SPRINGER BRIEFS IN ECONOMICS

Takeshi Kawanaka
Yasushi Hazama

Political Determinants of Income Inequality in Emerging Democracies

IDE-JETRO

Springer

SpringerBriefs in Economics

More information about this series at http://www.springer.com/series/8876

Takeshi Kawanaka · Yasushi Hazama

Political Determinants of Income Inequality in Emerging Democracies

Springer

Takeshi Kawanaka
Institute of Developing Economies
Japan External Trade Organization
Mihama-ku, Chiba
Japan

Yasushi Hazama
Institute of Developing Economies
Japan External Trade Organization
Mihama-ku, Chiba
Japan

ISSN 2191-5504 ISSN 2191-5512 (electronic)
SpringerBriefs in Economics
ISBN 978-981-10-0256-4 ISBN 978-981-10-0257-1 (eBook)
DOI 10.1007/978-981-10-0257-1

Library of Congress Control Number: 2015958080

© IDE-JETRO 2016
This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.
The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.
The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made.

Printed on acid-free paper

This Springer imprint is published by SpringerNature
The registered company is Springer Science+Business Media Singapore Pte Ltd.

Preface

We usually presume that high inequality prevails in developing countries, even after democratization. This is an accepted fact, but the logic behind it is not self-evident.

Economic, social, and demographic factors generate income inequality. Similarly, politics plays a crucial role in determining inequality. Assuming that the majority of the population in developing countries comprises the lower income group, democratic institutions are assumed to reflect their preferences regarding government intervention in the inequality problem. Predicted public policy should reduce inequality. Nevertheless, it seems that this mechanism does not necessarily function. Although some countries have achieved lower inequality after democratization, high inequality levels have persisted in others. The question posed is as follows: What determines the level of inequality reduction among democratized countries?

Many studies have been conducted on inequality in advanced democracies, primarily focusing on class-based coalitional politics. However, it is difficult to apprehend the development of many emerging democracies in this framework. Accordingly, we identify three political determinants of income inequality, namely multidimensional preference, political market failure, and weak state capacity.

The effects of these political factors are not limited to the issue of income inequality, but rather are related to the functions of democracy in general. In this book, we hope to develop our argument that reveals the conditions determining the functioning of democracy. In this sense, this study is regarding democracy, particularly in newly democratized countries.

This book is the product of the Institute of Developing Economies (IDE) research projects "Political Determinants of Social Policy" (2011–2012) and "Redistributive Politics in New Democracies" (2012–2015). The authors would like to express their great appreciation to Mauricio S. Bugarin, Mathew D. Crosston, Yuko Kasuya, Masashi Nakamura, Michael R. Touchton, four anonymous readers,

and seminar participants at the IDE, De La Salle University, as well as the 2015 Annual Meeting of the International Studies Association (New Orleans, USA) for their valuable comments and suggestions.

Chiba
September 2015

Takeshi Kawanaka
Yasushi Hazama

Contents

About the Authors

Takeshi Kawanaka is senior research fellow at the Institute of Developing Economies, Japan External Trade Organization. He received his Ph.D. in political science from Kobe University, Japan. His main research interests are in political institutions, political economy, and political regimes. He has also published a book and articles on Southeast Asian politics, including *Power in a Philippine City* (2002).

Yasushi Hazama is senior research fellow at the Institute of Developing Economies, Japan External Trade Organization. He received his Ph.D. in political science from Bilkent University, Ankara, Turkey. His research interests include political behavior and political economy in emerging democracies. His articles have appeared in *International Political Science Review* (2012) 33:421–40; *Turkish Studies* (2014) 15:163–80, (2015) 16:36–53; and *Developing Economies* (1992) 30:284–98; (1996) 34:316–38; (2003) 41:362–87.

Chapter 1
Introduction

Abstract Democratization is generally expected to engender socioeconomic and political equality. However, in reality, democratization does not necessarily reduce income inequality. We investigate the reasons why democratization sometimes has a limited effect in emerging democracies. We deal with the issue of inequality reduction, paying special attention to emerging democracies and political factors. Previous studies have mainly focused on advanced democracies, and are therefore not free from the problem of selection bias. As emerging democracies outnumber advanced democracies, we need to examine emerging democracies to develop a more general theory of inequality. We specifically focus on political aspects because we are concerned with the functions of democracy. In contrast with previous studies emphasizing that the interaction between different classes determines the level of inequality, we claim that three political factors at various phases of political process complicate the process of reflecting people's preferences in actual public policy. These factors are multidimensional preferences, the failure of the political market, and weak state capacity.

Keywords Democracy · Inequality · Preferences · Political market · State capacity · Developing countries

In 1986, the mass demonstrations across Metro Manila culminated in the expulsion of a dictator, President Ferdinand Marcos, who had ruled the Philippines for more than 20 years. Political freedom was widely expected to emerge under a new regime. Moreover, the demise of Marcos' rule was considered to not only liberalize politics but also foster economic equality. The Philippines has been known for its oligarchy based on large land ownership. Yet, the concentration of wealth still persists even after the political change. The after-tax Gini coefficient [Gini

© IDE-JETRO 2016

T. Kawanaka and Y. Hazama, *Political Determinants of Income Inequality in Emerging Democracies*, SpringerBriefs in Economics,
DOI 10.1007/978-981-10-0257-1_1

household disposable income, sourced from Solt (2009)] rose from 0.41 in 1985 (under dictatorship) to 0.46 in 1995 (after democratization).[1] Ironically, inequality escalated after democratization.[2]

In 1993, apartheid ended in South Africa. The first universal elections were held in 1994 in which the African National Congress (ANC) lead by Nelson Mandela won an extensive majority. Blacks, formerly compulsorily assigned a low-income status without political representation, gained power. The ANC administration was expected to foster a more equal society, even in economic terms. However, the reality is different. The after-tax Gini coefficient rose from 0.49 in 1992 (under apartheid) to 0.57 in 2002 (post-apartheid).

The Philippines and South Africa are not exclusive cases. Based on the 2009 after-tax Gini coefficient, a majority of the most unequal countries are democratic countries.

Table 1.1 lists the 20 most unequal countries in 2019. Among them, 13 countries are classified as democratic countries as their polity2 scores of Polity IV, a widely recognized measurement of political regime by Marshall and Jaggers (2010), are six or higher.[3]

The cross-national data do not clearly indicate that democracy engenders socioeconomic equality. If we control for the effects of the real GDP per capita and population composition by age, the level of democracy seemingly has insignificant effects on inequality levels. Figure 1.1 is a scatterplot of 100 countries (both authoritarian and democratic) in 2009. The horizontal axis indicates the level of democracy (polity2), whereas the vertical axis measures the after-tax Gini coefficient after controlling for real GDP capita and the share of the population belonging to the age group of 15–64 years.

The line of fitted values is almost horizontal. This implies that the level of democracy does not affect the level of inequality, at least when various variables at not controlled except for economic development and age compositions.

Even when we examine temporal changes in inequality, we find no clear impacts of democratization. Figure 1.2 indicates changes in the mean after-tax Gini coefficient for both advanced and emerging democracies. Here, democracies are defined

[1]The coefficient is calculated on an after-tax, after-transfer basis, which is "Estimate of Gini index of inequality in equivalized (square root scale) household disposable income using Luxembourg Income Study data as the standard." We use the term "the after-tax Gini coefficient" to indicate this Gini coefficient, which should be distinguished from "Gini market," which is "Estimate of Gini index of inequality in equivalized (square root scale) household gross (pre-tax, pre-transfer) income using Luxembourg Income Study data as the standard." In short, the after-tax Gini coefficient represents income inequality after government intervention.

[2]This only refers to the inequality level. The problem of poverty was actually alleviated. Poverty incidence in 1985 was 44.2 %, whereas that in 1991 was 39.9 % (National Statistical Coordination Board).

[3]The polity scores can be converted into three regime categories as "autocracies" (−10 to −6), "anocracies" (−5 to 5), and "democracies" (+6 to +10).
http://www.systemicpeace.org/polityproject.html.

Table 1.1 Top 20 most unequal countries (2009)

	Country	After-tax Gini coefficient	Polity2
1	South Africa[a]	59.43	9
2	Zambia[a]	54.55	7
3	Honduras[a]	51.13	7
4	Pakistan	50.96	5
5	Philippines[a]	50.20	8
6	Cambodia	49.84	2
7	India[a]	49.74	9
8	Colombia[a]	49.55	7
9	Thailand	49.47	4
10	Georgia[a]	49.24	6
11	Swaziland	48.64	−9
12	Indonesia[a]	48.20	8
13	Paraguay[a]	48.10	8
14	Peru[a]	47.91	9
15	Rwanda	47.50	−3
16	Panama[a]	47.43	9
17	China	47.38	−7
18	Chile[a]	47.33	10
19	Iran	47.19	−7
20	Brazil[a]	46.99	8

[a]Democratic countries whose polity scores are equivalent to six or higher
Source Compiled by the authors from Solt (2009) and Marshall and Jaggers (2010)

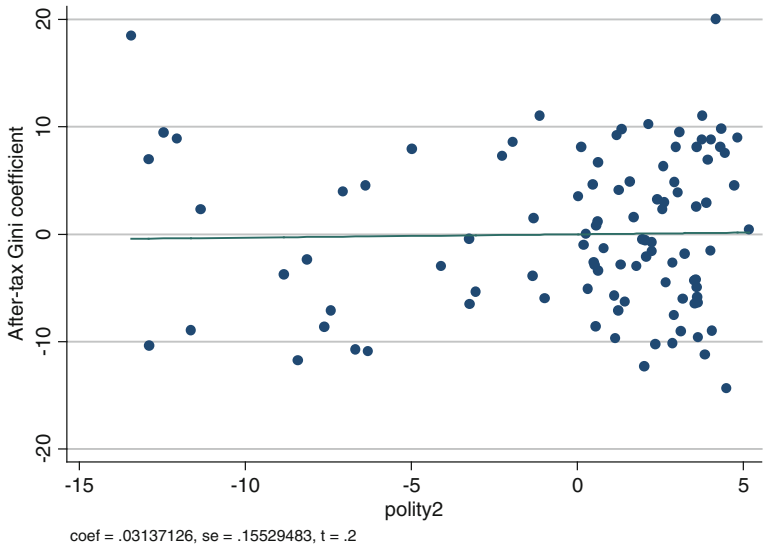

Fig. 1.1 After-tax Gini coefficient and polity after controlling for real GDP per capita and age group composition in 2009. *N = 100, Adj. R^2 = 0.27. *Source* Compiled by the authors from Solt (2009), Marshall and Jaggers (2010), and the World Development Indicators

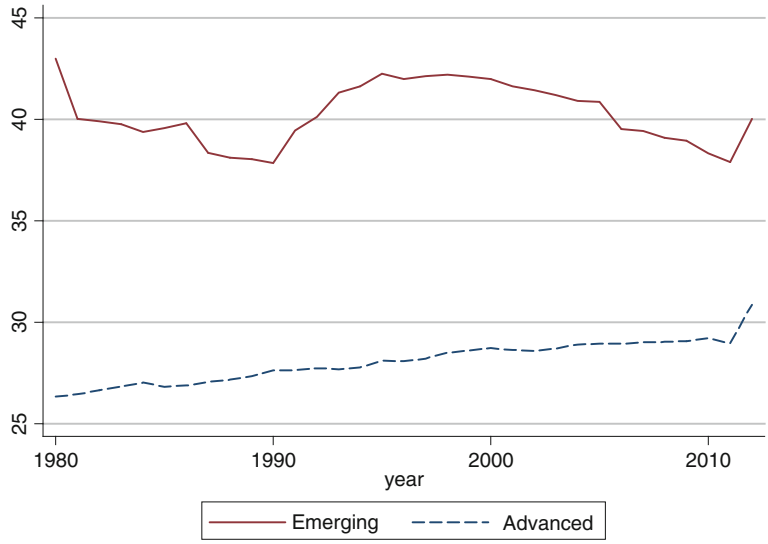

Fig. 1.2 Changes of the mean after-tax Gini coefficient by advanced and emerging democracies. *Source* Compiled by the authors from Solt (2009) and Marshall and Jaggers (2010)

as those countries whose polity2 score of Polity IV has been equal to or greater than 6 for more than four consecutive years. These countries are then divided into *emerging democracies* that either became independent after 1944 or became democratic after 1959 and *advanced democracies* that were both independent before 1945 and democratic prior to 1960. Furthermore, Colombia and Costa Rica were classified as emerging democracies. Most emerging democracies underwent the democratization process between the late 1980s and 1990s. However, the level of inequality actually rose during and immediately after such democratizations. The level decreased after 2000; however, it just dropped back to pre-democratization levels.

These facts are actually counter-intuitive. Intuitively, expansion of the political participation caused by democratization is often assumed to provide more opportunities for the lower income group to influence public policy. The logic is simple. The support of the lower income group is indispensable for politicians to win power, as they constitute the majority in most of the emerging democracies, which are mostly developing countries. The lower income group prefers public policies that will reduce economic inequality, which includes redistribution to and various protections for less wealthy people. Hence, politicians in power have the incentive to provide greater redistribution and pro-poor policies to secure this group's support. This leads to the conclusion that democratic institutions promote inequality reduction policies as long as the lower income group constitutes the society's

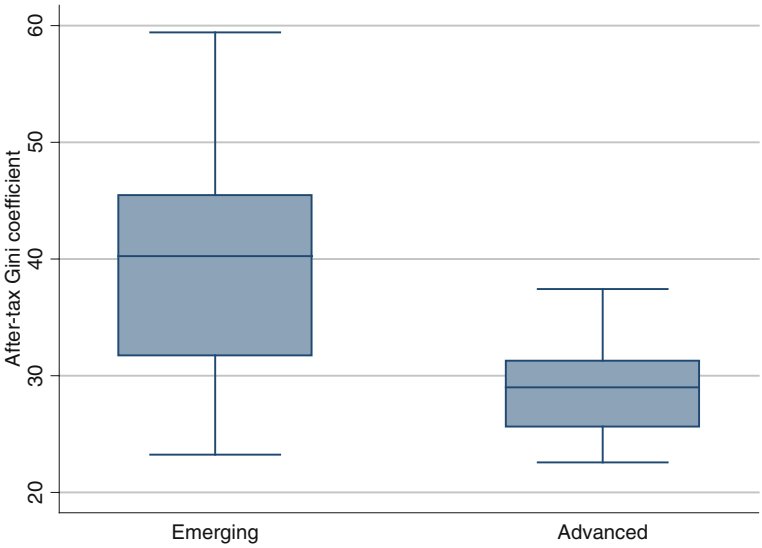

Fig. 1.3 After-tax Gini coefficient by advanced and emerging democracies (2009). *Source* Compiled by the authors from Solt (2009) and Marshall and Jaggers (2010)

majority. Eventually, inequality would be reduced.[4] This intuitive prediction is supported by the median voter theorem, which supposes that the median voter's support is decisive in elections. The median voter's preferences, therefore, dominate public policy under democratic institutions (Meltzer and Richard 1981).

However, this prediction is not sufficiently supported by empirical studies. In fact, no established consensus exists regarding the effects of democratization on inequality. Some claim that democracy promotes redistribution, improves living standards of the poor, and reduces inequality (Brown and Hunter 1999; Kaufman and Segura-Ubiergo 2001; Lake and Baum 2001; Avelino et al. 2005; Stasavage 2005). Others find no correlation between democracy and pro-poor policies (Mulligan et al. 2004, 2010; Ross 2006).

Empirical studies do agree on the existence of various political factors other than democratic institutions that determine inequality levels. At least, we can state that politics affects income inequality in different ways in different democracies. Accordingly, we should focus on how to explain the variations in inequality reduction under democracy (Beramendi and Anderson 2008).

Through comparison, we find that in particular, emerging democracies have larger variance in socioeconomic inequality. Figure 1.3 and Table 1.2 illustrate the

[4]We use the term "inequality reduction" in this book. This encompasses not only redistribution but also other policy framework including regulatory policies. The government has the power to design the market, and through such designing, influence the level of inequality. We consider the entire system, which is related with inequality, as the subject of research.

Table 1.2 Summary of after-tax Gini coefficients by advanced and emerging democracies (2009)

	Observations	Mean	Standard deviation	Min.	Max.
Emerging	58	38.96	8.84	23.26	59.43
Advanced	19	29.07	3.80	22.57	37.42

Source Compiled by the authors from Solt (2009) and Marshall and Jaggers (2010)

differences in distributions of after-tax Gini coefficients between emerging and advanced democracies.

First, emerging democracies, as a whole, feature more inequality than advanced democracies. The difference in the means clearly indicates this point. Furthermore, the variance within emerging democracies is much larger than that within advanced democracies. The standard deviation for emerging democracies reaches 8.84, whereas that for advanced democracies is 3.80. This indicates that emerging democracies have larger variance of inequality in addition to their higher inequality levels (the mean of emerging democracies is 9.75 points higher than that of advanced democracies).

The effects of democracy on socioeconomic situations have been a classic issue in political economy. This question is gaining more significance after the third wave of democratization. Most newly democratized countries are developing countries facing serious problems of poverty and inequality. In these countries, people have high expectations that democracy will foster an equal society, both politically and socioeconomically. But, the reality differs from the expectations. Why?

1.1 Statement of the Research Question

Why does democratization not necessarily foster socioeconomic equality? Why do variations in inequality reduction exist between democracies, especially between emerging democracies? More specifically, what factors prevent governments from reducing income inequality in newly democratized countries? These are our research questions. Thus, we focus on two elements: emerging democracies and political factors.

First, we focus on emerging democracies to move toward a more general theory of democracy and income inequality. Studies examining the topic in connection with advanced democracies have been conducted, but similar studies for emerging democracies have not been conducted to the same extent. This discrepancy can mainly be attributed to the low quality of available data for emerging democracies. However, an excessive concentration of studies on advanced democracies causes selection bias (Mares 2009; Mares and Carnes 2009). This book, which focuses on emerging democracies, is expected to ameliorate the selection bias and contribute to a more general theory. Hidden but crucial factors influencing income inequality are expected to be revealed. In addition, dealing with emerging democracies is growing

increasingly significant in recent years, because emerging democracies now outnumber advanced democracies.

Second, we focus on political factors, because we are ultimately concerned with the functioning of democracy. We do not suppose that political factors are the sole determinants of redistribution. Economic and social factors definitely matter. Nevertheless, our purpose is not to reveal the holistic mechanism of inequality reduction but to seek the determinants of the way in which a democracy functions. We aim at investigating the conditions necessary to ensure that democracies function as expected. As inequality reduction is a public policy issue, it is closely related with key elements of democracy such as political participation, representation, and interest aggregation. Furthermore, considering the nature of inequality reduction, which matters for almost all people in a society, this is an ideal policy area to explore how a democracy works.

We find several important studies that examine the political determinants of inequality. In particular, two theoretical approaches have been proposed to explain the variations of redistribution: the power resource theory (Esping-Andersen 1990) and the varieties of capitalism (VoC) model (Hall and Soskice 2001b). The former stresses the role of class, arguing that social policy type is decided by class mobilization patterns and the relations between classes and political agencies (e.g. parties). In contrast, the latter views social policies as resulting from strategic interaction among political and economic actors. Types of development strategy and the risks involved are the important variables in determining patterns of the interaction. Though both theories have been prominent in the welfare state argument, they were developed in the context of developed countries, which are mostly older, well-established democracies. These models can provide important insights for the study of emerging democracies, but the limited scope of their objectives causes difficulties in grasping emerging democracies (Mares 2009; Mares and Carnes 2009). Examining emerging democracies specifically will help us understand the modifications that would make these theories more general.

The current wave of the new structuralist argument also motivates us to examine emerging democracies.[5] The new structuralist argument emphasizes the role of socioeconomic structures in determining political institutions (Acemoglu and Robinson 2006; Boix 2001). This argument is now popular in the field of democratization studies. The core idea of this school of thought is that socioeconomic inequality is the key determinant of political change, including democratization. Theoretically, they predict correlation between lower inequality and democracy. Empirical studies would provide an opportunity to examine the explanatory power of this argument.[6]

[5]The term "new structuralist" is used by Rogowski and MacRae (2008) and Iversen (2010) to describe the new trends in political economy initiated by Boix (2003) and Acemoglu and Robinson (2006).

[6]Some empirical studies have examined the new structuralist theory. Haggard and Kaufman (2012) examine the correlation between the inequality level and the probability of democratization and claim that the new structuralist argument is not supported empirically.

In simple terms, inequality reduction is mostly promoted through redistribution. Redistribution is the act of taxing the rich and transferring their resources to the poor through public goods provisions or targeted transfers. A policy that has redistributive effects falls into the domain of social policy. Such policies include public health, public education, health insurance, social security, and cash transfers.

Inequality reduction is not the only purpose of social policy. One of the major assertions of the VoC argument is that social policy also has an another function, namely "insurance" (Iversen 2005). Social policy helps to protect workers in the presence of risks. This insurance function is beneficial to employers as well as workers. Providing a means of hedging risks enables employers to secure workers who have the specific skills needed for the production activities. In this sense, the distribution of preferences for inequality reduction is not the sole determinant of social policy. VoC theory claims that skill specificity and predicted risks could be another major factor in defining social policy (Iversen 2005).

Though we recognize the significance of the insurance aspect, we will limit our argument to the inequality aspect. As mentioned above, our concern is not the type of social policy per se but the role of democratic institutions and processes, especially in channeling the preferences of the majority of the population for the formation of government policies. In addition, the insurance aspect is decided by the type of capitalism more than the type of political institutions.

Further, we should note that inequality reduction does not solely depend on social policy. Social policy is an output of government activities—specifically, an expenditure. In a financial sense, inequality reduction, especially redistribution, comprises both expenditure and revenue. Therefore, both elements should be taken into consideration. Even if social policy is implemented to provide benefits to the poor, inequality reduction cannot be achieved under a regressive tax system. Furthermore, inequality reduction is not limited to redistribution. Various types of regulations are tools for government intervention regarding income inequality in a society.

1.2 Previous Arguments

The fundamental assumption regarding inequality reduction is that income status determines individual preferences: Specifically, the poor prefer a high level of government intervention to reduce inequality, whereas the rich prefer no intervention. The logic followed is simple. In a state of no government intervention, the rich support themselves whereas the poor may face problems in acquiring necessary services. The rich are able to acquire these services through the market, such as education services at private schools and health services at private hospitals. However, the poor have fewer resources with which to purchase these services. In contrast, under the welfare state concept where a government controls the inequality level, the government provides necessary services to everyone in society. Accordingly, the rich are required to shoulder the burden of sustaining the poor's

lives. The poor can avail themselves of government services without paying much in taxes. Thus, government efforts to reduce inequality make the costs exceed the benefits for the rich, whereas the benefits exceed the costs for the poor. Simple calculations of payoffs indicate that the rich prefer lower government intervention and the poor prefer higher intervention.[7] Indeed, the rich would reduce their benefits if certain regulations to limit their economic activities, aside from redistribution, were introduced for the purpose of inequality reduction. Therefore, government intervention is not welcomed by the rich.

The median voter theorem predicts a policy outcome based on this assumption. Meltzer and Richard (1981) present a seminal study on this argument in social policy, especially for redistribution.[8] Assuming perfect information with majority rule and two contending candidates (or political parties), the median voter on the single dimension of policy spectrum is decisive in choosing the government's leader (Downs 1957). Consequently, the policies of the winning candidate or party are closer to the median voter's preferences. The median voter's preferences are always supposed to be enacted as law. If so, the relation between mean income and median income (income of the decisive voter) determines the level of redistribution. Theoretically, if median income is higher than mean income, no redistribution would occur. The median voter does not prefer redistribution because his or her tax burden would increase without a greater increase in benefits. In contrast, if median income is below mean income, the median voter prefers redistribution, which provides benefits in excess of costs. In the latter case, a candidate (or party) who intends to introduce redistribution is elected, and redistributive policies are adopted. Moreover, when median income is lower than mean income, the degree of redistribution becomes higher as the difference between mean and median income becomes larger. The decisive voter apparently prefers greater redistribution as his or her income becomes lower.

