democracy Barometer, a new instrument that measures the quality of democracy in 30 established democratic regimes between 1995 and 2005. Based on this instrument, I first show that we cannot speak of an ongoing crisis of (established) democracies. Second, I conduct several multilevel analyses to model the different developments of the quality of democracy in the different countries. I show that economic globalization indeed has a positive impact on the quality of democracy. However, this impact is stronger in stable, i.e. older than in younger established democracies.

Keywords: globalization, quality of democracy, Democracy Barometer
Introduction∗

As every other social construct, democracy is under constant pressure to adapt to societal change. The increasing complexity of economic, social and political problems and their solutions, or the growth of critical citizens with different expectations and demands from ‘their’ governments are important challenges that established democracies have to face.

Many politicians as well as scientists fear that established democracies are not apt to handle these challenges. Based on empirical findings concerning the loss of confidence in political elites and the citizens’ declining support for democracy (Dalton 2005), democratic nations are believed to experience veritable crises of legitimacy (Pharr and Putnam 2000).

Usually, globalization is identified as the culprit in the story of the crisis of democracy. Globalization – understood as the economic and financial integration of market societies, the political de-nationalization of established democracies in terms of supra-nationalization and regionalization as well as the spread of main stream culture – is seen as the main source of several obstructions of democracy: reduced autonomy in national policy-making (Cox 1997; Schmitter 1996), the emergence of domestic losers resulting in rising income inequality and increasing public discontent (Cox 1996; Longworth 1998), the blurring of governmental transparency (Gill 1995), or a degradation of the concept of citizenship (Sassen 1996). Thus, several basic elements of a democratic system are thought to be constricted by globalization.

Of course, the crisis argument is not unchallenged in the scholarly debate on the impact of globalization on democracy. Another view suggests the opposite: globalization can even be an opportunity for democracy and enhance its quality (Eichengreen and Leblang 2008), e.g. by reducing information costs (Diamond 1992), by enlarging the scope of action for nation states (Gilpin 1987; O’Riain 2000), or by the expansion of the electoral marketplace through denationalization (Sassen 1996). A third view expects no impact of globalization on democracy at all (Fligstein 2001) or considers the effect of globalization to be overstated (Hirst and Thompson 1996).
Most of the previous studies who analyzed the relationship between globalization and democracy focused on the impact of economic globalization (in terms of openness of national markets) on democratization, using large country samples which include established democracies as well as autocracies (Brune and Garett 2005; Eichengreen and Leblang 2008). In this contribution, I analyze the impact of globalization in terms of economic market integration and political internationalization on the quality of established democracies. I argue that established democracies deal with the challenges of globalization differently and that their success or failure in doing so is reflected in the changes of their quality over time.

However, existing measures of democracy such as the Polity index, the Freedom House index or Vanhanen’s index of democratization are not useful to measure the fine-grained differences in the quality of democracies. To measure these differences, we need a new measure that overcomes the minimalist concepts of former measures of democracy. In this contribution I introduce the Democracy Barometer (DB), a new instrument that measures the quality of established democracies.

Based on the DB, my analyses are twofold: First, I study the development of the quality of democracy: can we observe an ongoing crisis of established democracies in terms of declining quality? Second, I analyze the impact of economic and financial integration and openness as well as of political internationalization on the development of the quality of democracy: Is globalization a danger for the quality of democracies? Or does the beast turn out to be a bewitched prince? Answering these questions is of relevance: in the face of global financial crisis it is important to know how well established democracies are able to adapt to such challenges. Do economic and political crises harm or even undermine established democracies (Puddington 2009)? Are there remedies? Should the nation state be strengthened to re-legitimate democracy or should global crises be resolved by more economic openness and stronger international cooperation (Näsström 2003)?

My contribution proceeds as follows. In the next section, I present the Democracy Barometer, a new instrument in order to measure the quality of democracy. With this instrument at hand, I compare the development of the quality of 30 established democracies between
1995 and 2005. After the description of the data and the method I explain the different patterns of this development by different measures for globalization. In the last section I discuss the findings.

**The Democracy Barometer – a new instrument for measuring the quality of democracy**

To investigate the impact of globalization on democracy, we need adequate measures for these concepts. In the empirical research on democracy a re-orientation concerning its topic can be observed: The question no longer is whether a system can be considered a democracy or not. Instead, democracy research begins to focus more and more on the identification of the quality of established democracies (Altman and Pérez-Liñán 2002; Diamond and Morlino 2004; Morlino 2004). However, the well-established indices of democracy such as the Vanhanen, Polity, or Freedom House index (Coppedge and Reinicke 1991; Gastil 1991; Vanhanen 2003) are not sensitive enough to measure the subtle differences between established democracies. The main reason for this is their minimalist conceptual basis: democracy is a complex phenomenon and a minimalist measurement cannot do justice to it.

