

ABSTRACT

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THE CONCEPTUAL APPROACH TO THE FORMATION OF MECHANISM OF IMPACT OF DEMOCRACY ON ECONOMIC GROWTH

The article highlights the issues of the influence of political factors, in particular democracy, on economic growth. The analysis of different theoretical approaches to the factors of economic growth has allowed to establish theoretical basis of the mechanism of causal relations between political factors and economic growth.

Given the results of the previous studies, it should be noted that the actual mechanisms by which democracy affects economic growth should capture long-term effects rather than short-term effects. While building the mechanism of casual relationships between democracy and economic growth, one need to analyze the possible influences through two channels: a direct channel and indirect channel (through the accumulation of factors of production and through increase in the total factor productivity).

The article concludes by stressing the need for evaluation of long-term effect of democracy on the accumulation of physical, human, social and political capital, as well as total factor productivity.

Analysis of the literature on the relationship between democracy and economic growth suggests that democracy has a positive impact on the accumulation of physical capital in an open economy, since one of the conditions for investment and import savings is protection of investors and creditors' rights.

Many studies indicate that democracy may be regarded as a climate that promotes human and social capital, especially in less developed countries. Economic freedom, political stability and the rule of law have a positive direct (through the creation of a favorable investment climate) and indirect (through an increase in total factor productivity) on economic growth.

However, democratic regime may lead to a slowdown of economic growth through high tax burden resulted from a larger public sector in developed democracies.