If we follow the median voter theorem, democratization is expected to increase the level of redistribution. Democratization is the expansion of the franchise, whether de jure or de facto. This does not necessarily provide an opportunity for political participation only for the poor. Other classes, such as the middle class, also gain such an opportunity. However, especially in emerging democracies, the majority of the people who are provided this opportunity belong to the lower income group. This group, previously deprived of political rights and freedom, is

[7]A recent empirical study shows changes in preferences in accordance with changes in inequality levels based on international and US regional cross-section examinations. Kerr (2014) shows that changes in inequality are positively and significantly correlated with changes in support for government-led redistribution, after controlling for beliefs and views on social mobility. Interestingly, the study also indicates that support for redistribution increases among wealthy individuals as greater class conflict is perceived along income dimensions. This implies that perceptions of the social costs of inequality would also affect preferences concerning redistribution.

[8]Persson and Tabellini (2000) provide some extensions of the median voter theorem.

now allowed to freely participate in the electoral process. In emerging democracies, which are mostly developing countries with large lower income populations, it is highly likely that the median voter (the decisive voter) belongs to the lower income group and that the gap between mean and median incomes is large. Therefore, a higher level of redistribution is expected in this setting.

The new structuralist argument adopts the median voter theorem as an underlying assumption. Based on this theorem, researchers emphasize that the choice of institutions is determined by socioeconomic structure—especially, the degree of inequality.

Boix (2003) provides a theoretical model predicting that a decline in inequality increases the probability of democratization. In this model, a decline in inequality reduces conflict over redistribution because the preferences of the rich and the poor become more closely aligned. In the median voter theorem, this corresponds to the situation where mean and median incomes move closer. Thus, the median voter's demand for redistribution is lowered, creating favorable circumstances for democratization. In a highly unequal society, assuming that the preferences of a dictator and the rich are identical, the dictator has a strong motivation to avoid the high redistribution demanded by the median voter. The dictator prefers maintaining his dictatorship even if he incurs the cost of oppression. However, if inequality is not high, the median voter's demand for redistribution would not be as great as that in an unequal society. In a democracy, the expected burden on the rich would be low. Considering the high cost of oppression, such as costs of maintaining oppressive government organizations and economic damages caused by turmoil, there is a certain threshold where the burden on the rich under democracy becomes lower than the costs of maintaining a dictatorship. Boix (2003) predicts that as inequality declines, a dictator acquires the incentive to relinquish power and introduce democracy.

Similar to Boix (2003), Acemoglu and Robinson (2006) base their theoretical model on the assumption that a dictator and the rich share common preferences, whereas the middle class and the poor demand an end to exploitation by the rich. In their model, democratization occurs once the citizens solve the coordination problem and impose a threat of revolution on the dictator. Facing a credible threat, the dictator is forced to grant concessions to the citizens. Increased redistribution and the end of exploitation would be promised. However, a commitment problem arises, in which a dictator may withdraw these concessions once the threat disappears. As long as this commitment problem exists, citizens will not cease their attempts to topple the ruler through revolution, as this is the only solution to ensure that they receive full benefits of the concessions in the future. This situation incentivizes the dictator to relinquish power and introduce democratization. Democracy secures the government's commitment to redistribution in the future, because under democratic institutions, the policy cannot be changed without the decisive (median) voter's consent. The concession of redistribution is maintained as long as the median voter belongs to the lower income group. By establishing democratic institutions and securing commitments to the concessions, the dictator can avoid the worst-case scenario in which his property is confiscated or, even

worse, he is executed. After democratization, redistribution is promoted and maintained as long as median income is lower than mean income.

The old structuralist approach is distinguished from the new structuralist approach, because the old approach asserts direct causality between the socioeconomic structure and the political outcome. The new structuralist approach is indirect, incorporating institutions as an intermediate variable. In this theory, structure determines the choice of political and economic institutions. Institutions then determine the political outcomes (Iversen 2010; Rogowski and MacRae 2008).

The arguments of Boix (2003) and Acemoglu and Robinson (2006) are not perfectly identical but imply a similar conclusion. Boix (2003) argues that a decline in inequality engenders democracy. Acemoglu and Robinson (2006) assert that democracy enhances a decline in inequality through redistribution. Nevertheless, low inequality or high redistribution is predicted under democracy.

Empirical studies do not reach a consensus regarding the negative correlation between democracy and inequality—some studies find no correlation or only a weak correlation.[9] Gradstein and Milanovic (2004) survey the empirical studies on democracy and inequality and conclude that there are some indications of positive correlation. The main problem lies in the quality of data, especially that concerning developing countries. For OECD countries, a relatively high-quality dataset is available in the Luxembourg Income Study Database. However, outside of the OECD, the data are heterogeneous in terms of "the timing of the observations, the definition of income and income recipient, the duration over which income is recorded, the proportion of the population covered, and the nature of the data collection procedure" (Gradstein and Milanovic 2004, p. 521).

To cope with the problem in the data on inequality, alternative indicators are used as dependent variables for empirical tests. These tests are classified into two groups. In the first group, government expenditures on redistributive policies are used to measure redistributive efforts, whereas the second group uses the outcomes of social policy, which is the level of human development (e.g., infant mortality, literacy, and life expectancy) among poorer classes. However, these empirical studies on expenditure and human development do not yet show definitive results in terms of the impact of democracy on inequality reduction. Appendix 1 of Haggard and Kaufman (2008) provides a useful review of the trends in empirical examinations of democracy's effects on social policies and policy outcomes. They cite 17 studies dealing with the effect of democracy on social spending. Positive effects are more or less supported by 14 of the studies, but 3 find no effect. When examining the living standards of the poor, 18 out of 21 selected studies find positive effects, but 3 studies do not.

[9]Milanovic (2000) uses a limited dataset to demonstrate that empirical support for the median voter theorem is weak. Timmons (2010) claims that the correlation is not supported by more current data. Scervini (2012) shows quite ambiguous results: The "redistribution hypothesis" (greater inequality leads to higher redistribution in the aggregate) is supported by empirical tests, but the "median voter hypothesis" (the middle class plays a special role in policy making) is questioned.

Though the effects of democracy on income inequality are still ambiguous, a majority of studies find at least moderately positive effects. As long as positive effects are indicated in general, the lack of simple correlation seems to imply the possibility that some other factors alter the effects of democracy on inequality reduction. If this is the case, we should turn our attention to how to explain the variations in democracy's impacts on inequality reduction.

Economic and demographic factors are often highlighted as crucial influences on the level of income inequality and government intervention (Lindert 2004). Apart from these factors, the effects of political factors are also scrutinized. In fact, studies on the welfare state in developed countries often seek such political triggers. As most developed countries have adopted democratic institutions, examining the causes of variations in such countries may reveal why democracy results in different patterns of inequality reduction.

Both the power resource theory and the VoC argument deal with this problem. The power resource theory uses one of the core assumptions of the median voter theorem, namely that income status determines the voter's preference for income reduction, especially redistribution. However, this theory focuses on groups that represent certain income strata or classes, unlike the median voter theorem, in which the unit of analysis is individuals. In the power resource model, social policy is determined by which group has larger political influence. Esping-Andersen (1990), in a major work on the power resource theory, classifies the welfare state into three types: liberal, conservative, and social democratic welfare states. The factors determining the type of welfare state in each country are the nature of class mobilization (especially of the working class), class-political coalition structures, and the historical legacy of regime institutionalization. For instance, in a country where labor unions are strong and well-connected with a left-wing party, a social democratic regime emerges. Without strong unions or union connections to political parties, it is highly likely that other types of welfare regimes will emerge.

On the other hand, the VoC argument does not view social policy as an outcome of a dichotomous conflict between capitalists and laborers. Instead, this argument considers social policy to be the outcome of strategic interaction among economic actors. Such strategic interactions are formed within the institutions of political economy (Hall and Soskice 2001a). In this argument, social policies are not necessarily introduced only through laborers' demands. Capitalists also need social policies to increase productivity (Mares 2001). The type of social policy is determined by skill specificity and risk distribution. If laborers' skills are specific, the value of those skills is vulnerable to circumstantial changes. As long as risk exists, laborers hesitate to invest their efforts in acquiring and improving their skills. To encourage laborers' commitment to specific skills, capitalists need the government to provide vocational training as well as insurance to mitigate risks. Here, capitalists find some social policies to be beneficial to their economic activities. Alternatively, if the industry depends on more general skills, capitalists do not deem social policy as necessary for securing the workforce. By introducing the insurance aspect of social policy into the analysis, the VoC argument excludes social policy from the

arena of class conflict and, instead, includes it in the context of class interaction (Iversen 2005, pp. 12–13).[10]

As mentioned above, both the power resource theory and the VoC argument are constructed using the cases of developed countries. Accordingly, these theories are not free from bias. We find two crucial problems. First, these arguments are based on the assumption that a society is divided by class alone. The VoC argument criticizes the power resource theory, as the latter always considers interclass relations as confrontational. Nevertheless, the VoC is not free from placing social policy in the context of class relations. Furthermore, emerging democracies are in essence divided by various factors besides class. This difference between advanced and emerging democracies results in differences in the way political coalitions are formed. Class-based coalitions are assumed to be key in policy outcomes in advanced democracies, whereas non-class-based coalitions, such as ethnic-based coalitions or clientelistic coalitions, play a crucial role in emerging democracies (Menkyna 2014). Political mobilization and interest aggregation are not always based on class cleavages in such democracies. Policy outcomes deviate from predictions made from a class-based perspective (Przeworski 2006). Further, these works presuppose strong state capacity. However, though the state has relatively strong capacity to implement taxation and social policy in developed countries, emerging democracies suffer from weak state capacity (Norris 2012).

The arguments for developing countries have been influenced by the three approaches mentioned above. Haggard and Kaufman (2008), who provided one of the most comprehensive works on social policy in developing countries, apply these arguments to developing countries. They choose three regions as the objects of empirical examination: Latin America, East Asia, and Eastern Europe. They attempt to identify the factors causing variations between regions.[11] The theory utilized in the work is a combination of the median voter theorem, power resource theory, and VoC argument.

They include three significant independent variables: critical realignment (distributional coalition), development strategies, and democracy (Haggard and Kaufman 2008, pp. 2–3). The critical realignment argument is similar to the power resource theory. A critical realignment is defined as "a discontinuity in both the composition of the political elite and in the political and legal status of labor and peasant organizations and mass political parties," such as the one which occurred in the early and mid-20th century (Haggard and Kaufman 2008, p. 45). This underscores the political coalition that provides power to the political elite. Thus, the type

[10]VoC classifies institutions of political economy into two types: liberal market economies (LMEs) and coordinated market economies (CMEs). Firms coordinate their activities via hierarchies and competitive market arrangements in LMEs. The equilibrium outcomes of firm behavior are usually given by demand and supply conditions in competitive markets. In CMEs, the equilibria result from strategic interaction among firms and other actors (Hall and Soskice 2001a).

[11]Their method of empirical examination involves neither a small nor large number but an in-between number. They select several countries from each region and compare the states of their social policy.

and extent of social policies are determined by the configuration of the political coalition upon which the political elite depends. Haggard and Kaufman (2008) focus on critical junctures in history such as independence and democratization, arguing that these points decide which group constitutes the base of the political elite. For example, in many Latin American countries, the urban formal sector supported the political elite in their fight against the old oligarchies. To provide benefits to their supporters, social policies are focused on this sector. Social security is highly advanced and designed to protect this urban sector, whereas the informal sector and rural sector are excluded from these benefits. In East and Southeast Asia, social security was not fully developed because labor unions and left-wing parties were suppressed during the Cold War. In these regions, public sector employees and military personnel constituted a leader's power base. This small sector alone was given the benefits of social security.[12] Therefore, social policy has been limited in terms of its beneficiaries.

The second variable represents development strategies, matching the VoC argument's emphasis on the insurance aspect of social policy. Developing countries' development strategies are classified into two types: import substitution industrialization (ISI) and export-oriented industrialization (EOI). Social policy is designed to produce the preferred workforce for each strategy. When the ISI strategy is dominant, the government prioritizes harmonious employer–worker relationships and enacts social policies with insurance functions such as social security. In contrast, export-oriented industrialization requires a competitive workforce with a high level of human capital. A government that utilizes the EOI strategy spends more resources on education, and perhaps even primary health care, to ensure the required skilled workforce.[13]

Finally, Haggard and Kaufman (2008) emphasize the positive effects of democracy on social policy. This is derived from the median voter theorem. In the context of developing countries, the effects of democracy are comparable with pre-democratization political regimes such as dictatorships. They recognize the influence of the lower-income groups that entered the electoral arena after democratization. This exactly corresponds to conclusion arrived at by Meltzer and Richard (1981).

As Haggard and Kaufman (2008) follow previous work on the median voter theorem, power resource theory, and VoC argument, they pose a number of independent variables. Due to the complexity, Mares and Carnes (2009) criticize the explanation provided by Haggard and Kaufman (2008) as ambiguous. Moreover, their assumptions of the coalitional politics based on class and sufficient state capacity do not necessarily hold in many emerging democracies.

[12]Mares and Carnes (2009) extend this argument. They claim that wage earners in the formal sector are the pivotal players. Whether they form a political coalition with lower income groups or high income groups determines the type of social policy in developing countries. The main concept in this extension is the strategic alliance of the VoC.

[13]Wibbels and Ahlquist (2011) discuss this point clearly.

These three theoretical approaches—the median voter theorem, the power resource theory, and the VoC argument—are the starting point of our argument. Now, we begin examining the issue of redistribution in emerging democracies by questioning the assumptions on which these theories are based.

1.3 Theory: Three Determinants of Variations in Emerging Democracies

The median voter theorem and coalitional politics in advanced democracies (the power resource theory and VoC argument) are constructed based on various assumptions. Questioning these assumptions provides insights to guide further inquiry. In particular, we attempt to examine three assumptions made in previous studies, which exist in different phases of the political process—namely, formation of individual preferences, aggregation of individual preferences and representation, and implementation of policy.

First, in the phase of individual preference formation, voter preferences are assumed to be decided by income level, and political competition is assumed to focus solely on the issue of inequality reduction. Second, in the phase of interest aggregation, the political market is assumed to have no failures. The political market is the arena in which policies are traded for voter support. The assumption of a perfect political market means that voters know the policy orientation of all politicians, and politicians fulfil their promises. Finally, in the implementation phase, the state is assumed to have sufficient capacity to implement these policies, such as taxing citizens and providing support to the lower income group. In other words, the state is always able to prevent tax evasion and regulate sabotage of the bureaucracy.

These assumptions are not self-evident. At best, these assumptions hold in advanced democracies but not so much in emerging democracies. Questioning these assumptions helps us identify the possible political factors that produce variations in inequality reduction especially in emerging democracies. In light of criticism of such assumptions, we claim three variables as the main causes of different patterns of inequality reduction in emerging democracies: multidimensional preferences based on group identity, political market failure, and weak state capacity. Actually, these three variables have been discussed in previous studies on the welfare state and social policy. Nonetheless, they have been examined separately without turning attentions to political process.

First, individual preference is not necessarily correlated with income status. Even if people keep respective preferences about inequality reduction, the multidimensionality of policy issues prevent preferences for inequality reduction from being reflected in voting behavior. This occurs when voters are also concerned with issues other than individual income status. Such issues are usually related with group identity. In a multidimensional setting, inequality reduction is not necessarily

promoted even if the median voter belongs to the lower income group (Iversen 2010; Roemer 1998). The issue of multidimensionality is not limited to emerging democracies, but it seems more significant in them because of their complex and diverse social divisions.

Second, perfect information about players in the political market is unlikely in emerging democracies. This is significant in aggregation of preferences and representation in the policy making process. Politicians cannot easily gain the public's trust, especially in the immediate period after democratization (Keefer 2007a, b; Keefer and Vlaicu 2008). Party systems are usually fluid and unstable. This leaves the lower income group at a loss about whom they should support to realize their interests in public policy. As long as uncertainty exists regarding trading political support for social policies, lower income earners are likely to secure only minimal benefits. The most frequent interaction between politicians and the poor under such uncertainty is clientelism. Through vertically linked patron–client networks, private goods are provided instead of public goods. Efficiency in redistribution is compromised because of limited coverage of private goods transfers, intermediary exploitation, and a lack of objective criteria for identifying appropriate beneficiaries of public services.

Finally, state capacity in emerging democracies is not as strong as that in advanced democracies.[14] Many emerging democracies are new nation-states that only acquired their independence after World War II. These countries have only reached the halfway point in the state building process, and their state bureaucracies are not strong enough to ward off pressure from various social powers. Taxing strong social powers is a difficult task. Moreover, the state bureaucracy is often corrupt, hampering policy implementation. The lack of state capacity erodes the implementation of inequality reduction policies in emerging democracies.

Besides these three variables, the type (size and composition) of the winning coalition (Bueno de Mesquita et al. 2003) is also a possible independent variable. Especially if a systematic mechanism exists to exclude the lower income group from the winning coalition, inequality reduction would not be achieved. This actually comprises the very argument of class-based coalitional politics, and we claim that the relevance of coalitional politics, especially when based on class, becomes obscure as long as multidimensional preferences and political market failure exist. The assumption of the median voter theorem that the "winning coalition" (Bueno de Mesquita et al. 2003) is extensive in democratic societies has been challenged on several grounds, including the power resource theory. Criticism from a class-based coalitional politics perspective regarding this assumption propounds that public policies are often planned to satisfy a small portion of the population whose support is crucial for the ruling party to retain power. The winning coalition's exclusion of the lower income group is supposedly produced

[14]Norris (2012) conducts empirical examinations on the impact of state capacity and confirms its effects on human development.

through two mechanisms: de facto disenfranchisement of the poor and majoritarian political institutions. De facto disenfranchisement of the lower income group is said to be caused by unequal conditions of political participation between the rich and the poor, especially in terms of information access. The rich are observed to utilize their advantage in this regard to monopolize the winning coalition (Anderson and Beramendi 2008; Bartels 2008; Lijphart 1997). The existence of majoritarian political institutions (Lijphart 1999) is also considered to exclude the poor, because an extensive winning coalition is not necessary to win power in majoritarian institutions.

However, the winning coalition argument based on class seems not to hold true in emerging democracies for two reasons. First, voter turnout is not necessarily low in emerging democracies (López Pintor and Gratschew 2002). The poor are often mobilized by politicians through clientelistic or other non-economic social networks and therefore participate in voting. Second, regarding the size of the winning coalition as determined by political institutions, we should be careful about defining how the coalition is composed. Even if a large winning coalition is formed through inclusive political institutions, it is not necessarily class based. If the coalition is formed among clientelistic parties where a political elite controls members belonging to the lower income group, the interests of the poor are not necessarily represented even when an extensive coalition has formed.

1.4 Significance of the Study

Investigating the politics of inequality reduction in emerging democracies provides us with several significant implications. First, the study is expected to provide a more general theory of inequality reduction. The study's main concern lies in identifying the political factors that prevent inequality reduction in emerging democracies. We try to shed light on an unexamined mechanism of inequality reduction in emerging democracies by questioning the existing assumptions made in studies on advanced democracies. This, we believe, eventually leads to a general theory of the political determinants of income inequality. Second, the study is expected to contribute toward identifying the conditions requisite for democracies to function. Examining the political factors that stall inequality reduction in emerging democracies is linked with revealing the causal mechanism of the gap between public policy and people's preferences. Third, this study is expected to provide a theory of political instability that many emerging democracies face. The gap between public policy and people's preferences seem to intensify political conflicts within a society. Investigating the politics of inequality reduction provides clues regarding how such political instability can be mitigated. Finally, and most importantly, we would like to emphasize the empirical contribution of this study. Empirical examinations on inequality reduction have not been extensively conducted for emerging democracies. This study is expected to bridge this gap.

1.5 Structure of the Book

This book comprises six chapters including this introduction. The next chapter discusses the book's overall theoretical framework. Three factors hypothesized to affect the politics of inequality reduction are presented and discussed. Chapter 3 outlines the current state of emerging democracies. We summarize the characteristics of emerging democracies in terms of their level of inequality and variations in the three independent variables. Descriptive data hint at the high probability that inequality levels are affected by three political factors. Chapters 4 and 5 provide empirical examinations. Chapter 4 provides quantitative tests on one of the three variables, the effects of multidimensionality—and of group identity in particular. We use micro data from the World Values Survey to capture individual preference formation. We find that high ethnic fractionalization weakens preferences for income equality in emerging democracies. Chapter 5 uses country-level panel data to examine the effects of the other two independent variables, i.e., political market failure and state capacity. We compiled political and socioeconomic data on 75 democratic countries from around the world covering 1985–2012 to form an unbalanced dataset. We find that state capacity and political market failure have significant effects on inequality reduction. Finally, Chapter 6 provides a summary and conclusion.