The DB, a new instrument aiming at measuring the quality of democracy, is based on a middle range concept of democracy embracing liberal¹ as well as participatory ideas² of democracy. Contrarily to most existing democracy measures, the concept of the DB consists of a stringent discussion and theoretical deduction of fundamental elements of democracy in three steps. First, democracy is conceptualized with three fundamental principles: freedom, equality, and control. Second, from these principles nine functions are deduced that are suggested to ensure the three principles. The degree of fulfilling of these nine functions then, third, is asserted by theoretically deduced components and subcomponents that are measured by different indicators.
Principles

The starting point is the premise that a democratic system tries to establish a good balance between the normative, interdependent values of freedom and equality and that this requires a further principle inherent to democracy: control.

Freedom refers to the absence of heteronomy (Berlin 2006). The protection and guarantee of individual rights under a secure rule of law have become one of the minimal conditions for democratic regimes (Beetham 2004). Additional basic rights that ensure democracy are the freedom of association and of opinion that enable a lively and active public sphere (Linz and Stepan, 1996). Freedom is strongly associated with the idea of the sovereignty of citizens that is only possible when all citizens have equally guaranteed political rights (Habermas, 1992). This leads us to the second principle: equality.

Equality - particularly understood as political equality - means that all citizens are treated as equals in the political process (Dahl 1998, 2006) and that all citizens must have equal access to political power (Saward 1998). Thus, the rather abstract principle of equality leads to a more concrete feature of democratic governance: full inclusion of all persons subject to the legislation of a democratic state. Because “no persons are so definitely better qualified than others to govern that they should be entrusted with complete and final authority over the government of the state” (Dahl, 1998: 75), political equality means equal formulation, equal consideration, and equal inclusion of all citizens’ preferences. Inclusive participation without systematic abstention (Teorell et al. 2007), representation in terms of descriptive and substantive inclusion of preferences (Powell 2004a) as well as transparency in terms of a culture of openness aiming at preventing information mismatch (Stiglitz 1999) are required to ensure equality.

Freedom and equality interact and can constrain each other (Talmon 1960; Tocqueville 1997 [1835]) but they are not generally irreconcilable (Yturbe 1997). In order to keep freedom and equality in a dynamic balance, a further fundamental principle of democratic rule is needed: control. Of course, control is not a simple auxiliary that balances the two other principles but an important basis of democracy itself: Control is understood to mean that citi-
zens hold their representatives accountable and responsive. Representative democracy thus heavily depends on control of power that is exercised vertically as well as horizontally. Horizontal control functions as a network of institutions that mutually constrain one another (O’Donnell, 2004). These checks and balances ensure that control of the government is not restricted to periodic elections. Vertical control is exercised by means of free, fair, and competitive elections (Manin et al., 1999). It is the elections that allow the citizens to make decisions that balance freedom and equality (Meyer, 2009). Effective elections must be competitive because only competition allows a real choice and induces the political elite to act responsively (Bartolini, 1999, 2000). However, to ensure responsiveness, the result of the elections must be effective. Vertical control would be polluted when the elected representatives lack the capability to govern, i.e., to implement the electoral mandate. Thus, governments need a certain control over the political process, i.e., the capacity to effectively implement collective democratic decisions.

**Functions**

To guarantee and functionally secure freedom, equality, and control, a democratic regime has to fulfil several functions that are deduced from the three principles (see Figure 1).

- Figure 1 -

In a nutshell, we argue that the quality of a given democracy is high when these nine functions are fulfilled to a high degree. Of course, because of the tension between freedom and equality a simultaneous maximisation of all nine functions is not possible. Democracies are systems whose development is perpetually negotiated by political as well as societal forces. Hence, democracies can weight and optimise the nine functions differently. However, the degree of fulfilment of each of these nine functions can be measured. This requires just another conceptual step: The different functions are based on constitutive components. In the stepwise deduction of the concept democracy, the third step comprises the derivation of these components. Hence, each function is further disaggregated into two components, which finally, lead to several subcomponents and indicators. In the following sections, I give
a very short description of the composition of the nine functions (for an extensive description see www.democracybarometer.org).

**Individual Liberties**: The existence and guarantee of individual liberties is the most important prerequisite for democratic self- and co-determination. Individual liberties primarily secure the inviolability of the private sphere. This requires the *right to physical integrity* (component 1). This component embraces constitutional human rights provisions and the ratification of important human rights conventions that are seen as an indication that a culture maintains the effective right to physical integrity (Camp Keith, 2002). The effective and real protection of this right is mirrored by the fact that there are no transgressions by the state, such as torture or other cruel, inhumane, or degrading treatments or punishments (Cingranelli and Richards, 1999). Furthermore, "[S]tates are only effective in rights protection to the extent that citizens themselves are prepared to acknowledge the rights of others" (Beetham, 2004: 72). Thus, a high homicide rate and violent political actions restrict the effectiveness of the right to physical integrity. The second component comprises another aspect of individual liberties, the *right to free conduct of life*. On the one hand, this encompasses freedom of religion and freedom of movement. On the other hand, it requires that property rights are adequately protected. Again, these measures distinguish between constitutional provisions guaranteeing the free conduct of life and the effective implementation and impact of these rights.