References

Acemoglu D, Robinson JA (2006) Economic origins of dictatorship and democracy. Cambridge University Press, New York

Anderson CJ, Beramendi P (2008) Income, inequality, and electoral participation. In: Beramendi P, Anderson CJ (eds) Democracy, inequality, and representation: a comparative perspective. Russell Sage Foundation, New York, pp 278–311

Avelino G, Brown DS, Hunter W (2005) The effects of capital mobility, trade openness, and democracy on social spending in Latin America, 1980–1999. Am J Polit Sci 49(3):625–641

Bartels LM (2008) Unequal democracy: the political economy of the new gilded age. Princeton University Press, Princeton, New Jersey

Beramendi P, Anderson CJ (eds) (2008) Democracy, inequality, and representation: a comparative perspective. Russell Sage Foundation, New York

Boix C (2001) Democracy, development, and the public sector. Am J Polit Sci 45(1):1–17

Boix C (2003) Democracy and redistribution. Cambridge University Press, New York

Brown DS, Hunter W (1999) Democracy and social spending in Latin America, 1980–92. Am Polit Sci Rev 93(4):779–790

Bueno de Mesquita B, Smith A, Siverson RM, Morrow JD (2003) The logic of political survival. MIT Press, Cambridge

Downs A (1957) An economic theory of democracy. Harper & Row, New York

Esping-Andersen G (1990) The three worlds of welfare capitalism. Princeton University Press, Princeton, NJ

Gradstein M, Milanovic B (2004) Does libertè=egalité? a survey of the empirical links between democracy and inequality with some evidence on the transition economies. J Econ Surv 18 (4):515–537. doi:10.1111/j.0950-0804.2004.00229.x

Haggard S, Kaufman RR (2008) Development, democracy, and welfare states: Latin America, East Asia and Eastern Europe. Princeton University Press, Princeton, NJ

Haggard S, Kaufman RR (2012) Inequality and regime change: democratic transitions and the stability of democratic rule. Am Polit Sci Rev 106(03):495–516. doi:10.1017/S0003055412000287

Hall PA, Soskice D (2001a) An introduction to varieties of capitalism. In: Hall PA, Soskice D (eds) Varieties of capitalism: the institutional foundations of comparative advantage. Oxford University Press, New York, pp 1–68

Hall PA, Soskice D (eds) (2001b) Varieties of capitalism: the institutional foundations of comparative advantage. Oxford University Press, New York

Iversen T (2005) Capitalism, democracy, and welfare. Cambridge University Press, New York

Iversen T (2010) Democracy and capitalism. In: Castles FG, Leibfried S, Lewis J, Obinger H, Pierson C (eds) The Oxford handbook of the welfare state. Oxford University Press, New York, pp 183–195

Kaufman RR, Segura-Ubiergo A (2001) Globalization, domestic politics, and social spending in Latin America: a time-series cross-section analysis, 1973–97. World Polit 53(4):553–587

Keefer P (2007a) Clientelism, credibility, and the policy choices of young democracies. Am J Polit Sci 51(4):804–821

Keefer P (2007b) The poor performance of poor democracies. In: Boix C, Stokes SC (eds) The Oxford handbook of comparative politics. Oxford University Press, New York, pp 782–802

Keefer P, Vlaicu R (2008) Democracy, credibility, and clientelism. J Law Econ Organ 24(2): 371–406

Kerr WR (2014) Income inequality and social preferences for redistribution and compensation differentials. J Monetary Econ 66(0):62–78. doi:http://dx.doi.org/10.1016/j.jmoneco.2014.03.002

López Pintor R, Gratschew M (2002) Voter turnout since 1945: a global report. International Institute for Democracy and Electoral Assistance, Stockholm

Lake DA, Baum MA (2001) The invisible hand of democracy. Comp Polit Stud 34(6):587–621. doi:10.1177/0010414001034006001

Lijphart A (1997) Unequal participation: democracy's unresolved dilemma. Am Polit Sci Rev 91(1):1–14

Lijphart A (1999) Patterns of democracy: government forms and performance in thirty-six countries. Yale University Press, New Haven

Lindert PH (2004) Growing public: social spending and economic growth since the eighteenth century, vol 1. Cambridge University Press, New York

Mares I (2001) Firms and the welfare state: when, why and how does social policy matter to employers? In: Hall PA, Soskice D (eds) Varieties of capitalism. Oxford University Press, New York

Mares I (2009) The comparative political economy of the welfare state. In: Lichback MI, Zuckerman AS (eds) Comparative politics: rationality, culture, and structure. 2 edn, pp 358–375

Mares I, Carnes ME (2009) Social policy in developing countries. Ann Rev Polit Sci 12:93–113. doi:10.1146/annurev.polisci.12.071207.093504

Marshall MG, Jaggers K (2010) Political regime characteristics and transitions, 1800–2012. Center for International Development and Conflict Management, University of Maryland, College Park, MD

Meltzer AH, Richard SF (1981) A rational theory of the size of government. J Polit Econ 89 (5):914–927

Menkyna FT (2014) A theory of ethnic diversity and income distribution: a legislative bargaining approach. Eur J Polit Econ 34(0):52–67. doi:http://dx.doi.org/10.1016/j.ejpoleco.2013.12.002

Milanovic B (2000) The median-voter hypothesis, income inequality, and income redistribution: an empirical test with the required data. Eur J Polit Econ 16(3):367–410. doi:10.1016/s0176-2680(00)00014-8

Mulligan CB, Gil R, Sala-i-Martin X (2004) Do democracies have different public policies than nondemocracies? J Econ Perspectives 18(1):51–74
Mulligan CB, Gil R, Sala-i-Martin X (2010) Social security and democracy. BE J Econ Anal Policy 10(1):1935–1682. doi:10.2202/1935-1682.2428
Norris P (2012) Making democratic governance work: how regime shape prosperity, welfare, and peace. Cambridge University Press, New York
Persson T, Tabellini G (2000) Political economics: explaining economic policy. Zeuthen Lectures. The MIT Press, Cambridge, Massachusetts
Przeworski A (2006) Self-enforcing democracy. In: Weingast BR, Wittman D (eds) The Oxford handbook of political economy. Oxford University Press, New York, pp 312–328
Roemer JE (1998) Why the poor do not expropriate the rich: an old argument in new garb. J Public Econ 70(3):399–424. doi:10.1016/s0047-2727(98)00042-5
Rogowski R, MacRae D (2008) Inequality and institutions: what theory, history, and (some) data tell us. In: Beramendi P, Anderson CJ (eds) Democracy, inequality, and representation: a comparative perspective. Russell Sage Foundation, New York, pp 354–386
Ross M (2006) Is democracy good for the poor? Am J Polit Sci 50(4):860–874
Scervini F (2012) Empirics of the median voter: democracy, redistribution and the role of the middle class. J Econ Inequality 10(4):529–550. doi:10.1007/s10888-011-9183-2
Solt F (2009) Standardizing the world income inequality database. Social Sci Q 90(2):231–242. doi:10.1111/j.1540-6237.2009.00614.x
Stasavage D (2005) Democracy and education spending in Africa. Am J Polit Sci 49(2):343–358
Timmons JF (2010) Does democracy reduce economic inequality? Br J Polit Sci 40(4):741–757
Wibbels E, Ahlquist JS (2011) Development, trade, and social insurance. Int Stud Q 55(1): 125–149. doi:10.1111/j.1468-2478.2010.00638.x

Chapter 2
Theory

Abstract The median voter theorem predicts that a democratic government will implement a redistributive policy if the country's median income is below the mean income. Empirical observations provide a different picture than this theoretical prediction as we observe variations in redistributive policies enacted by different democracies. Two dominant theories on the welfare state in advanced democracies—the power resource theory and the "Varieties of Capitalism" model—try to explain these variations by means of conflicts or interactions between different classes. However, their explanatory power is limited because their underlying assumptions do not necessarily hold in emerging democracies. Individual preferences are determined not only by income status but also by non-economic group identities, such as ethnic group, that constitute the major social gap in emerging democracies. Due to imperfect information in political markets, where clientelism surpasses institutionalized party systems, voter preferences are not automatically channeled into public policy. Furthermore, in many cases, the state lacks sufficient capacity to implement policies. In other words, emerging democracies face the problems of multidimensional preferences, the failure of the political market, and weak state capacity. These political factors combine to determine the level of inequality reduction in emerging democracies. The inequality in emerging democracies can be better understood by examining the influence of these political factors found in the political process than by adhering to the class-based perspective.

Keywords Democracy · Inequality · Class · Preferences · Political market · State capacity

Democracy is the institutional framework to guarantee individual political equality. We know that in reality, there exists no perfect democracy that attains flawless political equality, but we can say that democracy assures at least *de jure* equal political rights. However, the problem is that political equality is not necessarily correlated with socioeconomic equality. In the real world, we find that socioeconomic inequality persists even in democratic nations. More precisely, we find that the levels of inequality reduction vary among democratic countries.

© IDE-JETRO 2016

T. Kawanaka and Y. Hazama, *Political Determinants of Income Inequality in Emerging Democracies*, SpringerBriefs in Economics,
DOI 10.1007/978-981-10-0257-1_2

Theoretically, the median voter theorem predicts that the median voter in the single dimension of policy preference spectrum is the decisive voter in free elections, on the conditions of perfect information, majority rule, and existence of two contenders. A candidate (party) whose policy stance is closest to the median voter's preference wins the competition and assumes power. Meltzer and Richard (1981) apply this theorem to public policy. In their model, the policy dimension is the level of public expenditure, and a voter's preference is decided through income status. They predict that government expenditure is decided by the mean–median income relationship. If median income is lower than mean income, the government would promote expenditures for the poor. The larger the gap between mean and median income, the more redistributive the government policy.

The median voter theorem itself has strong influence in the argument of the politics of inequality reduction. However, it has a limitation as it cannot explain the reasons for the occurrence of the variations in the real world, even if socioeconomic and demographic variables are controlled. Facing the limitation of the median voter theorem, the power resource theory (Esping-Andersen 1990) and the varieties of capitalism (VoC) argument (Hall and Soskice 2001b) try to provide alternative theories and thus explain the observed variations. The power resource theory focuses on the strength of class organizations and their links with political parties. The relative strength of certain class is considered as a determinant of social policy. The VoC argument, on the other hand, has departed from the perspective that considers class relations as confrontational, and claims that strategic interactions between classes are the decisive factor of social policy.

Although these arguments have become dominant, both also have limitations due to their focus on developed countries. Whether they are confrontational or interacting, inter-class relations are at the core of both arguments. However, class-based coalitional politics is unusual in emerging democracies, which are mostly developing countries.

In order to explain variations in redistribution and inequality reduction, particularly in emerging democracies, the hidden assumptions of previous theories should be scrutinized. We consider the causes of variations among emerging democracies that can be traced to three assumptions at different phases of the political process. The assumptions in question are as follows. First, voters' preferences are strongly decided by individual income status. Second, politicians and voters have perfect knowledge about each other, including their preferences, policy orientation, and credibility. Finally, the state has always sufficient capacity to implement laws and policies, including taxation and social policy.

These assumptions do not hold in many emerging democracies. In fact, many emerging democracies are characterized by multiple social cleavages, information constraints, a serious commitment problem, and weak state capacity. Examining these assumptions and related variables, we seek to provide a theory on inequality reduction in emerging democracies.

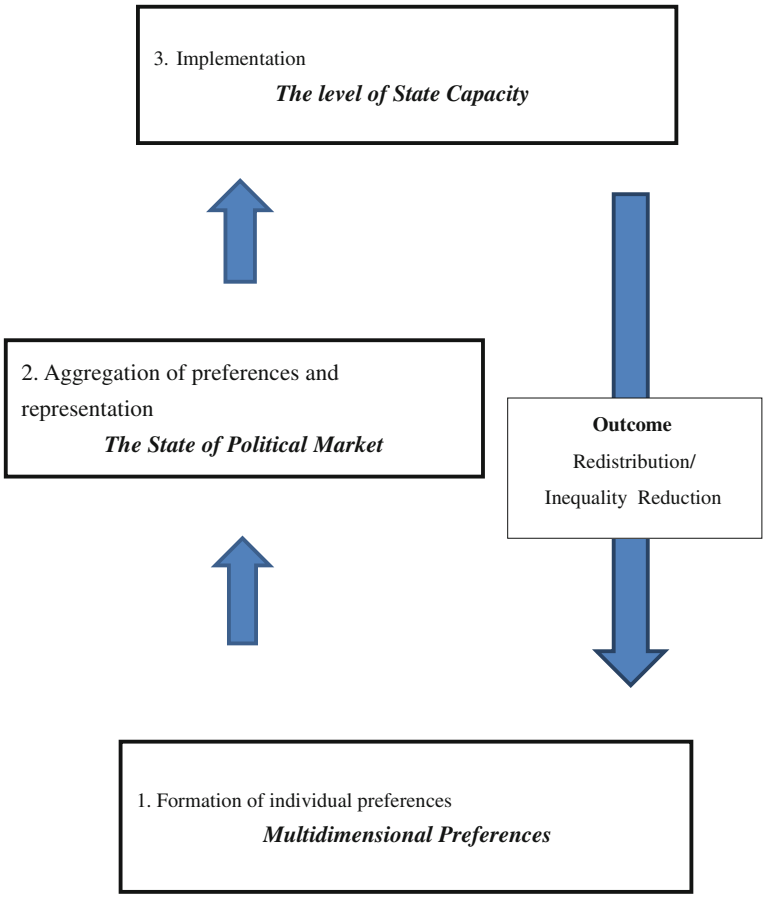

Fig. 2.1 Three political variables affecting inequality reduction in political process. *Source* Authors

Figure 2.1 illustrates the stages of political process and political variables affecting inequality reduction. The arrows indicate the sequence, not causality, of the political process. The political process begins with the formation of individual preferences, through aggregation of preferences and representation, and to policy implementation. We identify three political determinants of income inequality at these stages, namely, multidimensional preferences (at formation of individual preferences), the state of political market (at aggregation of preferences and representation), and the level of state capacity (at implementation). We will comprehensively elucidate the functioning of these political factors in the following sections.

2.1 Multidimensional Preferences

The first variable can be found at the foundation of the political process, which is the formation of individual preferences.

The median voter theorem holds in inequality reduction as long as voters cast their votes based on their income status. However, a problem arises if voters deviate from this expected voting behavior. In reality, the poor do not always support a political party that proposes inequality reduction at an individual level. This reflects the fact that individual income status is not the only determinant of voter preferences (Haggard et al. 2010; Kaufman 2009a, b; Alesina and La Ferrara 2005).

In general, we identify three major streams in explaining the formation of preferences for inequality reduction, namely income, beliefs, and group identities.[1] Note that these explanations are not mutually exclusive. Among these, we focus on group identity. Multidimensional preferences are caused by group identity.

Although individual income status is not a sole determinant of preference, it remains a fundamental one. This forms the underlying argument of previous theories. An individual receives greater benefits under inequality reduction if one's income status is lower than the mean income. The poor prefer greater redistribution, whereas the rich would prefer avoiding tax burden to support inequality reduction, particularly redistribution. A rational individual constructs his/her voting strategy to maximize benefits based on the payoff structure determined by his/her income status. The VoC argument adds "risk" as another factor influencing individual preferences regarding social policy (Iversen 2005, 2010; Rehm 2009; Rehm et al. 2012). Those who face a larger risk of losing their job or income reduction seem to support a larger welfare state. Although risk is not about current income, it affects expected future income. Both theories set a high value on individual benefits (income) in preference formation. However, "risk" could be included in the following "belief" if it is calculated based on a subjective probability.

Despite its dominance as an independent variable, as discussed, individual income status does not sufficiently explain variations in inequality reduction under democratic rules. Besides income status, subjective perception on the manner in which income status is determined is another possible determinant for preference. Such a perception is termed "belief." Beliefs are often shared by a community or the whole society. Collective beliefs, i.e., "culture," are considered to influence individual beliefs and preferences. One often-mentioned belief is an individual's perception of "fairness." This reflects whether people consider income as the result of personal efforts or as something that cannot be altered by individual effort. It is claimed that those who believe in personal effort in obtaining a better income tend not to support redistribution even if they belong to the lower income group. On the

[1]Corneo and Grüner (2002) identify three explanations for preferences, namely the "homo economics effect," the "public values effect," and the "social rivalry effect." In other words, these actually include income, beliefs, and interpersonal relations. This is the standard classification that we follow.

other hand, those who think that luck or family background determines income levels are expected to have higher support for redistribution. Preferences are produced from strategic calculations based on the probability of one's ability to change income status by one's own efforts (Alesina and Angeletos 2005; Alesina and Giuliano 2009; Bénabou and Tirole 2006; Alesina and Glaeser 2004). Closely related to fairness, individual expectations for social mobility affect preferences. Those who expect a higher future income with a greater subjective probability would not prefer as much inequality reduction even if their current income is not high (Alesina and La Ferrara 2005; Guillaud 2013; Piketty 1995). In addition, political socialization and the historical path of a country shape beliefs. Luttmer and Singhal (2011) and Corneo and Grüner (2002) find that people born in highly redistributive countries and former socialist countries tend to support greater redistribution.[2] This means beliefs are connected to a context.[3]

Beliefs make individual preferences deviate from individual income status. Nevertheless, beliefs are not necessarily related with the age of a democracy (newly democratized or advanced). We find the variations in the effects of beliefs even among advanced democracies. In our focus on the specific causes of variations in inequality reduction among emerging democracies, we focus on group identity (interpersonal relations), particularly ethnic identity.

People grasp their own social status not only through their individual income but also through the status of groups to which they belong. These groupings are formed by nation, race, ethnicity, occupation, or residential areas (Alesina et al. 1999; Alesina and Glaeser 2004; Bénabou and Tirole 2011; De La and Rodden 2008; Dincer and Lambert 2012; Easterly and Levine 1997; Fernández and Levy 2008; Iversen 2010; Klor and Shayo 2010; Lindqvist and Östling 2009; Luttmer 2001; Shayo 2009; Roemer 1998). The group identity argument posits that individual preferences for inequality reduction would be shaped by the collective benefits for the group to which he/she belongs. If group identity becomes more salient than individual income status in people's perceptions, people would support a party that emphasizes the group identity even at the cost of individual benefits. Many

[2]Scheve and Stasavage (2006) argue that individual religiousness affects redistributive preferences and they conducted empirical examinations on this issue. They show that religious people prefer a lower level of redistribution. They emphasize the role of religion as a value that could substitute for the material benefits provided by redistribution.

[3]Current studies indicate that individual preferences are not independent of contexts. Here, contexts include structural conditions, political institutions, and existing social policy (welfare institutions). Beyond the direct effects of structure and institutions on social policy, these factors affect individual preferences for redistribution (Cramer and Kaufman 2011; Huber and Stanig 2009). Existing social policy affects individual preferences because it provides the basis for people's expectations for redistribution (Beramendi and Rehm 2012). We can describe this situation as a policy feedback between existing policy and individual preferences (Gingrich and Ansell 2012). Notably, the policy will be augmented or altered through the aggregation of such individual preferences. The degree of inequality in a society affects people's view of fairness. High inequality is expected to strengthen the poor's belief that luck matters more than effort in obtaining a higher income (Cramer and Kaufman 2011).

empirical studies reveal the significance of group differences in preference formation (Alesina et al. 2001; Luttmer 2001; Bénabou and Tirole 2011; Shayo 2009; Lindqvist and Östling 2009; Amat and Wibbels 2009; Dincer and Lambert 2012; Baldwin and Huber 2010).

Most of these studies particularly highlight ethnicity as a representative example of group identity.[4] Inequality would not be effectively reduced without public goods because public goods provision is generally considered an effective means of redistribution. If ethnic identity has a more crucial meaning than individual income status, redistribution would be less salient as long as ethnic identity does not perfectly coincide with income status.[5] Along similar lines, Habyarimana et al. (2007) suggest a link between ethnic heterogeneity and underprovision of public goods in African countries.[6] Emerging democracies are mostly new nations, which often maintain various social cleavages. In fact, the correlation between years of democracy as of 2009 (regime durability of Polity IV of democracies as of 2009) and ethnic fractionalization (Alesina et al. 2003) is −0.24, and it is significant at the 5 % level.[7] The correlation is not high, but this indicates that emerging democracies tend to have greater ethnic fractionalization. Group identity, particularly ethnic identity, seems to be one of the causes of difference in inequality reduction between emerging and advanced democracies.

Group identity is closely related to the multidimensionality of policy argument (Iversen 2010). Group identity appears as a second policy dimension in political competition and makes inequality reduction at individual level less salient. Theoretically, introducing a second policy dimension affects the final policy choice in the first dimension (Roemer 1998). In such a situation, the median voter theorem would not hold on the inequality reduction dimension. Eventually, the policy outcome would differ from the prediction based on the income distribution throughout the population. Group identity could therefore be exploited by some politicians to secure greater support from society, such as agitating national, ethnic, and religious tensions when their opponents have policy programs closer to the median voter's preference in individual inequality reduction.

In the real world, political parties propose various programs in their policy platforms during election campaigns. Voters are forbidden to cast their votes on each issue, but choose a set of different programs from one party. This is referred to as policy bundling (Lee and Roemer 2006). Theoretical and empirical researches support that policy bundling affects voter choices. Bundling eliminates the policy

[4]Alesina et al. (1999) assert that public goods provision is inversely related to ethnic fragmentation though they examine US cities, not emerging democracies. Besides ethnicity, Haggard et al. (2010) emphasize residence and occupation as group identities, based on empirical examination of the data from 44 developing countries.

[5]This implies that variance of income within the same ethnic group is approximately zero.

[6]However, focusing on public goods provision as a measurement of redistribution may be misleading if public goods provision is based on ethnic favoritism (Kramon and Posner 2013).

[7]The observations include the countries whose polity 2 scores are equal to or greater than 6 as of 2009. $N = 92$.

salience of some issues. The salience of individual income status would be reduced through being combined with other issues in electoral competitions.[8]

Note that group identity is not the sole source of multidimensionality. National security, environmental problems, trade liberalization, and many additional issues seem not directly related to group identity. Nevertheless, if we carefully examine the causes of these issues, various types of group identity actually generate many of them as political issues.[9] For example, the group identity of farmers matters to a great extent in trade liberalization.

In the following empirical examinations in Chap. 4, we focus on group identity, particularly ethnic identity, as a cause of multidimensionality because they often constitute the second dimension in emerging democracies.

The argument of ethnic identity has another implication. If ethnic identity induces private goods provision that enables the exclusive provision of benefits to a specific ethnic group, it would be a patron–client network issue. We discuss this aspect later.

To sum up, preferences for inequality reduction are not formed simply based on individual income status. Even if income status determines preferences, this would not necessarily control individuals' political behavior. Among the factors affecting individual preferences, multidimensionality caused by group identity is vital in emerging democracies. If a policy issue other than individual inequality reduction becomes salient, people would not focus more on it. People may support politicians/political parties whose policy stances on individual income inequality do not match their own preference on the issue. Inequality reduction policy would thus differ from predictions based on class-induced preferences.

2.2 Political Market Failure

Even if people have preferences based on income status, these would not be reflected in actual policy without proper aggregation and representation. This is the issue of political market.

Policies and political support are traded between politicians and voters. Such transactions are conducted in the political market. However, this market is not free

[8]From the social choice perspective, Riker (1982) rejects the populist interpretation that voting should ensure the social policy that people desire. He asserts that voting at most enables people to remove elected officials who deviate from people's interests. This is the liberalist interpretation of voting. Expecting that the median voter's preference is achieved as social policy is populism in Riker's terminology.

[9]Decentralization of fiscal structure is also identified as a second dimension (Beramendi 2012). The relationship between inter-class redistribution and inter-regional redistribution may be an interesting topic for further discussion and research. The relationship between the inter-class redistribution and geographically targeted transfers (pork-barrel projects) could be another possible issue. Jusko (2008) examines the significance of geography (geographical distribution of low income voters), though her main argument concerns the effect of an electoral system on redistribution.

from failure. Political markets can cause inefficient resource allocation. Keefer (2007b) terms such a political market failure as "political market imperfections." Political market failure hampers inequality reduction even if a majority of voters demand it. This is a serious problem, especially in emerging democracies. Emerging democracies' political markets, often newly introduced after democratization, can lack the establishment of an efficient transaction mechanism. Variations in inequality reduction are caused by differences in efficiency within the political market.[10]

An inefficient political market includes information constraints and underdeveloped political institutions, especially political parties. These elements are in fact interrelated because an institutionalized party system is a strong means to solve the problem of information constraints.

As Stokes (2005) highlights, information constraints cause a commitment problem. In a newly democratized political market, voters do not have sufficient information about politicians. Voters do not know whether they can trust politicians to keep their preelection promises after being elected. This problem arises due to lack of available information about a politician's actual policy orientations. If voters have full knowledge of politicians' nature, they can judge whether politicians' promises are empty. Otherwise, voters face difficulties deciding whom they should support. Simultaneously, information constraints also deprive the political elite of an effective way to mobilize voters who suspect politicians' promises of being empty. Politicians would lose the incentive to secure public support through policy platform.

We find the commitment problem even on the voter side. A politician would be uncertain if he could rely on voters' support as long as voters are not fully committed to supporting politicians who promise to provide benefits. In particular, redistribution through public goods raises the probability of voter's defection due to the free rider problem in public goods provision.

The commitment problem under information constraints generates an alternative style of political mobilization, namely patron–client networks. Patron–client networks are personal networks based on the exchange of private goods and political support. A patron knows his clients on a face-to-face basis. This enables a patron to easily monitor and control clients. Clients also know that their patron will definitely provide benefits, mostly in the form of private good transfers. Such personal relations mitigate information constraints and solve the commitment problem. Political mobilization is conducted through patron–client networks in which both politicians and voters share the information of others (Keefer 2007a, b; Keefer and Vlaicu 2008; Kitschelt 2000; Magaloni et al. 2007; Robinson and Verdier 2003; Stokes 2005, 2007).

However, efficiency is sacrificed by reliance on patron–client networks, especially if we examine redistributive effects. Mobilization through patron–client networks is accompanied by a lack of public goods provisions, intermediary

[10]As for the basic concept of political market and its efficiency, see North (1990).

exploitation, and arbitrary selection of beneficiaries. First, patron–client networks prefer private transfers because of the non-exclusive nature of public goods, which render the personal exchange of benefits and support more difficult. Generally, public goods and private goods are used for redistribution, but many effective redistributive polices take the form of public goods provisions. Although we find redistributive effects from private goods provisions,[11] the scope and extensiveness of such redistributions are limited. Second, benefits are not distributed directly from politicians, but through grassroots political leaders under patron–client networks. Because of its reliance on personal ties, patron–client networks are sustained by grassroots political leaders who can monitor and mobilize voters. As they have the incentive to increase their personal benefits by taking some portions of provided benefits, the overall pool of available benefits is reduced in the distribution process. Third, beneficiaries are not targeted based on objective criteria such as income level, but rather by political loyalty.[12] Private goods transfers can be efficient in redistribution as long as targets are well-defined and transfers are implemented without patron–client networks, such as the conditional cash transfers in recent years (Diaz-Cayeros and Magaloni 2009).[13] Otherwise, goods would not be provided to those who should receive them.

As a type of patron–client network, ethnic ties are utilized to reduce the commitment problem. People consider distinguishable social cleavages as reliable criteria for social groupings. Ethnic ties provide the high probability of creating a network of trust and a reliable source of information about the natures of politicians and voters (Habyarimana et al. 2007; Chandra 2007; Dincer and Lambert 2012; Franck and Rainer 2012). We dealt with ethnic cleavages as a cause of multidimensionality in the previous section, but it can be also discussed in the context of political market failure. Although these two aspects of ethnic ties can be conceptually separated, their actual effects on inequality reduction are caused by their combination.

Political market failure is also associated with a deficiency in accountability. In other words, it is an issue of voter capacity to penalize politicians who do not respond to their demands. The costs of monitoring and penalizing elected officials are highly related to voters' status and nature (Taylor-Robinson 2010). Voters, especially poor voters, usually have fewer means to acquire information regarding the performance of officials. Generally, information accessibility is highly

[11]However, Kitschelt (2001) cites clientelism as one of the major causes of welfare retrenchment.

[12]There is an argument regarding the nature of recipients in terms of swing and core voters. Swing voters are not strongly attached to any political leaders, whereas core voters are. Generally, core voters are given more resources under conditions of high electoral risk (Cox 2009; Dixit and Londregan 1996; Robinson and Torvik 2009; Magaloni et al. 2007). At any rate, it is clear that objective socioeconomic criteria are not applied.

[13]Contrary to the argument of private goods provision through clientelism, private goods provision can weaken patron–client relationships in some cases. Borges (2011) argues that direct poverty alleviation policies by the federal government, including a cash transfer program, undermined the local political machine in Brazil.

correlated with education level. Poor voters whose educational attainments are generally lower have relatively greater difficulties accessing this information. The problem of monitoring and penalizing politicians is a typical principal–agent problem (Ferejohn and Rosenbluth 2009; Gilens 2001). Poor voters are more vulnerable to agency slack due to information asymmetry.

Political parties are expected to solve the problems of information constraints and commitment. Voters usually use a politician's party affiliation to guess his/her nature. Policy orientations of established political parties are common knowledge in the society. Such parties have established track records of policy making and policy stances that signal to voters the current policy stances of parties. Established parties also have internal procedures to select party leaders and nominate candidates who agree with the party's stances. Through the party's records and internal procedures, voters acquire information regarding the nature of politicians who belong to a party. On the other hand, established parties have stable supporters in the society. Politicians have better information regarding the voters. As long as parties are well established, political market malfunctions would be mitigated. However, emerging democracies have a serious problem in relation to political parties. Many political parties in these democracies are new and fluid. Parties have no established track records of past behavior. It is not even rare to find frequent mergers and splits of parties. Voters have no clues as to discerning the politicians' true natures.

The notion of party system institutionalization is useful for analyzing the stability and regularity of political competition as well as stable interest aggregation. Mainwaring and Scully (1995) define party system institutionalization in terms of four points: first, consistency in both the rules and nature of inter-party competition; second, stable roots in society; third, a strong sense of legitimacy for the electoral process and parties as the primary method of governing; and fourth, avoidance of control by certain personalities (at the highest level of organization) and routine intra-party procedures.[14] Party system institutionalization ensures predictability and reliability in the process of interest aggregation by political parties. This promotes trust between politicians and voters. Conversely, if the party system is not well institutionalized, linkages between politicians and voters tend to be more personal and clientelistic. Accountability and interest aggregation would not function under such a situation (Hagopian 2007; Mainwaring and Torcal 2006).

In sum, political market failure, which is characterized by information constraints and inefficient political transactions, impede inequality reduction predicted by the median voter theorem. Individual preferences for inequality reduction would not be properly aggregated or represented. Class-based coalitional politics, which is supposed to materialize the median voter theorem in inequality reduction, would not emerge in such a political market.

[14]Levitsky (1998) emphasizes the establishment of routine rules of the game within a party as a major component of institutionalization.

2.3 State Capacity

If we turn our attention to the final phase of the political process, implementation, we find the third independent variable, state capacity. State capacity affects all government functions. It has been often discussed in the economic development context, but is also crucial in inequality reduction. The level of state capacity decides the efficiency and effectiveness of government policy, including taxation and social policy (Robinson 2010).

State capacity is usually discussed in state–society relations (Evans 1995; Evans et al. 1985; Migdal 1988). Generally, social powers are sufficiently strong to evade state control in emerging democracies. In these countries, the state faces difficulties in penetrating the society. Regarding financial resources, weak capacity makes income monitoring difficult. Lacking information on income hampers efforts to secure sufficient revenue for government activities. Direct taxes are difficult to collect. The government has no choice other than rely on indirect taxes, which are relatively easy to capture. This situation eventually leads to a more regressive system of government finance (de Freitas 2012; Bird and Zolt 2005). The situation worsens if the informal economy is large. Inequality reduction would not be even attempted because people know that the state lacks the capacity to implement public policy for inequality reduction (Chuaire et al. 2014). We often observe such a situation in emerging democracies.[15]

Empirical studies on Latin America identify weak state capacity as the major cause of high inequality in the region. These studies claim that social powers strongly influence the government to minimize their burdens.[16] On the revenue side, this results in regressive tax systems.[17] Weak state capacity also causes stagnation in social policy implementation. Weak state capacity is represented by a lack of skilled professional bureaucracy.[18] The major problem is corruption.

Corruption creates opportunities for the rich to influence government policies. Bribing a tax agency to evade taxes is common in emerging democracies. Moreover, government output is also influenced by corruption. The rich are able to

[15]Becker and Mulligan (2003) argue that more efficient tax and spending policies generally promote the growth of government expenditure based on the model of political competition among interest groups. This argument also implies the significance of state capacity as a determining factor of redistribution.

[16]Huber and Stephens (2012) attribute the less redistributive tendency in Latin America to the pressure applied by strong social groups.

[17]However, Mahon (2011) considers this regressiveness as closely related to economic liberalization, and especially with policies to prevent capital flight, which may be triggered by increasing taxes on capital and income.

[18]Mares (2005) and Mares and Carnes (2009) consider the lack of state capacity as a crucial problem in developing countries. From the perspective of the strategic alliance of different classes in social policy, they particularly argue that state social policy would not be attractive to sectors that tend to be exposed to external risks if state capacity is too weak to protect them.

extract preferential policies by bribing both the political elite and the bureaucracy. Even redistributive policies can be distorted to provide benefits to the rich.

Some empirical studies explore the effects of corruption on redistribution and inequality. Balafoutas (2011) argues that the rich can maintain low redistribution by buying the votes of the poor and bribing government officials. Through empirical tests based on the data from 118 countries, he finds that direct income tax rates are a negative function of government corruption. This means that corrupt governments create regressive tax systems. Carmignani (2009) and Chong and Gradstein (2007) reveal that weak government institutions are correlated with larger income inequality.[19] On the other hand, strong institutions (uncorrupt governments) gain the confidence of the citizenry for their redistributive function (Rothstein et al. 2010).

Overall, weak state capacity, which is common in emerging democracies, makes the implementation of inequality reduction more difficult.

2.4 Limitation of Class-Based Coalitions in Emerging Democracies

Political representation concerns the manner in which interests in society are channeled into the policy-making process. Various groups are expected to secure respective representation to have their preferences reflected in public policy. Biased representation causes a gap between the distribution of preferences in a society and policy outcomes.

Bueno de Mesquita et al. (2003) employ the notion of the winning coalition and the selectorate as keys to explain policy outcomes. The winning coalition is the group whose support enables the leader to stay in power. The selectorate is a broader group from whom the winning coalition is drawn. Their theory, called "selectorate theory," claims that the size and characteristics of the winning coalition determine the types of policies enacted by the political leader. The power resource theory is actually a special case of the selectorate theory, specific to the European context.[20] Specially, the theory assumes that coalitions are formed along with class cleavages.

Inequality reduction would not be promoted if the winning coalition comprises the rich. Under such a situation, social policies are designed to benefit only a small portion of the society because elected politicians are required to meet only the demands of their rich supporters. Politicians lack the incentives to provide benefits

[19]The empirical tests, however, are not limited to emerging democracies. The strength of institutions is measured by various indicators including economic freedom, civil liberties and the level of corruption.

[20]In essence, the critical realignment argument of Haggard and Kaufman (2008) belongs to the selectorate theory.

to people outside the winning coalition. We find two possible determinants of the type of winning coalition, which tend to take such biased policies. One is de facto disenfranchisement of certain sectors in the society. The lower income group is excluded in most cases. Another is political institutions that enable the small segment of the society to win power.

De facto disenfranchisement of the poor is mainly caused by lack of information. Information constraints deprive the poor voters of access to the political competition. More importantly, information constraints cause a serious coordination problem among the poor and divide them. Division, in turn, weakens their voice even if they constitute the majority of the population.[21]

De facto disenfranchisement of the poor explains the reasons for the ineffective implementation of inequality reduction even when a leftist government is elected. Regarding this, Rueda (2005) proposes the insider–outsider model and claims that labor has been split into two constituencies, namely those with secure employment (insiders) and those without (outsiders) (Rueda 2006, 2007). Leftist parties pursue policies that benefit only the insiders upon whose support the government relies. These studies are based on advanced capitalism, but similar arguments frequently appear in studies on Latin American politics. In many Latin American countries, social policy is designed to benefit the formal sector only, excluding the informal sector (Diaz-Cayeros and Magaloni 2009; Haggard and Kaufman 2008; Huber and Stephens 2012).[22] The formal sector constitutes the political base of the ruling parties, whereas the informal sector is fragmented and has difficulty sustaining collective action to enable it to participate in political competitions.[23]

De facto disenfranchisement of the poor deserves attention because it reduces the size of the winning coalition. In fact, electoral participation tends to be lower among poor voters in developed countries (Anderson and Beramendi 2008; Lijphart 1997).[24] Nevertheless, voter turnout itself is not a serious problem in emerging

[21]Weingast (1997) highlights the importance of the coordination problem, another expression of the collective action problem, in the argument regarding democracy.

[22]For social cleavages in Latin America, see Portes and Hoffman (2003) and Roberts (2002). Roberts (2012) explains the recent decline of inequality in the region through changes in the class structure and in distributive coalitions, which are mainly caused by the structural adjustment.

[23]Weyland (1996) attributes the continuing inequality in Brazil after democratization to the collective action problem among the poor.

[24]There are some empirical studies in this line for the US case, such as Filer et al. (1993) and Solt (2010), which support the effects of education, income, and income inequality on election participation. Feddersen and Pesendorfer (1999) and Matsusaka (1995) consider the role of information asymmetry in deciding voter turnout in the US context. Lassen (2005) claims that less-informed voters have generally lower voter turnout based on a natural experiment in Copenhagen. Rolfe (2012) emphasizes the effects of social networks acquired through education, rather than education as such. Jusko (2008) focuses on the effects of an electoral system on political leaders' responsiveness to the poor's demands. In her study, electoral incentives to be responsive to low-income citizens may be stronger under the single member districts than under the PR rules when poverty is highly concentrated.

democracies (López Pintor and Gratschew 2002). Many practice compulsory voting, and politicians mobilize poor voters through patron–client networks even without compulsory voting. If votes of the poor are traded among politicians who represent the interests of the rich, the winning coalition comprises the rich.[25] Nevertheless, this pattern could be actually included in the political market failure argument. The small size of a winning coalition that is dominated by the rich is produced through patron–client networks, which are a product of political market failure.[26]

Another factor that affects the wining coalition is political institutions. The institutional context, such as the electoral system, party system, and legislative–executive relations, affect the size and composition of the winning coalition.[27] In some cases, institutions induce coalitional politics among different classes (Ansell 2010; Iversen and Soskice 2006; Harms and Zink 2003; Lupu and Pontusson 2011).

If we use Lijphart's typology of majoritarian and consensus models (Lijphart 1999), a majoritarian model is expected to produce a smaller winning coalition compared with that produced under a consensus model. If a smaller winning coalition that excludes the poor is formed under a majoritarian model, it would generate lower inequality reduction. Especially, the electoral system is the key element here. The electoral formula affects coalition size. Generally, political parties need a smaller share of votes in a plurality system to hold power than in proportional representation (PR). However, parties need to seek coalition partners to secure the majority in PR.[28]

---

[25]The winning coalition is not always monopolized by the rich. In the area of education policy, Ansell (2010) presents an interesting possibility of a winning coalition of the rich and the poor in opposition to the middle class. If the rich can buy off the poor in an imperfect political market, the rich can monopolize the winning coalition. The middle class would then find itself excluded.

[26]However, we should note that the poor are not always provided with preferable options in elections. The absence of options for the poor in elections is a consequence of the poor's underrepresentation in political competition due to costs. The cost of running a campaign is rising even in emerging democracies. Bugarin et al. (2011) theoretically and empirically show that election campaign costs rise in unequal societies, based on data from Brazil. Only those who are able to secure the necessary campaign funds can sustain an effective election campaign. This strengthens the influence of the rich and excludes the poor from competition. This could be interpreted as de facto disenfranchisement. Nonetheless, this is different from the class-based coalitional politics that assume existence of class-based parties. This is rather caused by political market failure, too.

[27]Institutions also define politicians' strategy regarding which policy dimension should be given focus to win the elections (Amat and Wibbels 2009). This is the multidimensionality issue.

[28]Persson (2002), Persson and Tabellini (1999, 2003) claim that PR enhances non-targeted programs. Alesina and Glaeser (2004) and Milesi-Ferretti et al. (2002) indicate that a more redistributive policy would create a better chance of winning under PR. The effects of the electoral system on the winning coalition's size raise questions regarding the strategy of the pivotal player, the middle class. Assuming that a commitment problem exists among the rich, middle class, and poor, Iversen and Soskice (2006, 2008) claim that the middle class prefers to form a coalition with the rich rather than with the poor under the plurality system. The middle class' behavior is logically explained as a second-best choice. Under a plurality system, it is more difficult to ensure the loyalty of the ruling party after the election because the ruling party can stand with less

We need to be careful about making a rapid conclusion here. The larger size of a coalition itself does not mean that the poor are represented. For example, if the broad coalition comprises parties based on non-economic cleavages, such as various ethnic groups or patron–client networks, the demands of the lower income group would be suppressed within each group (Menkyna 2014).

The argument of the winning coalition's impact on inequality reduction holds as long as the society is divided by class, and political parties are organized through class cleavages. This assumption is questionable in many emerging democracies.

2.5 Other Variables

Although we examine three political factors as major objectives of this study, we should also briefly note other related factors.

Historical paths have been considered as a cause for variations in inequality reduction. First, historical paths are important in the formation of political coalitions.[29] Second, as mentioned above, historical paths determine collective beliefs regarding redistribution. Furthermore, the type of pre-democratization dictatorship is crucial to understand the manner in which historical paths affect redistribution (Mares and Carnes 2009). Recent studies on dictatorship recognize variations within authoritarian regimes. These studies elucidate different strategies that a ruler may use to consolidate power (Geddes 2007; Haber 2006). As a part of a dictator's political strategies, inequality reduction, particularly redistribution is utilized in some cases. In fact, as Mares and Carnes (2009) indicate, in many countries, social

(Footnote 28 continued)

cooperation from other parties. If the middle class cooperates with a leftist party and that party wins, the middle class anticipates a drastic tax hike after the election even if the party implicitly agreed to a moderate tax hike. A system where the rich dominate and taxes remain the same would therefore be less harmful for the middle class. On the other hand, PR solves the commitment problem because the middle class now holds veto power by virtue of having joined the ruling coalition. If so, it is likely that the middle class will form a coalition with the poor to achieve a moderate level of redistribution. This is preferable to non-redistribution. We assume here that the middle class is the pivotal player, which is basically true in advanced economies.

[29]They specifically examine the differences in regions: oligarchical rule and reliance on the urban sector in Latin America, the process of decolonization and the Cold War in Asia, and the communist party's existence in Eastern Europe. Writing along similar lines, Albertus and Menaldo (2011) discuss the manner in which the strength of the elite classes at the time of democratization determines redistribution in the post-democratization period. In developed countries, the type of industrialization affects the formation of labor unions and leftist parties (Iversen and Soskice 2009). The logic here is similar to the classical study of Lipset and Rokkan (1967) that advocates the "frozen cleavages" hypothesis. The method by which ethnic groupings gain political influence is often explained by colonial history (Laitin 1986). Posner (2004), however, refutes this argument, asserting instead the importance of cultural demography. Alesina and Fuchs-Schündeln (2007) note the significance of history and argue that individual preference is affected by the existence of communist parties in Eastern Europe.

policies are initiated under a dictatorship. The point we need to note is that the political market after democratization is built on the authoritarian legacy. Relatively inclusive authoritarian regimes that employ the cooptation strategy enable a continuation of social and political groups even after democratization. As it was formed by existing forces, the political market in the post-democratization period is relatively well established, unlike the drastic turnover of a dictatorship supported only by a small ruling group.

We also recognize the effects of non-political factors. These include demography, the level of economic development (Lindert 2004), development strategies (Haggard and Kaufman 2008; Hall and Soskice 2001a; Mares 2000; Rudra 2007; Wibbels and Ahlquist 2007, 2011), economic risks (Rehm 2009; Rehm et al. 2012), geography, economic openness, capital mobility (Adserà and Boix 2002; Rodrik 1997), and technology (Boix 2010; Kahhat 2010). There is still room for discussion on whether these variables have real effects on inequality reduction (Alesina and Glaeser 2004; Kaufman and Segura-Ubiergo 2001; Swank and Steinmo 2002). We will control these non-political variables in the following empirical examinations.

References

Adserà A, Boix C (2002) Trade, democracy, and the size of the public sector: the political underpinnings of openness. Int Org 56(2):229–262

Albertus M, Menaldo V (2011) Gaming democracy: elite dominance during transition and the prospects for redistribution. Mimeo

Alesina A, Angeletos G-M (2005) Fairness and redistribution. Am Econ Rev 95(4):960–980

Alesina A, Fuchs-Schündeln N (2007) Good-bye Lenin (or not?): the effect of communism on people's preferences. Am Econ Rev 97(4):1507–1528

Alesina AF, Giuliano P (2009) Preferences for redistribution. National Bureau of economic research working paper series 14825

Alesina A, Glaeser EL (2004) Fighting poverty in the US and Europe: a world of difference. Oxford University Press, New York

Alesina A, La Ferrara E (2005) Preferences for redistribution in the land of opportunities. J Public Econ 89(5–6):897–931. doi:10.1016/j.jpubeco.2004.05.009

Alesina A, Baqir R, Easterly W (1999) Public goods and ethnic divisions. Quart J Econ 114 (4):1243–1284

Alesina A, Glaeser E, Sacerdote B (2001) Why doesn't the United States have a European-style welfare state? In: Brookings papers on economic activity, vol 2, pp 187–254

Alesina A, Devleeschauwer A, Easterly W, Kurlat S, Wacziarg R (2003) Fractionalization. J Econ Growth 8(2):155–194. doi:10.1023/a:1024471506938

Amat F, Wibbels E (2009) Electoral incentives, group identity and preferences for redistribution vol working paper 2009/246. Instituto Juan March de Estudios e Investigaciones

Anderson CJ, Beramendi P (2008) Income, inequality, and electoral participation. In: Beramendi P, Anderson CJ (eds) Democracy, inequality, and representation: a comparative perspective. Russell Sage Foundation, New York, pp 278–311

Ansell BW (2010) From the ballot to the blackboard: the redistributive political economy of education. Cambridge University Press, New York

Balafoutas L (2011) How much income redistribution? An explanation based on vote-buying and corruption. Public Choice 146(1):185–203. doi:10.1007/s11127-009-9589-6

Baldwin K, Huber JD (2010) Economic versus cultural differences: forms of ethnic diversity and public goods provision. Am Polit Sci Rev 104(4):644–662
Becker GS, Mulligan CB (2003) Deadweight costs and the size of government. J Law Econ 46 (2):293–340
Bénabou R, Tirole J (2006) Belief in a just world and redistributive politics. Quart J Econ 121 (2):699–746. doi:10.1162/qjec.2006.121.2.699
Bénabou R, Tirole J (2011) Identity, morals, and taboos: beliefs as assets. Quart J Econ 126 (2):805–855. doi:10.1093/qje/qjr002
Beramendi P (2012) The political geography of inequality: regions and redistribution. Cambridge Unviersity Press, New York
Beramendi P, Rehm P (2012) Redistribution and preference formation. Mimeo
Bird RM, Zolt EM (2005) The limited role of the personal income tax in developing countries. J Asian Econ 16(6):928–946. doi:10.1016/j.asieco.2005.09.001
Boix C (2010) Origins and persistence of economic inequality. Ann Rev Polit Sci 13 (1):489–516. doi:10.1146/annurev.polisci.12.031607.094915
Borges A (2011) The political consequences of center-led redistribution in Brazilian federalism: the fall of subnational party machines. Lat Am Res Rev 46(3):21–45
Bueno de Mesquita B, Smith A, Siverson RM, Morrow JD (2003) The logic of political survival. MIT Press, Cambridge
Bugarin M, Portugal AC, Sakurai SN (2011) Inequality and the cost of electoral campaigns. In: Blofield M (ed) The great gap: inequality and the politics of redistribution in Latin America. Pennsylvania State University Press, Pennsylvania, pp 217–244
Carmignani F (2009) The distributive effects of institutional quality when government stability is endogenous. Eur J Polit Econ 25(4):409–421. doi:10.1016/j.ejpoleco.2009.03.003
Chandra K (2007) Counting heads: a theory of voter and elite behavior in patronage democracies. In: Kitschelt H, Wilkinson SI (eds) Patrons, clients, and policies: patterns of democratic accountability and political competition. Cambridge University Press, New York, pp 84–109
Chong A, Gradstein M (2007) Inequality and institutions. Rev Econ Stat 89(3):454–465. doi:10.1162/rest.89.3.454
Chuaire MF, Scartascini C, Tommasi M (2014) State capacity and the quality of policies: revisiting the relationship between openness and the size of government. Inter-American Development Bank
Corneo G, Grüner HP (2002) Individual preferences for political redistribution. J Public Econ 83 (1):83–107. doi:http://dx.doi.org/10.1016/S0047-2727(00)00172-9
Cox GW (2009) Swing voters, core voters, and distributive politics. In: Shapiro I, Stokes SC, Wood EJ, Kirshner AS (eds) Political representation. Cambridge University Press, New York, pp 342–357
Cramer BD, Kaufman RR (2011) Views of economic inequality in Latin America. Comp Polit Stud 44(9):1206–1237. doi:10.1177/0010414010392171
de Freitas J (2012) Inequality, the politics of redistribution and the tax mix. Public Choice 151 (3):611–630. doi:10.1007/s11127-010-9761-z
De La OAL, Rodden JA (2008) Does religion distract the poor? Income and issue voting around the world. Comp Polit Stud 41(4–5):437–476. doi:10.1177/0010414007313114
Diaz-Cayeros A, Magaloni B (2009) Aiding Latin America's poor. J Democracy 20(4):36–49
Dincer OC, Lambert PJ (2012) Taking care of your own: ethnic and religious heterogeneity and income inequality. J Econ Stud 39(3):290–313. doi:10.1108/01443581211245883
Dixit A, Londregan J (1996) The determinants of success of special interests in redistributive politics. J Polit 58(4):1132–1155
Easterly W, Levine R (1997) Africa's growth tragedy: policies and ethnic divisions. Quart J Econ 112(4):1203–1250. doi:10.1162/003355300555466
Esping-Andersen G (1990) The three worlds of welfare capitalism. Princeton University Press, Princeton
Evans PB (1995) Embedded autonomy: states and industrial transformation. Princeton University Press, Princeton