**Rule of law**: Individual liberties and political rights (see below) require protection in accordance with the rule of law (Habermas, 1992). Rule of law designates the independence, the primacy, and the absolute warrant of and by the law. This requires the same prevalence of rights as well as formal and procedural justice for all individuals (Beetham, 2004). *Equality before the law* (component 1) is based on constitutional provisions for the impartiality of courts. Additionally, the legal framework must be independent and it must not be subject to manipulation (O'Donnell, 2004). The *quality of the legal system* (component 2) depends on the constitutionally provided professionalism of judges (La Porta et al., 2004) and on the le-
gitimacy of the justice system. Judicial legitimacy is based on the citizens' confidence in the justice system (Gibson, 2006).

**Public Sphere**: The principle freedom is completed by the public sphere function. Taking part with others in expressing opinions and seeking to persuade and mobilise support are seen as important aspects of freedom (Beetham, 2004: 62). The communication about politics and moral norms takes place in the public sphere (Habermas, 1992), and a vital civil society and a vivid public sphere are ensured by means of *freedom of association* (component 1) and *freedom of opinion* (component 2). Freedom of association must be constitutionally guaranteed. Additionally, according to the social capital research, a vital civil society relies on the density of associations with political and public interests (Putnam, 1993; Young, 1999). Freedom of opinion presupposes constitutional guarantees as well. In modern, representative democracies, the opinion-making and diffusion within the public sphere is primarily carried out by the media and the media system. Public communication primarily takes place via mass media. Thus, media should provide a wide forum for public discourse (Graber, 2003).

**Competition**: Vertical control of the government is established via free, regular, and competitive elections. Bartolini (1999, 2000) distinguishes four components of democratic competition, two of which — *vulnerability* (component 1) and *contestability* (component 2) — best concur with our middle-range concept of democracy and our idea of vertical control (Bartolini, 2000). *Vulnerability* corresponds with the uncertainty of the electoral outcome (Bartolini, 2000; Elkins, 1974), which is indicated by the closeness of election results as well as the degree of concentration of parliamentary or legislative seats. Furthermore, formal rules have an impact on vulnerability: district size and the legal possibility of redistricting can influence competition. *Contestability* refers to the stipulations that electoral competitors have to meet in order to be allowed to enter the race. The effective chance of entering is measured by the existence and the success of small parties (Bartolini, 1999; Tavits, 2006).

**Mutual Constraints**: The horizontal dimension of control of the government is encompassed by mutual constraints of constitutional powers. The balance of powers first depends on the *relationship between the executive and the legislature* (component 1). An effective
opposition as well as constitutional provisions for mutual checks in terms of possibilities for deposition or dissolution guarantee the mutual control of the first two branches (Ferreres-Comella, 2000). Of course, there must be additional checks of powers (component 2). On the one hand, mutual constraints are completed by the third branch in the form of constitutional jurisdiction, i.e., the guaranteed possibility to review the constitutionality of laws. On the other hand, federalism is seen as an important means of control. The degrees of decentralisation and the effective sub-national fiscal autonomy are incorporated into the measure (Schneider, 2003).

**Governmental Capability:** One important feature of representative democracy is the chain of responsiveness (Powell, 2004b). Citizens' preferences are collected, mobilized, articulated, and aggregated by means of elections and translated into parliamentary or legislative seats. The chain has a further link, namely responsive implementation; i.e., the policy decisions must align with the initial preferences. A responsive implementation, however, requires governmental capability, i.e., the availability of resources (component 1) and conditions for efficient implementation (component 2). Resources must be available to ensure an effective and impartial implementation of political decisions. Thus, government must count on high public support (Chanley et al., 2000). Furthermore, long terms of legislature and governmental stability facilitate a more continuous and thus more responsive implementation (Harmel and Robertson, 1986). Efficient implementation is more difficult when it encounters opposition from groups of citizens that try to hinder it by means of strikes, demonstrations, or even illegitimate anti-governmental action. Conversely, an efficient bureaucracy can help to facilitate the implementation.

**Transparency:** "Secrecy provides the fertile ground on which special interests work; secrecy serves to entrench incumbents, discourage public participation in democratic processes, and undermine the ability of the press to provide an effective check against the abuses of government" (Stiglitz, 1999: 14). Opacity also presents a severe danger for equality. Thus, transparency means no secrecy (component 1). Secrecy can take the form of corruption and bribery (Stiglitz, 1999) that are taken as a proxy for low transparency. The unjust-
tified favouritism of particular interests is also linked to rules of disclosure for contributions to political parties. The second component measures whether a democracy offers provisions for a transparent political process. The availability of information depends on guaranteed freedom of information (Islam, 2006) as well as on the culture of openness, i.e., the willingness of government officials to communicate in a transparent way and the informational openness of the media system.