Evans PB, Rueschemeyer D, Skocpol T (eds) (1985) Bringing the state back. Cambridge University Press, New York
Feddersen TJ, Pesendorfer W (1999) Abstention in elections with asymmetric information and diverse preferences. Am Polit Sci Rev 93(2):381–398
Ferejohn J, Rosenbluth F (2009) Electoral representation and the aristocratic thesis. In: Shapiro I, Stokes SC, Wood EJ, Kirshner AS (eds) Political representation. Cambridge University Press, New York
Fernández R, Levy G (2008) Diversity and redistribution. J Public Econ 92(5–6):925–943. doi:10.1016/j.jpubeco.2007.12.012
Filer JE, Kenny LW, Morton RB (1993) Redistribution, income, and voting. Am J Polit Sci 37 (1):63–87
Franck R, Rainer I (2012) Does the leader's ethnicity matter? Ethnic favoritism, education, and health in Sub-Saharan Africa. Am Polit Sci Rev 106 (02):294–325. doi:10.1017/S0003055412000172
Geddes B (2007) What causes democratization? In: Boix C, Stokes SC (eds) The Oxford handbook of comparative politics. Oxford University Press, New York, pp 317–339
Gilens M (2001) Political ignorance and collective policy preferences. Am Polit Sci Rev 95 (2):379–396. doi:10.2307/3118127
Gingrich J, Ansell B (2012) Preferences in context: micro preferences, macro contexts, and the demand for social policy. Comp Polit Stud 45(12):1624–1654. doi:10.1177/0010414012463904
Guillaud E (2013) Preferences for redistribution: an empirical analysis over 33 countries. J Econ Inequal 11(1):57–78. doi:10.1007/s10888-011-9205-0
Haber S (2006) Authoritarian government. In: Weingast BR, Wittman DA (eds) The Oxford handbook of political economy. Oxford University Press, New York, pp 693–707
Habyarimana J, Humphreys M, Posner DN, Weinstein JM (2007) Why does ethnic diversity undermine public goods provision? Am Polit Sci Rev 101(4):709–725
Haggard S, Kaufman RR (2008) Development, democracy, and welfare states: Latin America, East Asia and Eastern Europe. Princeton University Press, Princeton
Haggard S, Kaufman RR, Long JD (2010) Inequality and preferences for redistribution in the developing world. Paper prepared for presentation at the American political science association meetings, Washington DC. 1–5 Sept 2010
Hagopian F (2007) Parties and voters in emerging democracies. In: Boix C, Stokes SC (eds) The Oxford handbook of comparative politics. Oxford University Press, New York, pp 582–603
Hall PA, Soskice D (2001a) An introduction to varieties of capitalism. In: Hall PA, Soskice D (eds) Varieties of capitalism: the institutional foundations of comparative advantage. Oxford University Press, New York, pp 1–68
Hall PA, Soskice D (eds) (2001b) Varieties of capitalism: the institutional foundations of comparative advantage. Oxford University Press, New York
Harms P, Zink S (2003) Limits to redistribution in a democracy: a survey. Eur J Polit Econ 19 (4):651–668. doi:10.1016/s0176-2680(03)00021-1
Huber JD, Stanig P (2009) Individual income and voting for redistribution across democracies. Columbia University (unpublished)
Huber E, Stephens JD (2012) Democracy and the left: social policy and inequality in Latin America. University of Chicago Press, Chicago
Iversen T (2005) Capitalism, democracy, and welfare. Cambridge University Press, New York
Iversen T (2010) Democracy and capitalism. In: Castles FG, Leibfried S, Lewis J, Obinger H, Pierson C (eds) The Oxford handbook of the welfare state. Oxford University Press, New York, pp 183–195
Iversen T, Soskice D (2006) Electoral institutions and the politics of coalitions: why some democracies redistribute more than others. Am Polit Sci Rev 100(2):165–181
Iversen T, Soskice D (2008) Electoral institutions, parties, and the politics of class: explaining the formation of redistributive coalitions. In: Beramendi P, Anderson CJ (eds) Democracy, inequality, and representation: a comparative perspective. Russell Sage Foundation, New York

Iversen T, Soskice D (2009) Distribution and redistribution: the shadow of the nineteenth century. World Polit 61(3):438–486
Jusko KL (2008) The political representation of the poor. Ph.D. Dissertation, University of Michigan, Ann Arbor, Michigan
Kahhat J (2010) Labor earnings inequality: the demand for and supply of skills. In: López-Calva LF, Lustig N (eds) Declining inequality in Latin America: a decade of progress?. Brookings Institute Press, Washington, pp 25–38
Kaufman RR (2009a) Inequality and redistribution: some continuing puzzles. PS: Polit Sci Polit 42 (04):657–660. doi:10.1017/S1049096509990060
Kaufman RR (2009b) The political effects of inequality in Latin America: some inconvenient facts. Comp Polit 41(3):359–379. doi:10.5129/001041509x12911362972359
Kaufman RR, Segura-Ubiergo A (2001) Globalization, domestic politics, and social spending in Latin America: a time-series cross-section analysis, 1973–97. World Polit 53(4):553–587
Keefer P (2007a) Clientelism, credibility, and the policy choices of young democracies. Am J Polit Sci 51(4):804–821
Keefer P (2007b) The poor performance of poor democracies. In: Boix C, Stokes SC (eds) The Oxford handbook of comparative politics. Oxford University Press, New York, pp 782–802
Keefer P, Vlaicu R (2008) Democracy, credibility, and clientelism. J Law Econ Organ 24(2):371–406
Kitschelt H (2000) Linkages between citizens and politicians in democratic polities. Comp Polit Stud 33(6–7):845–879. doi:10.1177/001041400003300607
Kitschelt H (2001) Partisan competition and welfare state retrenchment: when do politicians choose unpopular policies? In: Pierson P (ed) The new politics of the welfare state. Oxford University Press, New York, pp 265–302
Klor EF, Shayo M (2010) Social identity and preferences over redistribution. J Public Econ 94(3–4):269–278. doi:10.1016/j.jpubeco.2009.12.003
Kramon E, Posner DN (2013) Who benefits from distributive politics? How the outcome one studies affects the answer one gets. Perspect Politics 11 (02):461–474. doi:10.1017/S1537592713001035
Laitin DD (1986) Hegemony and culture: politics and religious change among the Yoruba. University of Chicago Press, Chicago
Lassen DD (2005) The effect of information on voter turnout: evidence from a natural experiment. Am J Polit Sci 49(1):103–118
Lee W, Roemer JE (2006) Racism and redistribution in the United States: A solution to the problem of American exceptionalism. J Public Econ 90 (6–7):1027–1052. doi:http://dx.doi.org/10.1016/j.jpubeco.2005.08.008
Levitsky S (1998) Institutionalization and peronism. Party Polit 4(1):77–92. doi:10.1177/1354068898004001004
Lijphart A (1997) Unequal participation: democracy's unresolved dilemma. Am Polit Sci Rev 91 (1):1–14
Lijphart A (1999) Patterns of democracy: government forms and performance in thirty-six countries. Yale University Press, New Haven
Lindert PH (2004) Growing public: social spending and economic growth since the eighteenth century, vol 1. Cambridge University Press, New York, The Story
Lindqvist E, Östling R (2009) Identity and redistribution. Public Choice: 1–23. doi:10.1007/s11127-011-9877-9
Lipset SM, Rokkan S (eds) (1967) Party systems and voter alignments: cross-national perspectives. Free Press, New York
López Pintor R, Gratschew M (2002) Voter turnout since 1945: a global report. International Institute for Democracy and Electoral Assistance, Stockholm
Lupu N, Pontusson J (2011) The structure of inequality and the politics of redistribution. Am Polit Sci Rev 105(02):316–336. doi:10.1017/S0003055411000128
Luttmer EFP (2001) Group loyalty and the taste for redistribution. J Polit Econ 109(3):500–528. doi:10.1086/321019

Luttmer EFP, Singhal M (2011) Culture, context, and the taste for redistribution. Am Econ J: Econ Policy 3(1):157–179. doi:10.1257/pol.3.1.157
Magaloni B, Diaz-Cayeros A, Estévez F (2007) Clientelism and portfolio diversification: a model of electoral investment with applications to Mexico. In: Kitschelt H, Wilkinson SI (eds) Patrons, clients, and policies: patterns of democratic accountability and political competition. Cambrdige University Press, Ney York, pp 182–205
Mahon JE Jr (2011) Tax reforms and income distribution in Latin America. In: Blofield M (ed) The great gap: inequality and the politics of redistribution in Latin America. Pennsylvania State University Press, Pennsylvania, pp 313–347
Mainwaring S, Scully TR (1995) Introduction. In: Mainwaring S, Scully TR (eds) Building democratic institutions: party systems in Latin America. Stanford University Press, Stanford, pp 1–34
Mainwaring S, Torcal M (2006) Party system institutionalization and party system theory after the third wave of democratization. In: Katz RS, Crotty W (eds) Handbook of party politics. Sage Publications, London, pp 204–227
Mares I (2000) Strategic alliances and social policy reform: unemployment insurance in comparative perspective. Polit Soc 28(2):223–244. doi:10.1177/0032329200028002004
Mares I (2005) Social protection around the world. Comp Polit Stud 38(6):623–651. doi:10.1177/0010414004274403
Mares I, Carnes ME (2009) Social policy in developing countries. Ann Rev Polit Sci 12: 93–113. doi:10.1146/annurev.polisci.12.071207.093504
Matsusaka JG (1995) Explaining voter turnout patterns: an information theory. Public Choice 84 (1–2):91–117. doi:10.1007/bf01047803
Meltzer AH, Richard SF (1981) A rational theory of the size of government. J Polit Econ 89 (5):914–927
Menkyna FT (2014) A theory of ethnic diversity and income distribution: a legislative bargaining approach. Euro J Polit Econ 34(0):52–67. doi:http://dx.doi.org/10.1016/j.ejpoleco.2013.12.002
Migdal JS (1988) Strong societies and weak states: state-society relations and state capabilities in the third world. Princeton University Press, Princeton, N.J
Milesi-Ferretti GM, Perotti R, Rostagno M (2002) Electoral systems and public spending. Quart J Econ 117(2):609–657
North DC (1990) A transaction cost theory of politics. J Theor Polit 2(4):355–367. doi:10.1177/0951692890002004001
Persson T (2002) Do political institutions shape economic policy? Econometrica 70 (3):883–905. doi:10.1111/1468-0262.00313
Persson T, Tabellini G (1999) The size and scope of government: comparative politics with rational politicians. Euro Econ Rev 43 (4–6):699–735. doi:10.1016/s0014-2921(98)00131-7
Persson T, Tabellini G (2003) The economic effects of constitutions. Munich lectures in economics. The MIT Press, Cambridge
Piketty T (1995) Social mobility and redistributive politics. Q J Econ 110(3):551–584. doi:10.2307/2946692
Portes A, Hoffman K (2003) Latin American class structures: their composition and change during the neoliberal era. Latin Am Res Rev 38(1):41–82
Posner DN (2004) The political salience of cultural difference: why chewas and tumbukas are allies in Zambia and adversaries in Malawi. Am Polit Sci Rev 98(4):529–545
Rehm P (2009) Risks and redistribution. Comp Polit Stud 42(7):855–881. doi:10.1177/0010414008330595
Rehm P, Hacker JS, Schlesinger M (2012) Insecure alliances: risk, inequality, and support for the welfare state. Am Polit Sci Rev 106(02):386–406. doi:10.1017/S0003055412000147
Riker WH (1982) Liberalism against populism: a confrontation between the theory of demcoracy and the theory of social choice. Waveland Press Inc, Illinois
Roberts KM (2002) Social inequalities without class cleavages in Latin America's Neoliberal Era. St Comp Int Dev 36(4):3–33. doi:10.1007/bf02686331

Roberts KM (2012) The politics of inequality and redistribution in Latin America's post-adjustment era. United Nation University—WIDER, Helsinki
Robinson JA (2010) The political economy of redistributive policies. In: López-Calva LF, Lustig N (eds) Declining inequality in Latin America: a decade of progress?. Brrokings Institute Press, Washington, pp 39–71
Robinson JA, Torvik R (2009) The real swing voter's curse. National Bureau of economic research working paper series no. 14799
Robinson J, Verdier T (2003) The political economy of clientelism. CEPR discussion paper no. 3205
Rodrik D (1997) Has globalization gone too far? Institute for International Economics, Washington
Roemer JE (1998) Why the poor do not expropriate the rich: an old argument in new garb. J Public Econ 70(3):399–424. doi:10.1016/s0047-2727(98)00042-5
Rolfe M (2012) Voter turnout: a social theory of political participation. Cambridge University Press, New York
Rothstein B, Samanni M, Teorell J (2010) Quality of government, political power and the welfare state. QoG working paper series 2010:6
Rudra N (2007) Welfare states in developing countries: unique or universal? J Polit 69(2):378–396. doi:10.1111/j.1468-2508.2007.00538.x
Rueda D (2005) Insider-outsider politics in industrialized democracies: the challenge to social democratic parties. Am Polit Sci Rev 99(1):61–74. doi:10.2307/30038919
Rueda D (2006) Social democracy and active labour-market policies: insiders, outsiders and the politics of employment promotion. Br J Polit Sci 36(03):385–406. doi:10.1017/S0007123406000214
Rueda D (2007) Social democracy inside out: partisanship and labor market policy in advanced industrialized democracies. Oxford University Press, New York
Scheve K, Stasavage D (2006) Religion and preferences for social insurance. Q J Polit Sci 1 (3):255–286
Shayo M (2009) A model of social identity with an application to political economy: nation, class, and redistribution. Am Polit Sci Rev 103(02):147–174. doi:10.1017/S0003055409090194
Solt F (2010) Does economic inequality depress electoral participation? Testing the Schattschneider hypothesis. Polit Behav 32(2):285–301. doi:10.1007/s11109-010-9106-0
Stokes SC (2005) Perverse accountability: a formal model of machine politics with evidence from Argentina. Am Polit Sci Rev 99(3):315–325
Stokes SC (2007) Political clientelism. In: Boix C, Stokes SC (eds) The Oxford handbook of comparative politics. Oxford University Press, New York, pp 604–627
Swank D, Steinmo S (2002) The new political economy of taxation in advanced capitalist democracies. Am J Polit Sci 46(3):642–655. doi:10.2307/3088405
Taylor-Robinson MM (2010) Do the poor count?: Democratic institutions and accountability in a context of poverty. Pennsylvania State University Press, Pennsylvania
Weingast BR (1997) The political foundations of democracy and the rule of law. Am Polit Sci Rev 91(2):245–263
Weyland K (1996) Democracy without equity: failures of reform in Brazil University of Pittsburgh Press. Pittsburgh, Pennsylvania
Wibbels E, Ahlquist JS (2007) Development strategies and social spending. Working paper
Wibbels E, Ahlquist JS (2011) Development, trade, and social insurance. Int Stud Quart 55 (1):125–149. doi:10.1111/j.1468-2478.2010.00638.x

Chapter 3
The State of Emerging Democracies

Abstract Emerging democracies generally have higher levels of inequality than advanced democracies. Furthermore, variations in inequality levels within emerging democracies are larger than such variations within advanced democracies. In addition to examining these two characteristics, this chapter provides descriptive information on the three independent variables that form the focus of this study: multidimensional preferences, the quality of the political market, and the level of state capacity. We find correlations between inequality levels and three variables as measured by proxies, which are ethnic fractionalization (a proxy for multidimensionality), clientelistic practices by political parties (a proxy for failure of the political market), and the Quality of Government indicator from International Country Risk Guide (a measurement of state capacity). Emerging democracies tend to be ethnically more fractionalized, more clientelistic in terms of party systems, and weaker with respect to state capacity. Moreover, we find that these three variables exhibit larger variability in emerging democracies than in advanced democracies. This descriptive information indicates that these political factors need to be included when exploring the causal mechanisms of inequality in emerging democracies.

Keywords Inequality · Preferences · Political market · State capacity · Information · Ethnicity

3.1 Trends of Inequality

This chapter presents descriptive information regarding the state of emerging democracies. We identify three distinguishing characteristics. First, the level of inequality in emerging democracies is higher than that in advanced democracies. Second, the variance of inequality among emerging democracies is high. Finally, the independent variables that we deal with seem to be correlated with the level of inequality.

As we have seen, Fig. 1.2 and Table 1.2 (Chap. 1) described these first and second points based on the 2009 data. Mean level of inequality measured by

© IDE-JETRO 2016

T. Kawanaka and Y. Hazama, *Political Determinants of Income Inequality in Emerging Democracies*, SpringerBriefs in Economics,
DOI 10.1007/978-981-10-0257-1_3

after-tax Gini coefficient [Gini coefficient after tax, after transfers, estimated by Solt (2009)] in emerging democracies is higher than that in advanced democracies. The same figure and table reveal that standard deviation is larger in emerging democracies than that in advanced democracies.

Related to second point, the variance of inequality among emerging democracies has been high since 1990 just after the end of the Cold War. In 1990, the most unequal country among democracies was Botswana, which recorded 56.72 for its after-tax Gini coefficient, whereas the least unequal country, the Slovak republic, recorded 17.18. If we exclude countries that just abandoned socialism in the 1980s, Mauritius still records a value of 17.79. The gap between the most and the least unequal countries got larger in 2000. In that year, the highest Gini coefficient was recorded by Indonesia with 75.26 whereas Mauritius maintained an equal society with 15.82 for its Gini coefficient. The gap between the most and the least unequal countries narrowed by 2009. However, the gap between the most unequal South Africa (59.43) and the least unequal (among emerging democracies) Slovenia (23.26) is still large.[1]

On the other hand, although we find some changes in rankings, the lineup of unequal countries is more or less similar past two decades. Consistently unequal countries are Thailand, Zambia, Peru, Brazil, Panama, Chile, and South Africa. Panama, Colombia, Honduras, India, the Philippines, and Nepal also maintained a high inequality level. Newcomers to the unequal group are Paraguay, Indonesia, and Georgia.

Are there any correlations between the three identified political variables and the level of inequality? Table 3.1 lists all democracies (both emerging and advanced) with their after-tax Gini coefficient along with the various variables that this study considers independent variables. Among the variables listed, "ethnic fractionalization" (Alesina et al. 2003) and "ethnic peace" (Political Risk Services 2013) are proxies for multidimensionality. A higher value for ethnic fractionalization indicates the society is more fractionalized. A higher value for ethnic peace means tensions among ethnic groups are low. "Clientelism" (Kitschelt 2014) measures the degree of political market failure. A higher value indicates that parties in the country employ clientelistic mobilization. Finally, "quality of government" (Teorell et al. 2013) is a score for state capacity, where a high value implies a high quality of governance.[2] In Chap. 5, we use the age of the largest opposition party as given in the Quality of Government (QoG) indicator (Teorell et al. 2013) to measure political market failure because in that chapter, we employ the fixed effects

[1]Norway was the least unequal among all democracies in 2009 with 22.57 for its Gini coefficient.

[2]The details of each indicator are as follows: (1) "Ethnic fractionalization" reflects the probability that two randomly selected individuals from a population belonged to different ethnic groups; (2) "Ethnic peace" ("ethnic tension" in the dataset) assesses the degree of tension within a country attributable to racial, nationality, or language divisions. Lower ratings are given to countries where tensions are high; (3) "Clientelism" (b15nwe) is a composite index of three measurements of parties' general clientelistic tendencies in each country; (4) "Quality of Government" is the mean value of the ICRG variables "Corruption," "Law and Order," and "Bureaucracy Quality," scaled 0–1.

Table 3.1 After-tax Gini coefficient and independent variables (2009)

	Country	After-tax Gini coefficient	Est. % reduction gross income ineq.	Ethnic fractionalization	Ethnic peace	Clientelism	Quality of government	Polity2	Region code	Type
1	South Africa	59.43	5.67	0.75	4.00	12.38	0.44	9	SSF	Emerging
2	Zambia	54.55	5.46	0.78	5.00	15.11	0.47	7	SSF	Emerging
3	Honduras	51.13	3.99	0.19	5.00	16.46	0.36	7	LCN	Emerging
4	Philippines	50.20	−5.93	0.24	5.00	17.32	0.50	8	EAS	Emerging
5	India	49.74	0.10	0.42	2.50	15.68	0.61	9	SAS	Emerging
6	Colombia	49.55	2.98	0.60	5.00	15.70	0.44	7	LCN	Emerging
7	Thailand	49.47	.	0.63	2.00	13.29	0.42	4	EAS	Emerging
8	Georgia	49.24	1.43	0.49	.	13.98	.	6	ECS	Emerging
9	Indonesia	48.20	1.16	0.74	2.00	14.81	0.55	8	EAS	Emerging
10	Paraguay	48.10	3.32	0.17	5.00	17.58	0.25	8	LCN	Emerging
11	Peru	47.91	0.83	0.66	3.00	13.51	0.49	9	LCN	Emerging
12	Panama	47.43	2.49	0.55	5.00	17.28	0.44	9	LCN	Emerging
13	Chile	47.33	2.82	0.19	5.00	12.22	0.78	10	LCN	Emerging
14	Brazil	46.99	7.35	0.54	3.00	15.30	0.44	8	LCN	Emerging
15	Nepal	45.47	.	0.66	.	.	.	6	SAS	Emerging
16	Bolivia	45.36	.	0.74	3.00	15.23	0.44	7	LCN	Emerging
17	Costa Rica	45.32	2.56	0.24	6.00	12.66	0.47	10	LCN	Emerging
18	Malaysia	45.05	6.09	0.59	4.00	12.30	0.61	6	EAS	Emerging
19	Sri Lanka	44.98	.	0.42	1.50	.	0.47	6	SAS	Emerging
20	Ecuador	44.76	3.78	0.66	3.50	16.49	0.47	5	LCN	Emerging
21	Mexico	44.65	4.86	0.54	3.00	15.78	0.49	8	LCN	Emerging
22	Dominican Republic	43.92	4.40	0.43	5.00	17.93	0.33	8	LCN	Emerging

(continued)

Table 3.1 (continued)

	Country	After-tax Gini coefficient	Est. % reduction gross income ineq.	Ethnic fractionalization	Ethnic peace	Clientelism	Quality of government	Polity2	Region code	Type
23	Russian Federation	43.36	15.59	0.25	3.00	12.86	0.42	4	ECS	Emerging
24	Uruguay	43.17	9.92	0.25	6.00	11.64	0.47	10	LCN	Emerging
25	El Salvador	43.10	3.89	0.20	6.00	15.76	0.39	8	LCN	Emerging
26	Nicaragua	42.10	3.58	0.48	5.00	16.46	0.44	9	LCN	Emerging
27	Macedonia, FYR	41.39	.	0.50	.	16.69	.	9	ECS	Emerging
28	Malawi	41.04	.	0.67	3.50	.	0.46	6	SSF	Emerging
29	Argentina	40.58	3.23	0.26	6.00	16.98	0.53	8	LCN	Emerging
30	Turkey	39.91	.	0.32	2.46	17.74	0.56	7	ECS	Emerging
31	Israel	37.53	17.63	0.34	2.00	12.19	0.78	10	MEA	Emerging
32	United States	37.42	19.34	0.49	5.00	10.10	0.83	10	NAC	Advanced
33	Senegal	37.18	.	0.69	3.00	18.05	0.36	7	SSF	Emerging
34	Sierra Leone	36.57	.	0.82	4.50	.	0.28	7	SSF	Emerging
35	Latvia	35.74	29.03	0.59	3.00	10.52	0.60	8	ECS	Emerging
36	United Kingdom	35.68	24.19	0.12	4.00	6.39	0.86	10	ECS	Advanced
37	Moldova	35.47	7.49	0.55	2.00	13.93	0.42	8	ECS	Emerging
38	Lithuania	35.30	30.69	0.32	.	14.44	0.54	10	ECS	Emerging
39	Portugal	33.64	34.27	0.05	6.00	12.15	0.75	10	ECS	Emerging
40	Bulgaria	33.53	14.02	0.40	4.50	15.81	0.42	9	ECS	Emerging
41	Romania	32.96	23.76	0.31	3.50	14.64	0.44	9	ECS	Emerging
42	Greece	32.78	23.27	0.16	5.00	12.32	0.61	10	ECS	Emerging
43	Italy	32.59	29.18	0.11	4.50	12.64	0.57	10	ECS	Advanced
44	Australia	32.58	24.15	0.09	4.00	8.13	0.89	10	EAS	Advanced

(continued)

Table 3.1 (continued)