**Participation:** In a high-quality democracy, citizens must have equal participation rights: all persons who are affected by a political decision should have the right to participate in shaping that decision. This implies that all citizens in a state must have suffrage rights (Banducci et al., 2004). Furthermore, these rights should be used in an equal manner. Equal respect and consideration of all interests by the political representatives is possible only if participation is as widespread and as equal as possible (Lijphart, 1997). Unequal voter turnout in terms of social characteristics or different resources "may mirror social divisions, which in turn can reduce the effectiveness of responsive democracy" (Teorell et al., 2007: 392). Therefore, *equality of participation* (component 1) must be considered. Of course, the *effective use of participation* (component 2) is also important. Based on the idea that high turnout goes hand in hand with equal turnout (Lijphart 1997), the level of electoral as well as non-institutionalised participation is considered. Additionally, the effective use of participation can be facilitated by different rules (e.g., allowing people to vote in advance).

**Representation:** Responsive democracies must ensure that all citizens' preferences are adequately represented in elected offices. On the one hand, this is ensured by *substantive representation* (component 1). High distortion in terms of high disproportionality between votes and seats or in terms of low issue congruence among the representatives and the represented are signs of an unequal inclusion of preferences (Urbinati and Warren, 2008). Structural opportunities, such as a high number of parliamentary seats or direct democratic institutions, can help to better include preferences into the political system (Powell, 2004a). On the other hand, equal consideration of citizens' preferences is ensured by *descriptive representation* (component 2), especially for minorities. The access to political office for eth-
nic minorities must not be hindered by legal constraints (Banducci et al., 2004). The DB also focuses on women as structural minorities. Adequate representation of all groups is necessary before a country can claim descriptive representation (Wolbrecht and Campbell, 2007).

**Measuring the quality of democracy**

A new index of democracy must not only adequately specify its concept, but it must also face the challenges of measurement and aggregation (Munck and Verkuilen 2002). The DB is based on the idea that we can measure the degree of fulfilment of the nine functions discussed above. For this purpose, the components are further divided into subcomponents that are then measured by using several indicators. There is not enough space to discuss each indicator in this paper, but it is worth noting that the DB consists of a total of 95 indicators that were selected from a large collection of secondary data. In order to overcome the shortcomings of previous democracy measures, the final indicators had to meet several criteria. First, indicators that are based on expert assessments are avoided because they are debatable and not very transparent (Bollen and Paxton, 2000). The DB relies on either ‘objective’ measures or indicators constructed from different representative surveys as often as possible. Second, to reduce measurement errors, indicators from different sources are included for every subcomponent (Kaufmann and Kraay, 2008). Third, the DB tries to avoid ‘institutional fallacies’ (Abromeit, 2004). The DB is based not only on indicators that measure the existence of constitutional provisions but also on indicators that assess real manifestation. Each component consists of at least one subcomponent measuring rules of law and one subcomponent measuring rules in use.

With regard to the aggregation of the indicators, it is necessary to discuss scaling thresholds. For the DB, these thresholds are set on the basis of ‘best practice’. This procedure reflects the idea that democracy should be seen as a political system that continuously redefines and alters itself, depending on ongoing political as well as societal deliberation (Beetham, 2004). Consequently, each given democracy weights the principles and functions differently. We defined a 'blueprint' country sample that encompasses 30 established liberal
democracies, i.e., all countries that have constantly been rated as full-fledged democracies by both the Freedom House as well as the Polity index from 1995 to 2005. Within this blueprint sample, all indicators were standardised with the numbers 0 to 100, where 100 indicates the highest value (i.e., best practice with regard to the fulfilment of the function) and 0 the worst value within the 330 country-years (30 countries in 11 years).

The conceptualisation of the DB with its different levels of abstraction further requires the definition of aggregation rules. The first two levels of aggregation – from indicators to subcomponents and from subcomponents to components – are based on arithmetic means. In the following steps (components to functions, functions to principles, principles to 'Quality of Democracy' [QoD]), the idea of the optimal balance is implemented: the value of the higher level is calculated using a formula that rewards high values at the lower level but penalizes incongruence between pairs of values.

Crisis of democracy?

Scholars who suggest an impact of globalization on democracy can be divided into at least two different camps: On the one hand, there are the critics who hold globalization responsible for an ongoing crisis of democracy. According to them, several shortcomings of actual democracies, such as reduced autonomy in national policy-making (Cox 1997; Schmitter 1996), increasing public discontent (Cox 1996; Longworth 1998), the growing intransparency of government information (Gill 1995), or a degradation of the concept of citizenship (Sassen 1996), are due to globalization, i.e. to economic and financial integration of market societies as well as political de-nationalization of established democracies in terms of supra-nationalization and regionalization. On the other hand, there are the enthusiasts who highlight the positive contributions of financial and political globalization on the quality of democracy. By reducing information costs (Diamond 1992), by enlarging the scope of action for nation states (Gilpin 1987; O Riain 2000), by expanding the electoral marketplace through denationalization (Sassen 1996) or by dispersing ideas for advancing democracy (Ohmae 1990), globalization is seen as an important accelerator of democratization.
Another issue that the two camps disagree on is the current state of democracies. While the former deplore an ongoing decline and even crisis of democracy, the latter describe a development of worldwide democratization and continuous advancement of democracy. The DB allows investigating whether the critics or the proponents of globalization (or both) are right: Did the quality of established democracies between 1995 and 2005 rise or fall?

Actually, the QoD show a differentiated picture. Looking at the 11-year period of 1995 to 2005, we can observe countries where the overall quality of democracy indeed seems to have decreased. This is the case for Portugal (-2.9), the Czech Republic (-2.4), Italy (-2.3), the United States (-1.7) Hungary (-0.9), Germany (-0.5), Norway (-0.4) and Ireland (-0.1). In fact, we could speak of a crisis of democracy in these eight countries, even though the overall decrease is rather small and the development is not linear in all countries. In the remaining 22 countries, the quality of democracy increased over time. While in some countries the improvement is rather small (not more than 1.5 points in Australia, Spain, Costa Rica, Austria, Slovenia, Luxembourg, Sweden, Poland, France, and Belgium), other countries enhanced their quality of democracy quite remarkably (between 1.5 and 4 points in the Netherlands, New Zealand, Denmark, Finland, South Africa, Canada, UK, Japan, Cyprus, Malta, Switzerland, and Iceland).

Overall, the mean quality of democracy in our sample of established democracies slightly increased from 57.7 to 59.4 between 1995 and 2000 and then slightly decreased to 58.7 by 2005. All in all, this picture neither supports the pessimist crisis hypothesis nor the optimist end of history hypothesis. Nevertheless, the countries not only differ in their degree of quality of democracy but also in their development. The question now is, whether the differences between the countries as well as the development over time can be explained by globalization.
Data and Method

To measure the quality of established democracies, I use the QoD as described above. The measurement of globalization needs reflection too. Of course, globalization has various connotations. There are many definitions as well as supposed contents and impacts of globalization that depend on the researcher’s focus as well as his ideological standpoints (Guillen 2001; Cox 1996). There are controversies about the starting point of globalization, about its meaning, its persistence, its irreversibility and its impact. At the very least, there seems to be a consensus that “globalization is a fragmented, incomplete, discontinuous, contingent, and in many ways contradictory and puzzling process” (Guillen 2001: 238; Giddens 2000).

It is therefore not surprising that the measurement of the phenomenon is highly debated too. Based on the literature, at least two different groups of proposed measures can be distinguished: economic and political indicators (Guillen 2001; Keohane and Nye 2000). Economic globalization is understood as flows of goods, capital and services through long distance market exchanges; political globalization covers the diffusion of government policies (Dreher 2006). To measure economic and political globalization, I use data from the KOF Swiss Economic Institute (Dreher 2006; Dreher et al. 2008):

**Economic globalization** is measured by two dimensions. The first dimension, *economic flows*, is quantified (A) by data on trade (import and export of goods and services as a share of GDP), (B) by data on the gross foreign direct investment (FDI; sum of the absolute values of inflows and outflows of foreign direct investment recorded in the balance of payments financial account as a share of GDP), and (C) by data on portfolio investment (sum of a country’s stock of assets and liabilities as a share of GDP). Additionally, (D) the sum of gross inflows and outflows of FDI and (E) the stocks of FDI are included. The second dimension, *economic restrictions*, is measured (A) by an index that proxies hidden import barriers (Gwartney and Lawson 2008) and is based on the Global Competitiveness Report, (B) by the mean tariff rate (also developed by Gwartney and Lawson 2008), (C) by taxes on interna-
tional trade (in percent of current revenue), and (D) by capital account restrictions (again
based on Gwartney and Lawson 2008).

Political Globalization is measured by the number of foreign embassies inside a coun-
try, the number of international intergovernmental organizations a country is a member of,
participation in U.N. Security Council Missions (personnel contributed to U.N. Security Coun-
cil Missions per capita) and ratified International Treaties (any document signed between two
or more states and ratified by the highest legislative body of each country since 1945).

The main aim of this article is the analysis of the relationship between the quality of
democracy and these different measures of globalization. To control for the impact of globali-
zation, I include several variables that are suspected to have an influence on the quality of
democracy. They can be ascribed to two different theories. On the one hand, based on the
modernization theory (Przeworsky and Limongi 1997), it is argued that a country’s economic
well-being positively contributes to its regime quality: the wealthier a country and the lower its
probability of economic crisis, the more likely it is to develop a high regime quality (Li and
Reuveny 2003; Muller 1988). On the other hand, the quality of democracy depends on hu-
man development. As Inglehart and Welzel state (2005), human development goes hand in
hand with the democratic quality of a given regime. Again, quality of democracy is more
probable in countries, where the quality of life is high and access to education is easy for all
inhabitants.