	Country	After-tax Gini coefficient	Est. % reduction gross income ineq.	Ethnic fractionalization	Ethnic peace	Clientelism	Quality of government	Polity2	Region code	Type
45	Mali	32.42	.	0.69	4.00	16.08	0.28	7	SSF	Emerging
46	Spain	32.40	19.89	0.42	4.00	11.34	0.75	10	ECS	Emerging
47	Republic of Korea	32.03	9.68	0.00	6.00	.	0.69	8	EAS	Emerging
48	Estonia	31.76	17.13	0.51	2.50	11.49	0.60	9	ECS	Emerging
49	Bangladesh	31.74	−0.09	0.05	2.50	14.80	0.46	5	SAS	Emerging
50	Canada	31.29	27.74	0.71	3.50	5.79	0.92	10	NAC	Advanced
51	New Zealand	31.09	8.70	0.40	3.50	8.87	0.94	10	EAS	Advanced
52	Montenegro	29.97	.	.	.	.	.	9	ECS	Emerging
53	Taiwan	29.87	10.20	0.27	5.00	15.07	0.69	10	EAS	Advanced
54	Japan	29.76	17.81	0.01	5.50	12.21	0.78	10	EAS	Advanced
55	Switzerland	29.53	27.46	0.53	4.00	6.48	0.86	10	ECS	Advanced
56	Ireland	29.29	33.15	0.12	5.50	9.24	0.86	10	ECS	Advanced
57	Poland	29.26	28.75	0.12	6.00	11.78	0.64	10	ECS	Emerging
58	Croatia	29.20	.	0.37	5.00	13.56	0.64	9	ECS	Emerging
59	Cyprus	29.07	.	0.09	2.50	.	0.83	10	ECS	Emerging
60	France	29.03	36.67	0.10	2.50	9.36	0.81	9	ECS	Advanced
61	Germany	28.84	40.81	0.17	4.00	6.65	0.89	10	ECS	Advanced
62	Serbia	28.49	11.48	.	3.00	13.50	0.47	8	ECS	Emerging
63	Serbia	28.49	11.48	.	3.00	.	.	8	ECS	Emerging
64	Austria	27.36	36.06	0.11	4.00	9.27	0.94	10	ECS	Advanced
65	Netherlands	27.22	34.79	0.11	4.50	6.47	0.94	10	ECS	Advanced
66	Luxembourg	27.12	37.60	0.53	5.00	.	0.94	10	ECS	Advanced

(continued)

Table 3.1 (continued)

	Country	After-tax Gini coefficient	Est. % reduction gross income ineq.	Ethnic fractionalization	Ethnic peace	Clientelism	Quality of government	Polity2	Region code	Type
67	Hungary	26.50	32.20	0.15	4.00	14.85	0.64	10	ECS	Emerging
68	Ukraine	26.42	14.90	0.47	4.00	14.41	0.42	7	ECS	Emerging
69	Slovak Republic	25.80	31.57	0.25	3.50	11.22	0.61	10	ECS	Emerging
70	Sweden	25.65	45.81	0.06	5.00	6.90	0.94	10	ECS	Advanced
71	Finland	25.65	42.05	0.13	6.00	7.98	1.00	10	ECS	Advanced
72	Czech Republic	25.25	32.52	0.32	4.00	10.63	0.67	8	ECS	Emerging
73	Belgium	25.15	21.58	0.56	3.00	9.35	0.89	8	ECS	Advanced
74	Denmark	24.48	45.63	0.08	4.00	6.30	0.97	10	ECS	Advanced
75	Mauritius	23.34	11.91	0.46	.	16.63	.	10	SSF	Emerging
76	Slovenia	23.26	31.92	0.22	3.50	10.89	0.67	10	ECS	Emerging
77	Norway	22.57	40.05	0.06	4.50	6.10	0.94	10	ECS	Advanced

Notes

1. *EAS* East Asia and Pacific, *ECS* Europe and Central Asia, *LCN* Latin America and Caribbean, *MEA* Middle East and North Africa, *NAC* North America, *SAS* South Asia, *SSF* Sub-Saharan Africa

2. Underlined figures indicate the most unequal 25 % for Gini coefficient, the highest 25 % for ethnic fractionalization and clientelism, and the lowest 25 % for estimated percentage reduction gross income inequality, ethnic peace and quality of government

Source Compiled by the authors from Solt (2009), Alesina et al. (2003), Political Risk Services (2013), Teorell et al. (2013) and Marshall and Jaggers (2010)

(FE) model with a lagged dependent variable (LDV) on the unbalanced panel dataset. The clientelism variable of Democratic Accountability and Linkages Project (DALP) (Kitschelt 2014) is inappropriate for Chap. 5's estimations as it is not time-series data. However, as we focus only on cross-national comparisons in this chapter, we use the clientelism variable here. This would be more favorable in this chapter because the clientelism variable measures the level of political market failure more directly.

We cannot firmly claim the correlations between the level of inequality and political variables in Table 3.1 because socioeconomic variables are not controlled here. Nonetheless, there are immense possibilities that three independent variables explain observed levels of inequality. At least one of the three variables predicts higher inequality among the most unequal countries, whereas the least equal countries do not have problems with these three variables. For example, the prediction induced from the levels of ethnic fractionalization (multidimensionality) and quality of government (state capacity) match the high inequality in South Africa. In addition, the difference of inequality between regions seems to be explained by these three variables. Most of the most unequal countries are found either in Sub-Saharan Africa or in Latin America, whereas the least unequal countries are in Eastern Europe. Especially, the relatively low level of inequality in Eastern European countries seems to be correlated with their low ethnic fractionalization, low clientelistic mobilization, and high quality of government. Conventional explanations for Eastern European countries emphasize their historical path, where socialist regimes established egalitarian systems and values. Examining the three political factors with which this study deals with provides an alternative explanation. Differences in the three political factors can cause variations in inequality between different regions.

3.2 Three Variables and Inequality

Although more rigorous examinations regarding the effects of the three independent variables will be provided by the following two chapters, we present here figures and tables to illustrate the relationship between the inequality level and three independent variables.

Figure 3.1 and Table 3.2 provide the differences in the level of ethnic fractionalization by types of democracies in 2009. As a general tendency, emerging democracies are more fractionalized than advanced democracies. Moreover, the variance within emerging democracies is larger than that within advanced democracies.

Figure 3.2 depicts the relations between after-tax Gini coefficient and the level of ethnic fractionalization (Alesina et al. 2003) for both emerging and advanced democracies in 2009. A simple correlation is observed between the two variables ($r = 0.47$), and this is statistically significant at the one percent level. As a general trend, ethnically fractionalized countries indicate higher inequality levels. We also

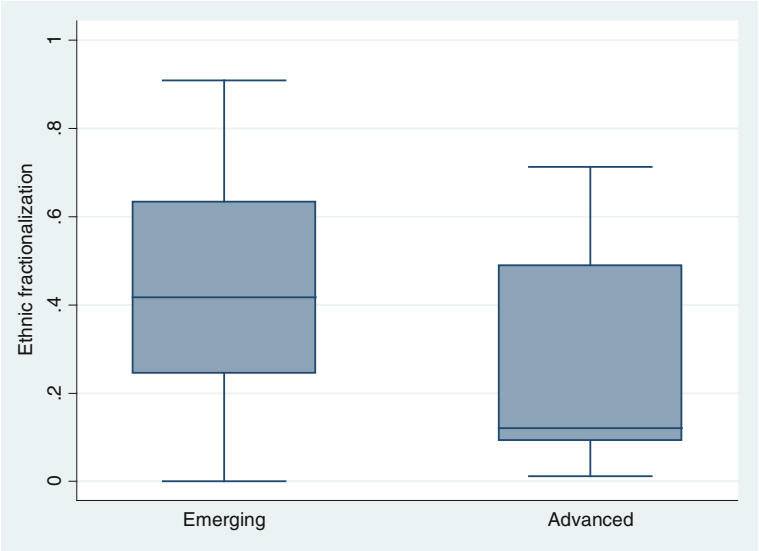

Fig. 3.1 Ethnic fractionalization by advanced and emerging democracies (2009). *Source* Compiled by the authors from Alesina et al. (2003) and Marshall and Jaggers (2010)

Table 3.2 Summary of ethnic fractionalization by advanced and emerging democracies (2009)

	Observations	Mean	Standard deviation	Min.	Max.
Emerging	93	0.46	0.24	0.00	0.91
Advanced	19	0.24	0.22	0.01	0.71

Source Compiled by the authors from Alesina et al. (2003) and Marshall and Jaggers (2010)

find a gap between emerging and advanced democracies, though it is not as clear as in the cases of other independent variables. Advanced democracies tend to be concentrated at the corner of lower fractionalized countries, whereas emerging democracies are more diverse. Ethnic fractionalization, therefore, seem to be related with the difference between emerging and advanced democracies, and also with variations between emerging democracies.

South Africa and Zambia are conspicuous as cases of high ethnic fractionalization and inequality, followed by Indonesia, Thailand, Bolivia, and Peru. As we have discussed, ethnic cleavages are one type of major social cleavage that functions as a second dimension in preference formation (Menkyna 2014). Figure 3.2 supports the multidimensionality argument. However, we need to be careful about the complexity of inequality in relation to ethnicity. The multidimensionality effects of ethnic fractionalization would be clear if ethnic and class cleavages did not overlap. As long as income inequality exists regardless of ethnic cleavages, ethnic conflicts would weaken redistributive pressures. Nonetheless, in many cases, such as those of South Africa and Peru, ethnic cleavages seem to match class cleavages.

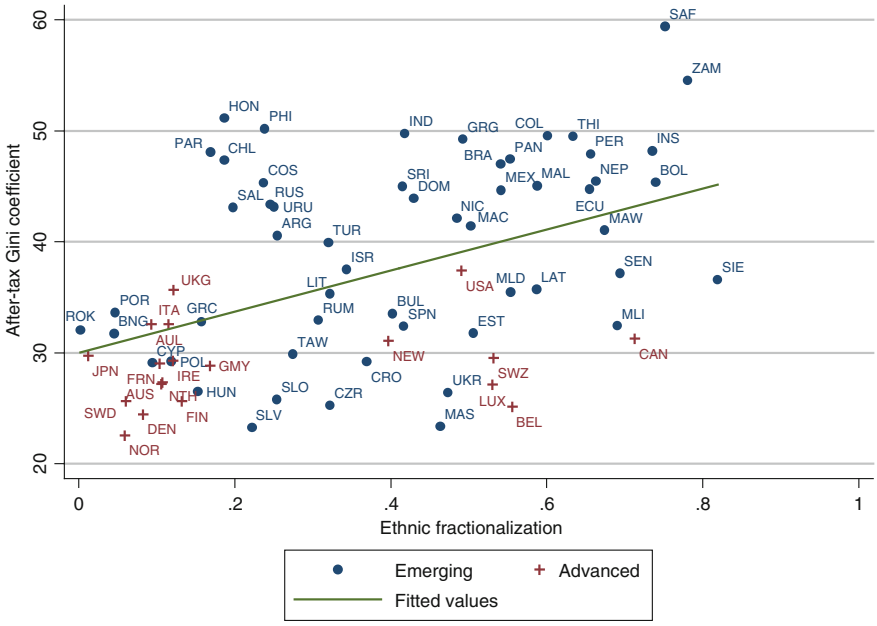

Fig. 3.2 After-tax Gini coefficient and ethnic fractionalization (2009), $N = 74$, $r = 0.47$. *Source* Compiled by the authors from Solt (2009) and Alesina et al. (2003)

Precisely, we find a gap in mean incomes between ethnic groups (Alesina et al. 2014; Brockerhoff and Hewett 2000; Huber et al. 2012). If inequality in a society is caused by differences in income status between ethnic groups, multidimensionality seems to lose its explanatory power. Ethnic cleavages would not be a second dimension in such a case because group identity and individual income status would be identical.

However, this argument makes sense only if each ethnic group has less inequality within the group. The story would be different when high income inequality exists within an ethnic group. In such a situation, emphasizing the inter-group gap could conceal the intra-group gap. Even if redistribution were performed among ethnic groups, it virtually means that wealth would be transferred from the higher income ethnic group to a specific small segment in a group, which mostly comprises the richer people of a poor group. This does not reduce inequality between classes. In the end, inequality persists. In other words, emphasizing the gap between different ethnic groups divides class ties across different ethnic groups. Here, ethnic cleavages function as a second dimension. People are more concerned with the mean income of the group to which they belong, rather than their individual income. The same mechanism is observed in regional transfers. The inter-regional transfer of wealth based on the gap among regions would not necessarily reduce inequality for society as a whole.

Second, Fig. 3.3 and Table 3.3 illustrate the differences in the level of clientelism between emerging and advanced democracies in 2009.

The differences in the level of clientelism are very visible than that of ethnic fractionalization. Clearly, clientelism prevails in emerging democracies much more than in advanced democracies.

Figure 3.4 provides scatter plots demonstrating the relation between after-tax Gini coefficient and the level of clientelism. We use the clientelism variable of Kitschelt (2014) for the horizontal axis. This variable is appropriate to measure the level of political market failure because the failed market is usually operated by clientelistic networks and mobilization.

The more a country is clientelistic, the higher its inequality level. Inequality and clientelism are correlated (r = 0.55) at the one percent level. Moreover, the difference between emerging and advanced democracies is much clearer as compared to the relationship between ethnic fractionalization and inequality. Advanced democracies are concentrated in the lower left corner, which indicates lower levels

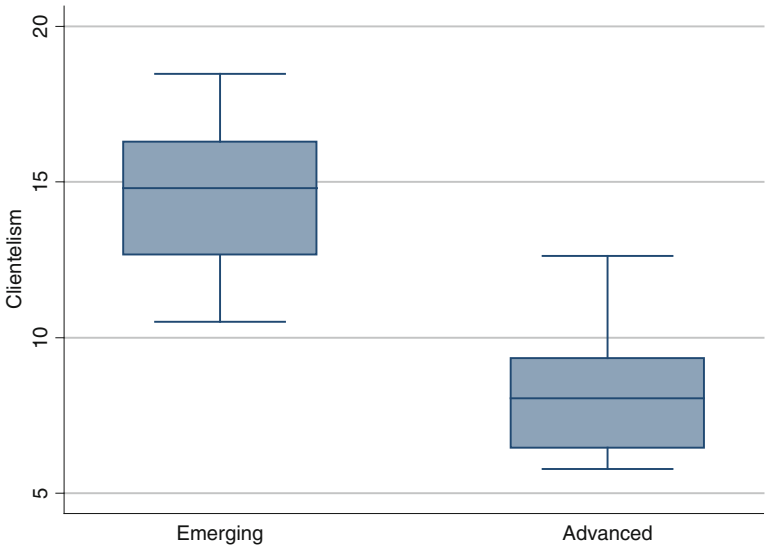

Fig. 3.3 Clientelism by advanced and emerging democracies (2009). *Source* Compiled by the authors from Kitschelt (2014) and Marshall and Jaggers (2010)

Table 3.3 Summary of clientelism by advanced and emerging democracies (2009)

	Observations	Mean	Standard deviation	Min.	Max.
Emerging	61	14.58	2.16	10.52	18.48
Advanced	18	8.23	2.06	5.79	12.64

Source Compiled by the authors from Kitschelt (2014) and Marshall and Jaggers (2010)

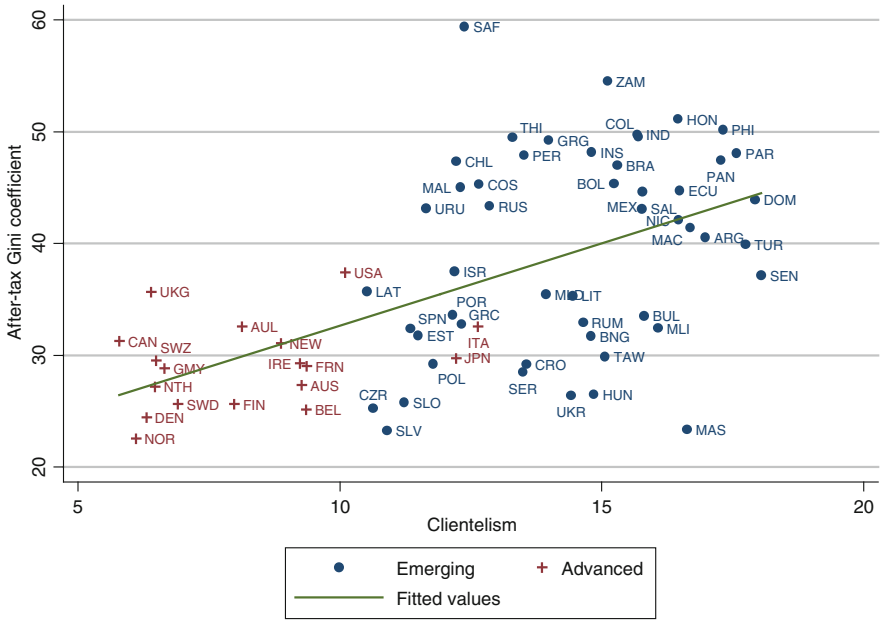

Fig. 3.4 After-tax Gini coefficient and clientelism (2009), $N = 68$, $r = 0.55$. *Source* Compiled by the authors from Solt (2009) and Kitschelt (2014)

of both inequality and clientelism. Unlike in the scatterplots for ethnic fractionalization, emerging democracies are scattered in the right-hand side. Nevertheless, the variance of emerging democracies remains larger than that of advanced democracies. This indicates that emerging democracies mostly have clientelistic political parties, but the degree of clientelism varies among them. Honduras, the Philippines, Colombia, Panama, and Paraguay are representative cases of clientelistic mobilization with high inequality. Most of these are Latin American countries.

Finally, Fig. 3.5 and Table 3.4 depict the level of quality of government (Teorell et al. 2013) in emerging and advanced democracies. This is the indicator of state capacity, which is a composite index of three variables from the Political Risk Service's dataset.

The means are quite different between emerging and advanced democracies. The quality of government is much better in advanced democracies. Furthermore, the variance within advanced democracies is much smaller. On the other hand, the variance within emerging democracies is relatively large.

Figure 3.6 provides the scatter plot of inequality and quality of government. As our theory predicts, we find negative correlations between inequality and quality of government. The correlation is −0.62 and is statistically significant at the one percent level. The correlation between the quality of government and inequality is the strongest out of the three variables. Furthermore, the division between emerging

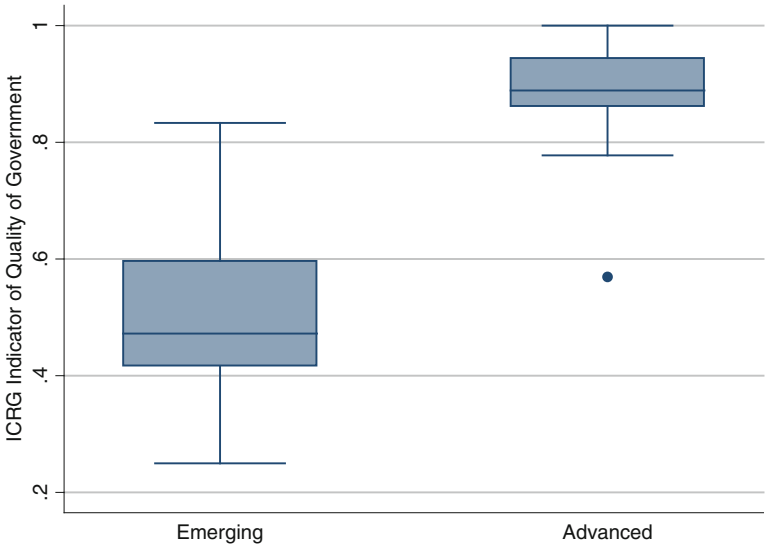

Fig. 3.5 Quality of government by advanced and emerging democracies (2009). *Source* Compiled by the authors from Teorell et al. (2013) and Marshall and Jaggers (2010)

Table 3.4 Summary of quality of government by advanced and emerging democracies (2009)

	Observations	Mean	Standard deviation	Min.	Max.
Emerging	66	0.50	0.13	0.25	0.83
Advanced	19	0.88	0.10	0.57	1.00

Source Compiled by the authors from Teorell et al. (2013) and Marshall and Jaggers (2010)

and advanced democracies is much clearer. The variance between emerging democracies is also noticeable.

Paraguay is an extreme case of high inequality and low state capacity. Other countries with similar feature are South Africa, Honduras, Colombia, Panama, Brazil, and Bolivia.

In sum, the descriptive information regarding inequality in emerging and advanced democracies seems to support our argument about the salience of the identified three political factors. We find a high probability that the difference between emerging and advanced democracies as well as variations across emerging democracies are caused by three variables, namely, multidimensional preference formation, political market failure, and state capacity. In Chaps. 4 and 5, we employ econometric methods to examine the effects of these variables. Chapter 4 deals with individual preferences based on micro data, whereas Chap. 5 deals with inequality at macro level.

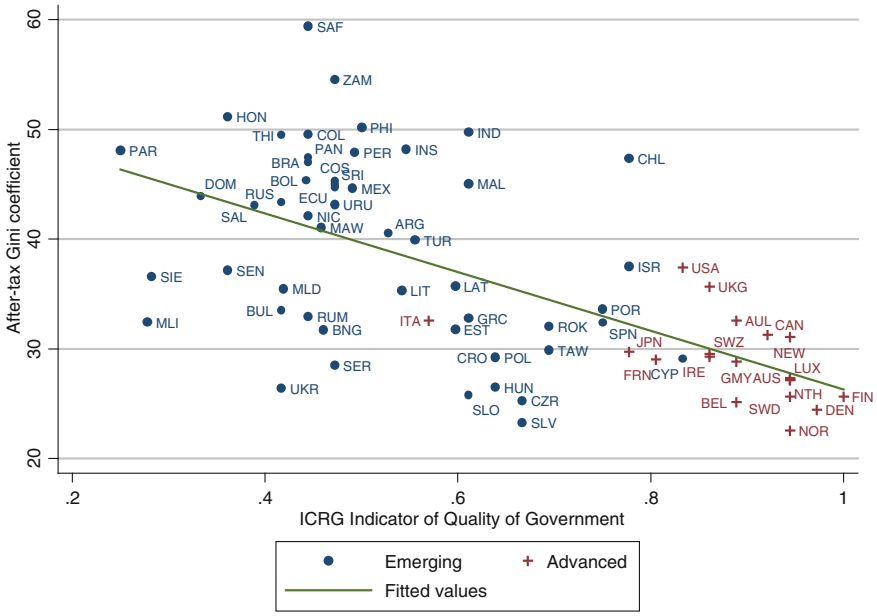

Fig. 3.6 After-tax Gini coefficient and quality of government (2009), $N = 71$, $r = -0.62$. *Source* Compiled by the authors from Solt (2009) and Teorell et al. (2013)

References

Alesina A, Devleeschauwer A, Easterly W, Kurlat S, Wacziarg R (2003) Fractionalization. J Econ Growth 8(2):155–194. doi:10.1023/a:1024471506938

Alesina A, Michalopoulos S, Papaioannou E (2014) Ethnic inequality. National bureau of economic research working paper series no 18512

Brockerhoff M, Hewett P (2000) Inequality of child mortality among ethnic groups in sub-Saharan Africa. Bull World Health Organ 78(1):30–41

Huber JD, Ogorzlek TK, Gore R (2012) Democracy, targetted redistribution and ethnic inequality. Mimeo, New York

Kitschelt H (2014) Democratic accountability and linkages project: 2008–2009 dataset. Department of Political Science, Duku University, United States

Marshall MG, Jaggers K (2010) Political regime characteristics and transitions, 1800–2012. Center for International Development and Conflict Management, University of Maryland, College Park, MD

Menkyna FT (2014) A theory of ethnic diversity and income distribution: a legislative bargaining approach. Eur J Polit Econ 34(0):52–67. doi:http://dx.doi.org/10.1016/j.ejpoleco.2013.12.002

Political Risk Services (2013) International Country risk guide. The PRS Group, New York

Solt F (2009) Standardizing the world income inequality database. Soc Sci Q 90(2):231–242. doi:10.1111/j.1540-6237.2009.00614.x

Teorell J, Charron N, Dahlberg S, Holmberg S, Rothstein B, Sundin P, Svensson R (2013) The quality of government datase, 13 edn. 15 May 2013

Chapter 4
Multidimensionality and Preferences for Income Equality

Abstract Multidimensionality resulting from ethnic fractionalization is more prevalent in emerging democracies compared with advanced democracies. Ethnic fractionalization hampers the formation of public opinion favoring income redistribution from the better-off to the worse-off. This occurs because although resource transfers to the poor within the same ethnic group can be supported, transfers to the poor from other ethnic groups will be resisted. Previous studies indicated that ethnic fractionalization reduces preferences for income equality; however, they included both emerging and advanced democracies in the same samples. This approach raises concerns about a spurious relationship, particularly because emerging democracies, on an average, have higher ethnic fractionalization and weaker preferences for income equality than advanced democracies. This chapter focuses only on emerging democracies to test the impact of ethnic fractionalization upon individual preferences for income equality. The multilevel analysis, applied separately to the last two waves of the World Values Survey, reveals that ethnic fractionalization primarily reduces preferences for income inequality, although the relationship is nonlinear. The fact that this relationship was observed when the lower-income group status was controlled for suggests that in ethnically heterogeneous societies, resistance to resource transfers to out-groups is deeply embedded, thus cutting across class lines. These results lend qualified support to the conventional understanding of ethnic heterogeneity and preferences for income equality.