The most common research design for a cross-country comparison over time is time
series cross-sectional or panel data analysis (PDA). However, for this study of the relation-
ship between the quality of democracy and globalization I use multilevel analysis (MLA), a
method that is recently being discussed as a promising alternative for PDA (Shor et al. 2007;
Stadelmann-Steffen and Bühlmann 2008). The idea of using MLA for time series cross-
sectional data is to treat observations over time as nested within units (i.e. countries), sup-
posing that the development of the quality of democracy over time (level 1) differs from coun-
try to country (level 2).
The advantages of MLA compared to PDA are the better estimation in case of a low number of observations, the better model fit and foremost the higher flexibility in terms of estimating effects of time-invariant variables and the possibility for estimating cross-level interactions (Shor et al. 2007; Stadelmann-Steffen and Bühlmann 2008). Of course, multilevel analysis has its weaknesses too. First, as with PDA, we must check for the problem of non-stationarity of the data. The discussion of the development of the quality of democracy in the previous section as well as some statistical tests for unit-root show that our dependent variable does not suffer from non-stationarity. Second, autocorrelation of the residuals must also be corrected for. In my models I used difference matrixes for the independent variables (see Rasbash et al. 2009: 71-76). Finally, the number of cases (foremost the number of observations) is rather low. Therefore, the results have to be interpreted with care.

Globalization and the quality of democracy

Given the differences in the development of the quality of democracy among our established democratic regimes, the question arises whether these differences can be explained by globalization. I try to give first answers to this question in a stepwise procedure. First, in an empty model, I look whether there is indeed variance in the development of the quality of democracy between countries. Second, I compare the impact of the different measures of globalization. Third, I check the robustness of this impact by including the control variables. Some additional models give – fourth – a more thorough insight of the varying effect of globalization on the quality of democracy.

The first model in table 1 depicts the empty model. One can observe that there is indeed significant variance between countries (level 2) as well as within countries, i.e. across time (level 1). In models 2 to 4 I test whether economic or political globalization has an impact on the quality of democracy. In models 2 and 3 I add the two measures separately and in model 4 I test the impact of both indicators simultaneously.

- Table 1 -
In a nutshell, both indices of globalization – the economic as well as the political globalization – seem to have a positive impact on the quality of democracy. However, controlling for both measures, the positive impact remains only significant for the economic globalization: the more a country is economically embedded into the global market, the higher is its quality of democracy. For the following analyses I decided to take the measure for economic globalization only.

As discussed in the section above, the quality of democracy not only depends on a country’s economic openness. To avoid spurious correlations, further models include the control variables discussed in the previous section (see table 2): In model 5, the impact of economic globalization is controlled with the variables of the modernization theory. Contrary to the expectations of this approach, the quality of democracy is not higher in wealthy countries. However, victims of economic crisis – measured by inflation – show a significant decline in their quality of democracy: the higher inflation, the lower the quality of democracy. Most important for our purpose is the fact that the impact of economic globalization remains positive and significant. The same holds true for the second group of control variables representing the human development theory (model 6). The positive impact of economic openness on the quality of democracy persists. However, neither quality of life within a country nor the quality of its education influences the development of the quality of a given democracy.

- Table 2 -

To sum up: the positive impact of economic openness on the quality of democracy holds even when I control for important variables that are suggested to influence the quality of democracy. Given this result and given the observation that countries develop their quality of democracy differently (section 3) raises a further question. Namely: Are there countries whose quality of democracy benefits more from globalization than others? Using MLA, I can approach this question by modeling country effects and cross-level interaction terms.

In model 7 two country characteristics are estimated: the size of a country\textsuperscript{10} and its stability, i.e. the age of a democratic regime.\textsuperscript{11} As these two variables steadily grow I have
taken the mean of the values from 1995 to 2005 to use them as constant country properties. One can observe that the quality of democracy develops better stable, i.e. old democracies but that the size of population does not matter. Furthermore, economic globalization as well as inflation (level 1) maintain their explanatory power. As for the question on the impact of economic globalization, I have tested a last model with an interaction term composed of economic globalization and the age of a given democracy. In model 8, one can see that the strength of the impact of economic globalization differs from country to country (significant random slope effect). This difference can at least partly be explained by the age of a democracy: the more stable a democracy is the stronger is the impact of economic globalization on the quality of democracy.

Discussion

In this contribution I analyzed the relationship between globalization and democracy. The main aim of the article was to test the rival hypotheses of the impact of globalization on democracy. On the one hand, it is argued that democracies cannot face important challenges any more and that globalization leads to democratic crises. On the other hand, globalization is seen as the redeemer of democracy: more economic openness and international political collaboration help to diffuse and stabilize democracy. Unlike previous studies, I focused on the impact of economic and political globalization on the quality of democracy in established democratic regimes.

To measure the quality of democracy, I introduced a new instrument, the Democracy Barometer. This new measure showed that there is neither reason to assume a crisis nor reinless prosperity of democracy. In the observed time span between 1995 and 2005 eight out of the 30 established democracies show a (non-linear) decline in their quality over time. In the remaining 22 countries I found a (non-linear) positive development between 1995 and 2005.
I then tested the impact of indicators for economic and political globalization on the different developments of the quality of democracy. The multilevel analyses yielded the following results:

(1) Globalization seems to have a positive impact on the quality of democracy. However, it is foremost the economic openness and not the political internationalization that positively affects the quality of democracy. This effect holds even if I control for important further variables. It is worth noting that one of the control variables - inflation - also exerts an influence on the quality of democracy. Apparently, economic crisis in terms of inflation diminishes the quality of democracy.

(2) The quality of democracy seems to develop better in countries that - in terms of their age - can be considered stable democracies. Additionally, the stability of a country amplifies the impact of economic openness: the older a democratic regime is, the better it seems to be capable of taking advantage of economic globalization for the further development of its quality of democracy.

All in all, the results seem to support the optimistic point of view concerning the impact of globalization on democracy. Globalization rather seems to be the bewitched prince of the story than a scary beast responsible for democratic crises.

However, the results raise further questions and concerns. Alternative year-wise cross-sectional analyses show for instance that the positive impact of economic globalization decreases over time. Furthermore, considering the current state of worldwide economy, the finding that economic crises seem to have a negative impact on the quality of democracy is alarming. More and especially more detailed analyses are needed to examine this issue. For example, first results not shown here suggest that the negative impact of inflation on the development of the quality of democracy is absorbed in stable democracies. The age of a democracy seemingly also helps to overcome financial crises. This finding questions to some degree the optimistic view: globalization indeed can be seen an opportunity for democracy and enhance its quality. However, established and stable democracies seem to profit more by open markets than younger democratic regimes.
Additionally, to fully tap the potential of the Democracy Barometer, one should test the impact of the different forms of globalization on different democratic functions. First analyses show that economic globalization seems to have more influence on some of the functions, such as governmental capability and representation, than on others like individual liberty or participation. Furthermore, although political globalization has only low impact on the overall quality of democracy, the correlation between the function transparency and political globalization is quite strong: this could be a sign of reduction of information costs by means of globalization (Diamond 1992). Contrarily, the correlation between the governmental capability and political globalization is low and even becomes negative over time. This could be interpreted as a sign of reduced autonomy in national policy-making (Cox 1997; Schmitter 1996). Thus, a closer investigation is required and the Democracy Barometer can help gaining deeper insight into the connection between globalization and the development of democracy.
Notes

This article results from the project “Democracy Barometer” that is part of the National Center of Competence in Research “Challenges to Democracy in the 21st Century” (NCCR Democracy) sponsored by the Swiss National Science Foundation. The team working on the Democracy Barometer consists of researchers from the Centre for Democracy in Aarau (Marc Bühlmann, Lisa Müller) as well as researchers from the Social Science Research Centre Berlin (Wolfgang Merkel, Bernhard Weßels, and Heiko Giebeler). For further information, see www.democracybarometer.org.

1 The liberal concept of democracy originates from the classical republicanism in its protective version (the most prominent representatives for these ideas are Locke or Montesquieu), the classical liberal model of democracy (as defended by Mill, Tocqueville or the Federalist Papers), and its more modern developments in the form of the elitist (Weber 1921) or the pluralist models of democracy (Dahl 1956; Fraenkel 1963). One of the most pronounced version is Schumpeter’s (1950) realist one.

2 The participatory type is rooted in the classical Athenian democracy (Fenske et al. 1994: 37 ff.), the developmental form of classical republicanism (with Rousseau as the most prominent representative), ideas of direct as well as participatory democracy (Barber 1984; Pateman 1970), and deliberative democracy (Cohen and Fung 2004; Habermas 1992; Warren 1996).

3 These criteria (FH-scores < 1.5 and Polity-scores > 8 for the whole time-span between 1995 and 2005; more than 250’000 habitants) apply to 34 countries: Australia, Austria, Bahamas, Barbados, Belgium, Canada, Cape Verde, Costa Rica, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Hungary, Island, Ireland, Italy, Japan, Luxembourg, Malta, Mauritius, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovenia, South Africa, Spain, Sweden, Switzerland, UK and the USA. However, Cape Verde, Bahamas, Barbados and Mauritius lack too much data and are therefore sorted out from the blueprint sample. Thus, this paper works with a sample including 330 coun-
try-years. Data for 35 additional countries and a time span of 1990 – 2008 will soon be
available (www.democracybarometer.org).

4 The respective formulas are: \( F = ((C_1 + C_2) - (\text{abs}(C_1 - C_2))^2 / 1000)) / 2; \) and \( P = ((F_1 + F_2 + F_3) - (\text{abs}(F_1 - F_3) + \text{abs}(F_2 - F_3))^2 / 1000)) / 3; \) and \( DQ = ((P_1 + P_2 + P_3) - (\text{abs}(P_1 - P_3) + \text{abs}(P_2 - P_3))^2 / 1000)) / 3. \) \( F \) denotes the value of the functions (three within each principle); \( C \) denotes the value for the component (two within each function); \( P \) denotes the value of the three principles; and \( QOD \) denotes the 'Quality of Democracy'-Index.