Keywords Multidimensionality · Ethnic fractionalization · Preferences · Inequality · Multilevel analysis

Multidimensionality in policy issues, which is especially caused by group identities, discourages the formation of opinions supporting inequality reduction, as previous chapters have argued. Multidimensionality resulting from ethnic or religious fractionalization is more prevalent in emerging rather than advanced democracies. Ethnic fractionalization hampers the formation of public opinion favoring income redistribution from the better to the worse off. This occurs because, while resource transfers to the poor within the same ethnic group can be supported (mostly by the poor but also by some of the rich), transfers to the poor from other ethnic groups would be resisted.

© IDE-JETRO 2016

T. Kawanaka and Y. Hazama, *Political Determinants of Income Inequality in Emerging Democracies*, SpringerBriefs in Economics,
DOI 10.1007/978-981-10-0257-1_4

Previous studies included both emerging and advanced democracies in the same sample, an approach that raises concerns regarding a spurious relationship stemming from a comparison of two groups of democracies. For instance, the two graphs in Fig. 4.1, which include both advanced and emerging democracies surveyed in the last two waves (Waves 5 and 6) of the World Values Survey (WVS) during the 2004–2014 period, seem to indicate that ethnically more-fractionalized countries have stronger preferences for income inequality than less-fractionalized countries. However, the apparent association between ethnic fractionalization and inequality preferences arises, to a large extent, from the concentration of advanced democracies in the high preference–low fractionalization quadrant of the graph.

This chapter focuses only on emerging democracies to address the above question. This chapter employs the last two waves of the World Values Survey (WVS) data to test the hypothesis that ethnic fractionalization reduces preferences for inequality reduction. The next section conceptualizes the impact of ethnic fractionalization on redistribution preferences. The third section elaborates on the research design. The last section draws tentative conclusions. Preferences for income equality theoretically differ from redistribution preferences; the latter is part of the former, which includes preferences for pre-tax income equality. However,

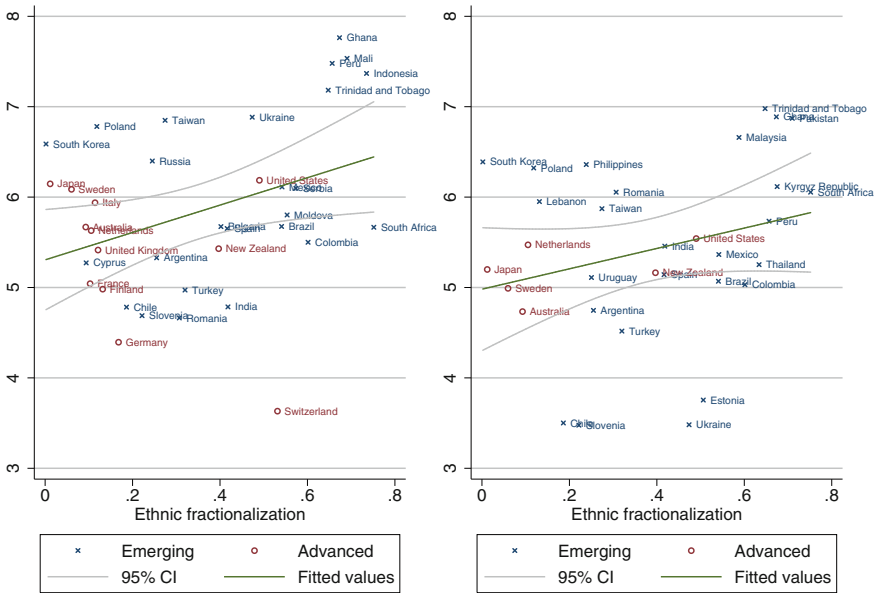

Fig. 4.1 Ethnic fractionalization and mean preferences for inequality: WVS waves 5 and 6. *Source* Compiled by the authors from the dataset. *Notes* $r = 0.36$, $p < 0.03$, and $N = 37$ for Wave 5; $r = 0.27$, $p < 0.14$, and $N = 32$ for Wave 6. Preferences for inequality ranging from 1 = "Incomes should be made more equal" to 10 = "We need larger income differences as incentives for individual effort" were averaged for each country

practically, preferences for income equality are largely determined by redistribution preferences. Therefore, both phrases are used almost interchangeably in the following discussion depending on the context of the case illustration.

4.1 Conceptualizing Multidimensionality and Redistribution Preferences

This study argues that deep ethnic divisions hamper the formation of pro-redistribution opinions because resource transfers only to the poor within the same ethnic group can be supported, mostly by the poor but also by some of the rich, but transfers to the poor in other ethnic or social groups would be resisted. Even if ethnic group members support redistribution within their own group, overall societal support for redistribution in ethnically more-fractionalized societies would be weaker than in less-fractionalized societies because the public does not favor redistribution that flows from the upper income group of one's own ethnic group to the lower income group of other ethnic groups.

Previous studies provided little theorization and evidence regarding the impact of ethnic fractionalization (in the context of multidimensionality) on redistribution preferences. However, Menkyna (2014) formulated a theoretical argument, based upon preliminary evidence, that upper income groups in ethnically fractionalized societies attempt to form ethnicity-based legislative coalitions to forestall a lower class coalition. This argument suggests first that lower income earners' opinions would be less likely to converge on redistribution in heterogeneous than homogeneous societies and second that the upper income group in heterogeneous societies is nearly as averse to redistribution as its counterpart in homogeneous societies. Thus, if the upper income group seeks to minimize redistribution and the lower income group is induced to place ethnic interests before class interests, then ethnic fractionalization would reduce redistribution preferences. Luttmer (2001) provides supportive evidence from the United States that blacks are more reluctant to support redistribution to non-blacks than to blacks. Linguistic diversity, which is associated with ethnic diversity, also impedes redistribution according to a cross-sectional analysis (Desmet et al. 2012).[1] These studies underscore that ethnic fractionalization shrinks the universe wherein income equality concerns citizens.[2]

[1]Desmet et al. (2012) measured linguistic diversity in terms of the similarity (not fractionalization) of languages.

[2]The universe of redistribution also differs between the religious and secular poor. Huber and Stanig (2011) demonstrated using the using the International Social Survey Program (ISSP) dataset of 26 democracies, 10 of which are emerging democracies, that the secular poor more strongly support redistribution than the religious poor. As the religious poor can benefit from social programs provided by religious organizations, they do not support redistribution policies that target the entire poor population. On the other hand, the secular poor, who are excluded from religious-based social programs, favor redistribution by the government as the only option of social safety net.

The impact of ethnic fractionalization on equality preferences must be distinguished from that of the strength of ethnic identity; the former reduces incentives for redistribution to out-group ethnic members whereas the latter reduces the importance of redistribution as an issue to the individual. Shayo (2009), Klor and Shayo (2010) employed various datasets, including the first three waves of the WVS, to demonstrate that individuals having a strong national identity are less likely to base equality preferences on incomes than those with weak national identity. Due to the lack of data on ethnic identity (although a variable on attitudes toward ethnic diversity was found in WVS5, it was not used because of large numbers of missing values for various countries) an ethnic identity variable is not included in the analysis. This chapter focuses on the impact of the perceived coverage of redistribution on the support for income equality.

Research on the impact of ethnic fractionalization upon equality preferences needs to consider other spurious relationships and reverse causalities as well. On the one hand, Kerr (2014) suggested that support for income equality can be weak in countries with low income equality. On the other hand, several studies demonstrated that ethnic fractionalization is generally negatively correlated with redistribution or income equality (Alesina and Glaeser 2005; Huber and Stephens 2012). These two pieces of evidence imply that ethnic fractionalization may only indirectly affect equality preferences through the income inequality that it stimulates. The genuine effect of ethnic fractionalization upon equality preferences would thus be revealed by controlling for income inequality. The ensuing analysis examines the effect when individual and country-level variables are controlled for to ensure that the apparent effect of ethnic fractionalization on income equality preferences is not spurious.

4.2 Research Design

The impact of multidimensionality on preferences for income equality is examined by applying multilevel analysis to the two-level dataset. Individual-level variables were drawn from the WVS Fifth (2004–2008) and Sixth (2010–2014) Wave datasets, which include larger numbers of emerging democracies than the previous waves of WVS or other cross-country datasets such as the International Social Survey Program. The number of emerging democracies is 22 for WVS5 and 26 for WVS6; 16 emerging democracies are included in both waves (see Table 4.1). Multilevel model estimates correct standard errors by allowing the intercept to vary at the country level. Democracies were defined, in a slight deviation from the definition given in the Introduction, as those countries whose polity2 score was at least 6 *in the year when the WVS was conducted*, rather than for any four consecutive years during the 2001–2012 period.

This change was implemented because Ecuador, Russia, Tanzania, and Thailand—all of which met the definition of democracy given in the Introduction—saw their polity2 score drop below six when either survey was conducted. If these

Table 4.1 Number of observations in samples from WVS5 and WVS6: emerging democracies

Country	WVS5	WVS6
Argentina		861
Brazil	1398	1341
Bulgaria	809	
Chile	830	805
Colombia	2177	1395
Estonia		1320
Ghana	1345	1552
India	1074	1557
Indonesia	1492	
Kyrgyz Republic		1458
Lebanon		1061
Malaysia		1297
Mali	842	
Mexico	1327	1878
Moldova	911	
Pakistan		1152
Peru	1222	1079
Philippines		1197
Poland	728	784
Romania	1296	1272
Serbia	989	
Slovenia	829	878
South Africa	2613	3146
South Korea	1194	1174
Spain	997	924
Taiwan	1198	1083
Thailand		991
Trinidad and Tobago	927	822
Turkey	1168	1415
Ukraine	663	1500
Uruguay		764

countries were included in the samples, the resultant increase in the samples' variations of democracy levels would unduly shift the focus of analysis to the effect of democracy from that of ethnic fractionalization. Simultaneously, the inclusion of countries whose polity2 score was six or above in the survey year but had been so for less than four consecutive years may have diluted the criteria for sample selection. To address this concern, separate models were developed that excluded this type of country—namely, the Kyrgyz Republic and Pakistan for WVS6—however, the estimation results were very similar to those found for the inclusive sample. The following subsections elaborate the operationalization of variables. Table 4.2 presents the descriptive statistics of all variables.

Table 4.2 Descriptive statistics

Variable	WVS5					WVS6				
	Obs	Mean	Std. dev.	Min	Max	Obs	Mean	Std. dev.	Min	Max
Inequality preferences	32,547	6.05	3.11	1	10	35,682	5.49	2.99	1	10
Age	33,600	40.75	16.25	15	98	36,286	41.66	16.46	16	99
Sex	33,711	0.51	0.50	0	1	36,267	0.52	0.50	0	1
University graduate	33,714	0.14	0.35	0	1	36,304	0.14	0.35	0	1
High school graduate	33,714	0.40	0.49	0	1	36,304	0.44	0.50	0	1
Married	33,714	0.62	0.49	0	1	36,304	0.61	0.49	0	1
Jobless	33,714	0.11	0.31	0	1	36,304	0.11	0.31	0	1
Justice perception	32,236	5.36	2.87	1	10	35,820	5.65	2.66	1	10
Religiosity	33,150	8.41	2.49	1	10	35,697	7.87	2.81	1	10
Luck perception	32,775	4.16	2.95	1	10	35,777	4.24	2.84	1	10
Democratic governance	31,627	6.36	2.53	1	10	35,490	6.19	2.52	1	10
Trust in community	32,944	2.75	0.82	1	4	35,983	2.76	0.85	1	4
Lower income dummy	30,738	0.53	0.50	0	1	35,474	0.40	0.49	0	1
Ethnic fractionalization	22	0.46	0.21	0.002	0.752	26	0.43	0.21	0.002	0.752
After-tax Gini coefficient	22	38.88	9.54	23.035	58.842	26	41.19	9.72	23.805	59.400
Freedom House/Imputed Polity2	22	8.78	0.80	7.417	10.000	26	7.96	1.82	4.440	10.000
GDP per capita growth (%) in 2009	–	–	–	–	–	26	−2.22	5.28	−14.421	7.723

4.2.1 Dependent Variable

The dependent variable is preference for greater income inequality, not equality, in accordance with the examinations in other chapters, which use income inequality as the dependent variable. The WVS contains two questions that gauge attitudes toward (1) income equality (V116; V96) and (2) government responsibility (V119; V98) in the Fifth and Sixth Waves (variable numbers in parentheses for the two waves, respectively). However, the second question makes no explicit reference to redistribution; instead, it only asks whether the government is responsible for keeping "everyone provided for." Therefore, it is more appropriate to use the first variable (V116 in WVS5 and V96 in WVS6), which asked whether "incomes should be made more equal" or "we need larger income differences as incentives for individual effort." The answer was given along a ten-point scale: a value of one is closest agreement to the first statement, i.e., least preference for inequality, and a value of ten indicates closest agreement with the second, i.e., most preference for inequality. The association between the answers to the two questions was relatively weak ($r = 0.22$, $p < 0.001$ for the Fifth Wave; $r = 0.25$, $p < 0.001$ for the Sixth Wave). Cross-national studies on preferences for redistribution by Shayo (2009) and Kerr (2014) also only used the first question as preferences for redistribution among the WVS variables.

4.2.2 Individual-Level Independent Variables

To ensure comparability and replicability, major variables used by leading studies (Alesina and Angeletos 2005; Alesina and Giuliano 2011; Alesina and La Ferrara 2005) were included in the model, which were then categorized into sociodemographic and attitudinal variables.

Sociodemographic Variables

Among the sociodemographic variables, income level is strongly associated with preferences for equality. Income level was operationalized as a lower income group dummy variable. The WVS has a variable for a self-proclaimed scale of incomes that ranges from 1 (the lowest decile) to 10 (the highest decile) although no explanation is offered whether the remaining levels also match the relevant deciles. While this is a subjective measurement of income that may not exactly match a respondent's income decile, there are both theoretical and practical reasons to use it. First, the fact that it is based on the respondent's perception of one's own income level makes it more relevant to this study than an objective income level that the respondent may not estimate correctly, as long as the people who perceive their incomes to be below the country's median income form the majority of the estimated population. This reflects the fact that the focal question asks whether the

voter chooses a policy or party in light of one's own income. If that is the case, perceived income level rather than actual income level should be the key determinant of support for policies or parties.

Second, previous studies found that individuals tend to recede from reporting very high or low incomes and instead tend to declare more intermediate income levels (Cruces et al. 2013). This bias toward the center does not significantly affect the dichotomous variable (i.e., the lower income group) used in the current analysis because the center bias applies to both the lower and upper income categories. Simultaneously, individuals who chose intermediate levels, such as the fifth and sixth levels, are more likely to have overstated or understated their income levels, respectively. These intermediate levels also contain the middle class that do not behave as the median voter hypothesis predicts according to some researchers (Milanovic 2000, 2010; Scervini 2012). Third, in the WVS 5 dataset, some countries have no observations for the ninth or tenth income levels, which raises concerns for the validity of the ten-point scale. It would therefore be safer to treat this scale as a coarser indicator of incomes than originally planned. Thus, the first through fourth (self-reported) income levels form the lower income group to ensure that this category primarily comprises individuals whose income levels are below those of the median income earner.

Among other sociodemographic variables, age has been found to weaken support for redistribution according to analyses using the General Social Survey or the first four waves of the World Values Survey (Alesina and La Ferrara 2005; Alesina and Giuliano 2011). Age was measured by actual age year. Educated individuals are socially mobile upward, and thus are less concerned with redistribution than the less-educated. Education was measured by two dummy variables: secondary education completed and tertiary education completed. Marital status takes a value of one if married or living together as married and is zero otherwise. For employment status, unemployed respondents were coded as one and the other respondents were coded as zero.

Attitudinal Variables

Social trust, or more broadly social capital, strengthens redistribution preferences (Yamamura 2012) because it motivates people to cooperate (Bergh and Bjørnskov 2014). Social trust was measured by the following question regarding trust in the community: "Could you tell me for each whether you trust people from this group completely, somewhat, not very much, or not at all: Your neighborhood". The four alternative answers were coded on a scale from one ("Do not trust at all") through four ("Trust completely"). Another important variable related to belief, having a strong social identity has been found to dilute preferences for redistribution. Shayo (2009) employed the intensity of national pride from the WVS variables as an indicator of social identity. However, it was not used in this study because it does not pertain to ethnic identity; it also seems, at least in theory, to be related to the identity of the ethnic majority.

Religiosity, justice perception, and right-wing ideology all reduce support for redistribution whereas perceptions of luck (over effort) increases it (Alesina and Giuliano 2011). Religious people display less concern for material values than non-religious people. Religiosity was gauged by asking the importance of God in one's life and measured using a ten-point scale ranging from one ("Not at all important") through ten ("Very important"). Confidence in social justice weakens the perceived need to rectify it by redistribution. Justice perceptions were measured on a ten-point scale ranging from one ("Most people would try to take advantage of you if they got a chance") to ten ("People would try to be fair"). Luck (over effort) perception was measured by a ten-point scale ranging from one ("In the long run, hard work usually brings a better life") through ten ("Hard work doesn't generally bring success"). If luck is perceived to prevail over effort, redistribution will be regarded as necessary. Right-wing views are associated with small governments and non-intervention in people's lives. Left–right self-placement, measured by the ten-point scale with one for the most left and ten for the most right, has a large number of missing observations equivalent to a quarter of the sample for both WVS5 and WVS6. To avoid massive list-wise deletion from the samples, this variable was converted into a set of dummy variables that includes missing values as one of the dummies.

Two additional variables were added to the list in consideration of their relevance to emerging democracies. Perceptions of democracy and confidence in political institutions are particularly relevant to emerging democracies where the capacity of democratic institutions to fairly redistribute income greatly concerns both the poor and wealthy. It is conceivable that people believe that a lack of democracy and presence of corrupt institutions breed income inequality by stifling fair political representation of the lower-income group. Positive perceptions of democracy and strong confidence in political institutions would thus reduce demand for redistribution. Perceptions of democracy were coded on a ten-point scale ranging from one ("Not at all democratic") through ten ("Completely democratic") using responses to the question "How democratically is this country being governed today?" Confidence in political institutions was measured by the mean of the responses to four questions gauging confidence in various organizations. The question reads as follows: "I am going to name a number of organizations. For each one, could you tell me how much confidence you have in them?" The four question items selected for coding were "The government (in your nation's capital)", "Political parties", "Parliament", and "The Civil Service". Each four-point response was coded as follows: one ("None at all"), two ("Not very much confidence"), three ("Quite a lot of confidence"), and four ("A great deal of confidence"). Next, the mean value of the four responses was calculated as a composite scale of confidence in political institutions. Cronbach's alpha for the four response mean was 0.84 for both WVS5 and WVS6, and thus above the 0.8 level that is regarded as offering good reliability. In calculating the four response mean, observations that had missing values for more than one response were list-wise deleted from the sample.

4.2.3 Country-Level Independent Variables

First, the effect of multidimensionality is measured by an ethnic fractionalization index (Alesina et al. 2003), defined as

$$\text{Fractionalization} = 1 - \sum_{i=1}^{N} S_i^2$$

where S_i is the share of ethnic group i ($i = 1 \ldots N$) in the country.

It represents "the probability that two randomly selected individuals from a population belonged to different groups" (Alesina et al. 2003).

Second, previous studies posit a positive correlation between income equality and aggregate preferences for equality across countries (Kerr 2014). Citizens of former communist countries also displayed high preferences for redistribution (Luttmer and Singhal 2011; Corneo and Grüner 2002). On the other hand, an increase in income inequality has been found to generate greater redistribution (Scervini 2012; Milanovic 2000; Borge and Rattsø 2004) or stronger aggregate preferences for redistribution (Kerr 2014).[3] As this analysis is cross-sectional, the level of income inequality as a standardized after-tax Gini coefficient estimated by Solt (2009) is used as a control. In terms of statistical theory, the standardized Gini coefficient estimates in the Standardized World Income Inequality Database (SWIID) must be used with appropriate standard errors, which require multiple imputations. However, the STATA package does not allow multilevel analysis to be applied to multiple-imputed data. In the current analysis, therefore, the standard Gini estimates are treated as reference values because they are characterized as point estimates without confidence intervals.

Third, higher levels of democracy ensure greater efficiency and fairness in redistribution and thus may nurture public opinion in its favor, in the same way as for the perceptions of democracy at the individual level. The level of democracy was measured by the Freedom House-Imputed Polity2 index, which is a composite index of the Freedom House score and Polity2 score with the latter's missing values imputed. The project by the Quality of Government Institute found that it is a better indicator of democracy than the separate scores comprising it.

4.2.4 Estimation Model

The hypothesis is tested using a multilevel model. The final estimation model, which corresponds to Model 4 in Table 4.3, takes the following form:

[3]Brooks and Manza (2007) showed that public opinion is a strong determinant of welfare policy for industrial democracies, and their endogeneity test indicated no contemporaneous feedback from welfare policy to public opinion.

$$PREFERENCE_{ij} = \alpha + \beta_1 * (AGE_{ij}) + \beta_2 * (GENDER_{ij}) + \beta_3 * (MARRIED_{ij}) + \beta_4 * (SEC\_EDUCATION_{ij}) + \beta_5 * (TERT\_EDUCATION_{ij}) + \beta_6 * (JOBLESS_{ij}) + \beta_7 * (LOWER\_INCOME_{ij}) + \beta_8 * (RELIGIOSITY_{ij}) + \Sigma\beta_d * (IDEOLOGY_{dij}) + \beta_{19} * (JUSTICE_{ij}) + \beta_{20} * (LUCK_{ij}) + \beta_{21} * (TRUST_{ij}) + \beta_{22} * (DEMOCRACY_{ij}) + \beta_{23} * (INSTITUTIONS_{ij}) + \beta_{24} * (FRACTIONALIZATION_j) + \beta_{25} * (FRACTIONALIZATION\_SQUARED_j) + \beta_{26} * (GINI_j) + \upsilon_j + \varepsilon_{ij}$$

for $i = 1,\ldots, m$ first-level groups (individuals), $j = 1,\ldots, n$ second-level groups (countries) comprising members of group i. α is the intercept; β_k are the k coefficients, including the 10 ideology dummy variables ($d = 1, \ldots, 10$) with missing values as a reference category, to be estimated; υ_j is the error term at the second (country) level; and ε_{ij} is the error term at the first (individual) level. Sampling weights were used for the individual level but not for the country level, for which equiprobability can be assumed. Individual-level variables were centered to their sample means as the model estimates country-level effects while adjusting for individual-level variables (Raundenbush and Bryk 2002).

4.3 Results

The results of the multilevel analysis are presented in Table 4.3. Model 1 is the base model, which comprises only individual-level variables. The country-level variables are added to the base model one at a time beginning with the variables of concern, which are followed by country-level control variables. Model fitness is measured by the Akaike and Bayes information criteria (AIC and BIC), where a smaller value indicates a better fit, adjusting for the number of independent variables (West et al. 2014). Model 1, the base model, indicates that the individual-level control variables, except for age, had the theoretically predicted signs for both samples: secondary education, lower income, ideology, justice perception, social trust, and democracy perception were statistically significant in both samples. Tertiary education, marital status, religiosity, and confidence in political institutions were significant only for WVS5, whereas gender and luck perception were significant only for WVS6. In general, the individual-level variables had weaker predictive power in WVS6 than in WVS5. All the data for the current sample from WVS6 were collected during the 2010–2012 period, when the countries were struggling to recover from the Lehman shock of 2008. Subsequent criticism of the financial sector in terms of income inequality was associated with the Occupy Wall Street Movement and other similar movements in 2010. People from more diverse sociodemographic backgrounds may have become similarly concerned about income inequality than before the Lehman shock. In fact, the sample mean for inequality preference declined to 5.4 for WVS6 from 6.0 for WVS5, as displayed in Table 4.2. This contextual difference entails separate analyses of the two samples instead of a merged sample.