5 The wealth of a country is measured with its gross domestic product per capita in current
prices (US$); economic crisis is measured with the inflation index (2000 = 100). Source for both indicators: IMF World Economic Outlook Database.

6 Of course, both theories suffer from endogeneity: it is not clear whether the quality of
democracy depends on economic and human well-being or if economic wealth and hu-
man development grow better in high quality democracies. In this article, the aim is not to
investigate the relationship’s direction but to use the two approaches as controls.

7 I use the life expectation index as well as the education index (Gross enrolment ratio)
from several Human development reports (1997 to 2008).

8 The standard model takes the following form: \( Y_{ij} = \beta_{0j} + \beta X_i + \alpha W_j + \mu_{0j} + \epsilon_{ij}; \) The quality of de-
mocracy in country \( j \) at time \( i \) can be explained by an overall mean (\( \beta_{0j} \)), time-dependent
variables (the \( X \) variables and their respective \( \beta \); e.g. our globalization indices), time-
independent country properties (the \( W \) variables and their respective \( \alpha \); e.g. the age and
size of democracy \( j \); see next section), country variation (\( \mu_{0j} \) with an assumed mean of 0
and a total between-country variance of \( \sigma_{\mu}^2 \)), and time variation (\( \epsilon_{ij} \) with an assumed
mean of 0 and a total within-country variance of \( \sigma^2 \)). The overall variation (\( \sigma_{\mu}^2 + \sigma^2 \)) is di-
vided into differences at the time level (level 1 variance), that is explained by time-
dependent variables, and differences between countries (level 2 variance). Additional
cross-level interactions are built by randomising an \( X \) variable, i.e. estimating the differ-
ences in the strength of its impact between countries and adding a multiplicative term
built by this \( X \) variable and the country property assumed to have an effect on these dif-
ferent strengths of impact. For a more detailed discussion on MLA I refer to the relevant literature (Jones 1997; Snijders and Bosker 1999).

9 The covariance between two measurements at year $i_1$ and $i_2$ on country $j$ takes the form: $\text{cov} (e_{i_1j}, e_{i_2j}) = \alpha^* (1/|t_{i_1j} - t_{i_2j}|)$ and the autocorrelation is then $\text{cor} (e_{i_1j}, e_{i_2j}) = (\alpha^* (1/|t_{i_1j} - t_{i_2j}|))/\sigma_e^2$. For $|t_{i_1j} - t_{i_2j}|$ we can build difference matrixes. $\alpha$ then has to be estimated to correct for the autocorrelation.

10 I take the mean of the logged population size between 1995 and 2005 (source: US Census Bureau). The impact of size on the quality of democracy is largely discussed in political philosophy (for an overview see Dahl and Tufte 1974). Most authors suggest a negative connection between size and quality. However, there is a lack of empirical evidence of the impact of size on the quality of.

11 Age of democracy is measured by the corresponding variable in the Polity index (durable; see Marshall and Jaggers 2002); Iceland was coded 1944; Luxembourg was coded 1945; Malta was coded 1947 (all three are missing in Polity). Two educated guesses are made in political theory concerning the relationship between the quality and the stability of democracy. On the one hand, it is suggested that aged democratic systems more and more lose the diffuse support and political confidence of their citizens and therefore show a downward trend in quality. On the other hand, it is assumed that young democracies are not stable and risk a loss of quality when they have to face political and economic challenges.
References


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Linz, Juan J. und Alfred Stepan (1996). Problems of Democratic Transition and Consolida-


Marshall, Monty G. and Keith Jaggers (2002). Polity IV project: Political regime characteris-


Figure 1: The Concept Tree of the Democracy Barometer

Quality of Democracy

Principles

Freedom
- Functions
  - Individual Liberties
  - Rule of Law

Control
- Functions
  - Public Sphere
  - Competition
  - Mutual Constraints

Equality
- Functions
  - Governmental Capability
  - Transparency
  - Participation
  - Representation

Functions

Principles

Quality of Democracy
Table 1: The impact of globalization on the quality of democracy

<table>
<thead>
<tr>
<th>Model</th>
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<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
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Non-standardised coefficients (corrected for autocorrelation); SE in brackets; bold: significant at least at the 95%-level; All independent variables rescaled on a scale of 0-1 where 0 indicates the lowest value and 1 the highest value of the variable. All models estimated using MLwiN and RIGLS (see Goldstein and Rasbash 1996).
Table 2: The impact of economic globalization on the quality of democracy

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Non-standardised coefficients (corrected for autocorrelation); SE in brackets; bold: significant at least at the 95%-level; All independent variables rescaled on a scale of 0-1 where 0 indicates the lowest value and 1 the highest value of the variable. All models estimated using MLwiN and RIGLS (see Goldstein and Rasbash 1996).