Table 4.3 Multilevel estimation results

	WVS5						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Age	-0.00449** (0.00206)	-0.00445** (0.00207)	-0.00443** (0.00206)	-0.00451** (0.00207)	-0.00448** (0.00207)	-0.00451** (0.00206)	-0.00451** (0.00207)
Gender	-0.0941* (0.0521)	-0.0937* (0.0521)	-0.0934* (0.0521)	-0.0944* (0.0522)	-0.0941 (0.0521)	-0.0944* (0.0522)	-0.0944* (0.0522)
University graduate	0.604*** (0.131)	0.605*** (0.131)	0.606*** (0.131)	0.604*** (0.131)	0.604*** (0.131)	0.605*** (0.131)	0.605*** (0.131)
High school graduate	0.283*** (0.0777)	0.284*** (0.0777)	0.284*** (0.0776)	0.283*** (0.0778)	0.283*** (0.0777)	0.283*** (0.0777)	0.283*** (0.0777)
Married	0.146*** (0.0347	0.146*** (0.0347)	0.146*** (0.0348)	0.146*** (0.0347)	0.146*** (0.0347)	0.147*** (0.0347)	0.147*** (0.0348)
Jobless	-0.0424 (0.0821)	-0.0433 (0.0821)	-0.0438 (0.0821)	-0.0423 (0.0821)	-0.0424 (0.0821)	-0.0452 (0.082)	-0.0455 (0.082)
Lower income	-0.351*** (0.0810)	-0.351*** (0.0810)	-0.351*** (0.0811)	-0.351*** (0.0811)	-0.351*** (0.0811)	-0.348*** (0.0811)	-0.348*** (0.0812)
Religiosity	0.0513*** (0.0171)	0.0507*** (0.0171)	0.0504*** (0.0169)	0.0516*** (0.0172)	0.0512*** (0.0172)	0.0514*** (0.017)	0.0513*** (0.017)
Left-right self-placement = 1	-0.164 (0.155	-0.164 (0.155)	-0.163 (0.155)	-0.163 (0.155)	-0.164 (0.155)	-0.161 (0.155)	-0.161 (0.155)
Left-right self-placement = 2	-0.326* (00.174)	-0.326* (0.174)	-0.325* (0.174)	-0.326* (0.174)	-0.326* (0.174)	-0.325* (0.174)	-0.326* (0.174)
Left-right self-placement = 3	-0.319** (0.131)	-0.318** (0.131)	-0.318** (0.131)	-0.320** (0.131)	-0.319** (0.131)	-0.318** (0.131)	-0.318** (0.131)
Left-right self-placement = 4	-0.0753 (0.132)	-0.0743 (0.132)	-0.0746 (0.132)	-0.0754 (0.132)	-0.0752 (0.132)	-0.0744 (0.132)	-0.0744 (0.132)
Left-right self-placement = 5	0.0568 (0.121)	0.0575 (0.121)	0.0578 (0.121)	0.0568 (0.122)	0.0568 (0.121)	0.0586 (0.121)	0.0585 (0.121)
Left-right self-placement = 6	0.0631 (0.137)	0.0635 (0.137)	0.0636 (0.137)	0.0631 (0.137)	0.0630 (0.137)	0.0638 (0.137)	0.0636 (0.137)
Left-right self-placement = 7	0.107 (0.153)	0.107 (0.153)	0.107 (0.153)	0.107 (0.153)	0.107 (0.153)	0.107 (0.153)	0.107 (0.153)
Left-right self-placement = 8	0.220* (0.133)	0.220* (0.133)	0.220* (0.133)	0.220* (0.133)	0.219* (0.133)	0.220* (0.132)	0.220* (0.132)
Left-right self-placement = 9	0.435*** (0.143)	0.435*** (0.143)	0.435*** (0.143)	0.435*** (0.143)	0.435*** (0.143)	0.434*** (0.143)	0.434*** (0.143)
Left-right self-placement = 10	0.594*** (0.158)	0.593*** (0.158)	0.593*** (0.158)	0.594*** (0.158)	0.593*** (0.158)	0.594*** (0.157)	0.594*** (0.157)
Justice perception	0.0402*** (0.0145)	0.0402*** (0.0145)	0.0401*** (0.0145)	0.0402*** (0.0145)	0.0402*** (0.0145)	0.0400*** (0.0145)	0.0401*** (0.0145)
Luck perception	0.0265 (0.0193)	0.0266 (0.0192)	0.0267 (0.0192)	0.0264 (0.0193)	0.0265 (0.0193)	0.0266 (0.0192)	0.0266 (0.0192)

WVS6					WVS6r			
Model 1	Model 2	Model 3	Model 4	Model 5	Model 1r	Model 2r	Model 6r	Model 7r
-0.00376***	-0.00375***	-0.00375***	-0.00374***	-0.00376***	-0.00372***	-0.00370***	-0.00372***	-0.00372***
(0.00132)	(0.00132)	(0.00132)	(0.00131)	(0.00132)	(0.00131)	(0.00131)	(0.00132)	(0.00132)
0.00220	0.00225	0.00212	0.00234	0.00224	0.00244	0.00241	0.00237	0.00230
(0.0471)	(0.0471)	(0.0471)	(0.0471)	(0.0471)	(0.0470)	(0.0470)	(0.0470)	(0.0470)
0.150	0.150	0.150	0.151	0.149	0.152	0.152	0.151	0.150
(0.104)	(0.104)	(0.104)	(0.104)	(0.104)	(0.104)	(0.104)	(0.104)	(0.104)
0.114**	0.114**	0.113**	0.114**	0.114**	0.116**	0.115**	0.115**	0.115**
(0.0559)	(0.0560)	(0.0559)	(0.0559)	(0.0559)	(0.0555)	(0.0555)	(0.0556)	(0.0556)
0.0263	0.0263	0.0266	0.0263	0.0265	0.0261	0.0263	0.0263	0.0264
(0.0409)	(0.0409)	(0.0409)	(0.0409)	(0.0409)	(0.0408)	(0.0408)	(0.0407)	(0.0408)
-0.114	-0.114	-0.114	-0.114	-0.114	-0.113	-0.114	-0.114	-0.114
(0.0729)	(0.0729)	(0.0728)	(0.0728)	(0.0729)	(0.0728)	(0.0727)	(0.0728)	(0.0727)
-0.358***	-0.358***	-0.358***	-0.358***	-0.358***	-0.357***	-0.357***	-0.357***	-0.357***
(0.0586)	(0.0586)	(0.0585)	(0.0585)	(0.0586)	(0.0585)	(0.0585)	(0.0584)	(0.0584)
0.0294	0.0293	0.0294	0.0293	0.0294	0.0293	0.0292	0.0293	0.0294
(0.0201)	(0.0201)	(0.0200)	(0.0202)	(0.0200)	(0.0202)	(0.0201)	(0.0201)	(0.0201)
-0.620***	-0.621***	-0.620***	-0.621***	-0.621***	-0.621***	-0.621***	-0.620***	-0.620***
(0.146)	(0.146)	(0.146)	(0.146)	(0.145)	(0.146)	(0.146)	(0.146)	(0.146)
-0.502**	-0.502**	-0.501**	-0.502**	-0.502**	-0.503**	-0.502**	-0.502**	-0.502**
(0.199)	(0.199)	(0.199)	(0.199)	(0.199)	(0.199)	(0.199)	(0.199)	(0.199)
-0.213	-0.213	-0.213	-0.213	-0.213	-0.214	-0.213	-0.213	-0.213
(0.151)	(0.151)	(0.151)	(0.151)	(0.150)	(0.151)	(0.151)	(0.151)	(0.151)
-0.265**	-0.265**	-0.265**	-0.265**	-0.265**	-0.266**	-0.265**	-0.265**	-0.265**
(0.127)	(0.127)	(0.127)	(0.127)	(0.127)	(0.127)	(0.127)	(0.128)	(0.127)
0.0203	0.0200	0.0202	0.0201	0.0195	0.0205	0.0201	0.0207	0.0205
(0.100)	(0.100)	(0.100)	(0.100)	(0.100)	(0.101)	(0.101)	(0.101)	(0.100)
0.202*	0.201*	0.201*	0.202*	0.202*	0.202*	0.201*	0.203*	0.203*
(0.121)	(0.121)	(0.121)	(0.121)	(0.120)	(0.121)	(0.121)	(0.121)	(0.121)
0.360**	0.359**	0.359**	0.359**	0.360**	0.359**	0.358**	0.359**	0.359**
(0.146)	(0.146)	(0.146)	(0.146)	(0.145)	(0.146)	(0.146)	(0.146)	(0.146)
0.416***	0.416***	0.415***	0.416***	0.416***	0.416***	0.415***	0.416***	0.416***
(0.131)	(0.131)	(0.132)	(0.131)	(0.131)	(0.132)	(0.132)	(0.132)	(0.131)
0.654***	0.653***	0.652***	0.653***	0.654***	0.654***	0.652***	0.653***	0.653***
(0.161)	(0.161)	(0.161)	(0.161)	(0.161)	(0.161)	(0.161)	(0.161)	(0.161)
0.750***	0.750***	0.750***	0.750***	0.750***	0.750***	0.750***	0.751***	0.751***
(0.181)	(0.181)	(0.181)	(0.181)	(0.181)	(0.181)	(0.181)	(0.181)	(0.181)
0.0498***	0.0498***	0.0498***	0.0498***	0.0498***	0.0498***	0.0498***	0.0499***	0.0498***
(0.0168)	(0.0168)	(0.0168)	(0.0168)	(0.0168)	(0.0168)	(0.0168)	(0.0167)	(0.0168)
0.0435**	0.0435**	0.0434**	0.0435**	0.0435**	0.0433**	0.0433**	0.0434**	0.0433**
(0.0196)	(0.0196)	(0.0196)	(0.0196)	(0.0196)	(0.0196)	(0.0196)	(0.0196)	(0.0196)

(continued)

Table 4.3 (continued)

	WVS5						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Social trust	-0.144*** (0.0543)	-0.144*** (0.0543)	-0.144*** (0.0543)	-0.144*** (0.0543)	-0.144*** (0.0543)	-0.145*** (0.0543)	-0.145*** (0.0543)
Democracy perception	0.0426** (0.0180)	0.0426** (0.0179)	0.0425** (0.0179)	0.0427** (0.0179)	0.0427** (0.0179)	0.0427** (0.0178)	0.0426** (0.0179)
Confidence in institutions	0.115** (0.0474)	0.114** (0.0473)	0.114** (0.0474)	0.115** (0.0473)	0.115** (0.0474)	0.114** (0.0473)	0.114** (0.0473)
Ethnic fractionalization		1.633 (1.037)	-5.088** (2.553)			-4.940** (1.963)	-4.446*** (1.507)
Ethnic fractionalization squared			8.262** (3.579)			9.482*** (2.458)	9.071*** (2.082)
After-tax Gini coefficient				-0.0167 (0.0209)		-0.0543*** (0.0169)	-0.0549*** (0.0166)
Freedom House/Imputed Polity2					-0.0298 (0.243)		0.0803 (0.159)
GDP per capita growth 2009							
Constant	0.181 (0.199)	-0.569 (0.534)	0.424 (0.470)	0.831 (0.854)	0.443 (2.123)	2.158*** (0.774)	1.355 (1.489)
Observations	26029	26029	26029	26029	26029	26029	26029
AIC	130202.8	130199.5	130195.6	130202.1	130202.7	130185.7	130184.1
BIC	130382.5	130379.2	130375.3	130381.8	130382.4	130357.2	130355.6

Notes Dependent variable is preferences for greater income inequality, on a ten-point scale ranging from one ("Incomes should be made more equal") to ten ("We need larger income differences as incentives for individual effort")

Robust standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$

First, for WVS5, when ethnic fractionalization was entered as a single country level variable in Model 2, it did not have a significant effect even though its coefficient was correctly signed as positive. In Model 3, a curve-linear effect of ethnic fractionalization was examined since Fig. 4.1 indicates such an effect especially when the advanced democracies were dropped from the graph. The results showed a significant U-curve effect of ethnic fractionalization on support for income inequality; both ethnic fractionalization, negatively signed, and its square, positively signed, were statistically significant at least at the 0.05 level. The two country-level control variables, the estimated Gini (Model 4) and Freedom House/Imputed Polity2 (Model 5), had no significant effects as single country variables. However, Model 6, which added the estimated Gini to Model 3, yielded a better model fit than Model 3 while adding Freedom House/Imputed Polity2 to Model 6 did not improve the model fit (Model 7).[4]

Second, for WVS6, the results for Model 2 through Model 4 displayed similar patterns except for that the estimated Gini had a positive sign in Models 4 while it had a negative sign in the same model for WVS5. Models 6 and 7 did not improve the model fitness in comparison with Model 4, the results of which are not shown in the table. Furthermore, additional models were run that controlled for the effect of

[4]The model that included ethnic fractionalization, its square, and the Freedom House/Imputed Polity2 variable could not converge for WVS6.

WVS6					WVS6r			
Model 1	Model 2	Model 3	Model 4	Model 5	Model 1r	Model 2r	Model 6r	Model 7r
-0.107*** (0.0296)	-0.107*** (0.0296)	-0.107*** (0.0296)	-0.107*** (0.0296)	-0.107*** (0.0296)	-0.107*** (0.0296)	-0.107*** (0.0296)	-0.107*** (0.0296)	-0.107*** (0.0296)
0.0569*** (0.0182)	0.0569*** (0.0182)	0.0569*** (0.0182)	0.0569*** (0.0182)	0.0569*** (0.0182)	0.0568*** (0.0182)	0.0568*** (0.0182)	0.0569*** (0.0182)	0.0569*** (0.0182)
0.0638 (0.0537)	0.0637 (0.0537)	0.0640 (0.0537)	0.0637 (0.0537)	0.0638 (0.0536)	0.0637 (0.0536)	0.0638 (0.0536)	0.0643 (0.0537)	0.0643 (0.0536)
	0.843 (0.926)	-8.646*** (2.480)				-5.132** (2.171)	-4.864*** (1.504)	-4.881*** (1.641)
		11.68*** (3.209)				7.598*** (2.591)	7.985*** (1.852)	7.616*** (2.025)
			0.0222 (0.0199)				-0.0340 (0.0220)	-0.0234 (0.0228)
				-0.110 (0.0793)				-0.00384 (0.0833)
					0.0970*** (0.0269)	0.0790*** (0.0241)	0.0995*** (0.0336)	0.0904*** (0.0312)
-0.0400 (0.188)	-0.401 (0.483)	1.002** (0.405)	-0.953 (0.927)	0.828 (0.557)	0.179 (0.158)	0.606 (0.447)	1.878** (0.762)	1.532 (1.307)
29694	29694	29694	29694	29694	29694	29694	29694	29694
169528.0	169529.1	169522.0	169528.7	169526.4	169521.4	169513.7	169512.8	169512.6
169737.9	169747.4	169740.3	169747.0	169744.7	169739.7	169723.6	169731.0	169730.9

the Lehman shock using the real per capita GDP change in 2009, the year when the Lehman shock hit the world economic the hardest. That variable had a significant effect ($p < 0.01$) throughout these additional models.[5] Since the results with the Lehman shock variable were consistently stronger than those without, as demonstrated by AIC and BIC statistics, the following discussion on WVS6 pertains to the results with the Lehman Shock variable.

The estimation results for the best fit model with the smallest AIC and BIC values are graphically shown in Fig. 4.2 for WVS5 (based on Model 6) and Fig. 4.3 for WVS6 with the Lehman Shock control (based on Model 6r). These figures represent the effect of ethnic fractionalization on preferences for income inequality, when the other independent variables are held to their respective means, for varying levels of ethnic fractionalization. The predictive margins are calculated from predictions of the relevant model at fixed values of ethnic fractionalization from the lowest to the highest at 0.02 intervals and integrating over, or using the observed values for, the other independent variables. In other words, the predictive margins are not simulated results but snapshots of real data sorted by various levels of ethnic fractionalization.

The preceding analysis demonstrated that in general ethnic fractionalization has a positive effect on preferences for income inequality. This effect is reversed when ethnic fractionalization is below 0.260 (WVS5) or 0.305 (WVS6). However, these inflection points of the convex curves are below the median values of ethnic

[5]In preliminary analyses, the real per capita GDP change in the year prior to the survey year was also used as a control for the WVS5 and WVS6 datasets but it was not statistically significant.

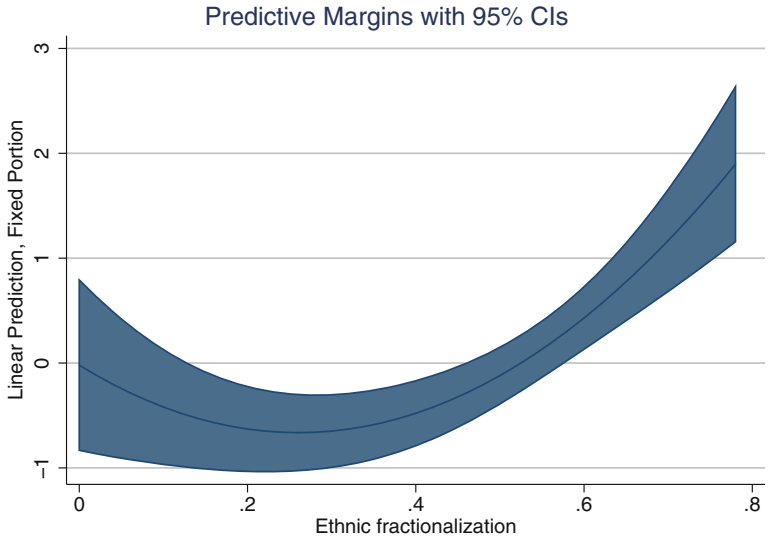

Fig. 4.2 Ethnic fractionalization and predictive margins for inequality preferences: WVS 5. *Notes* Predictive margins with 95 % confidence intervals. Individual-level variables are centered to the sample (grand) mean. Thus, the zero value on the Y axis is equivalent to the sample (grand) mean for income inequality preferences

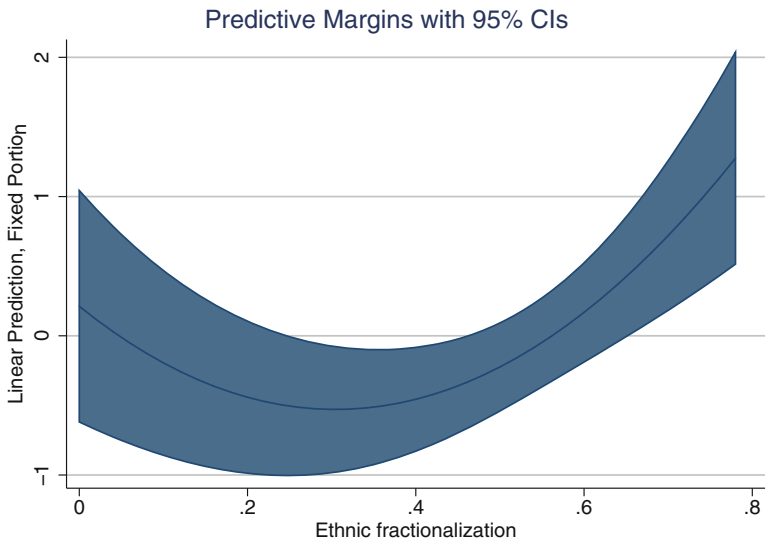

Fig. 4.3 Ethnic fractionalization and predictive margins for inequality preferences: WVS6

fractionalization (0.47 for WVS5 and 0.42 for WVS6). These findings thus give qualified support for the argument that ethnic fractionalization suppresses demand for income equality. It is puzzling, however, that very low ethnic fractionalization is associated with weak support for equality. Nationalism does not seem to be an answer since, national pride, measured by to what extent one is proud of one's nation, is positively, not negatively, associated with ethnic fractionalization. One might speculate that extreme ethnic homogeneity creates a societal (mis)perception of equality that attributes income inequality to differences in individual efforts rather than to social structure.[6] Hirschman and Rothschild (1973) made a similar argument that high social mobility in homogeneous societies makes people more tolerant of inequality than in heterogeneous societies.

The multilevel analysis of the last two waves of the WVS revealed that ethnic fractionalization has a primarily positive but convex effect on income inequality preferences. The fact that this relationship was observed when the lower-income group status was controlled for suggests that in ethnically heterogeneous societies, resistance to resource transfers to out-groups is deeply embedded, thus cutting across class lines. These results lend qualified support to the conventional understanding of ethnic heterogeneity. However, the relatively weak support for income equality in very homogeneous countries still poses a puzzle. Further research is necessary to reveal the variables affecting the level of support for income equality across countries.

References

Alesina A, Angeletos GM (2005) Corruption, inequality, and fairness. J Monetary Econ 52 (7):1227–1244. doi:http://dx.doi.org/10.1016/j.jmoneco.2005.05.003

Alesina A, Devleeschauwer A, Easterly W, Kurlat S, Wacziarg R (2003) Fractionalization. J Econ Growth 8:155–194

Alesina A, Giuliano P (2011) Preferences for redistribution (Chap. 4). In: Jess Benhabib AB, Matthew OJ (eds) Handbook of social economics, vol 1. Elsevier, North-Holland, pp 93–131. doi:http://dx.doi.org/10.1016/B978-0-444-53187-2.00004-8

Alesina A, Glaeser EL (2005) Fighting poverty in the US and Europe, vol pbk. The Rodolfo Debenedetti lectures. Oxford University Press, Oxford

Alesina A, La Ferrara E (2005) Preferences for redistribution in the land of opportunities. J Publ Econ 89(5–6):897–931. doi:10.1016/j.jpubeco.2004.05.009

Bergh A, Bjørnskov C (2014) Trust, welfare states and income equality: sorting out the causality. Eur J Polit Econ 35:183–199. doi:http://dx.doi.org/10.1016/j.ejpoleco.2014.06.002

Borge L-E, Rattsø J (2004) Income distribution and tax structure: empirical test of the Meltzer–Richard hypothesis. Eur Econ Rev 48(4):805–826. doi:http://dx.doi.org/10.1016/j.euroecorev.2003.09.003

Brooks C, Manza J (2007) Why welfare states persist, vol: paper. Studies in communication, media, and public opinion. University of Chicago Press, Chicago

[6]The authors owe this insight to the comment made by Mauricio Bugarin on an earlier draft of this chapter, February 13, 2015.

Corneo G, Grüner HP (2002) Individual preferences for political redistribution. J Publ Econ 83 (1):83–107. doi:http://dx.doi.org/10.1016/S0047-2727(00)00172-9
Cruces G, Perez-Truglia R, Tetaz M (2013) Biased perceptions of income distribution and preferences for redistribution: evidence from a survey experiment. J Publ Econ 98:100–112. doi:http://dx.doi.org/10.1016/j.jpubeco.2012.10.009
Desmet K, Ortuño-Ortín I, Wacziarg R (2012) The political economy of linguistic cleavages. J Dev Econ 97(2):322–338. doi:http://dx.doi.org/10.1016/j.jdeveco.2011.02.003
Hirschman AO, Rothschild M (1973) The changing tolerance for income inequality in the course of economic development. Q J Econ 87(4):544–566. doi:10.2307/1882024
Huber E, Stephens JD (2012) Democracy and the left: social policy and inequality in Latin America, vol: pbk. University of Chicago Press, Chicago
Huber JD, Stanig P (2011) Church-state separation and redistribution. J Publ Econ 95(7–8):828–836. doi:http://dx.doi.org/10.1016/j.jpubeco.2011.02.001
Kerr WR (2014) Income inequality and social preferences for redistribution and compensation differentials. J Monetary Econ 66:62–78. doi:http://dx.doi.org/10.1016/j.jmoneco.2014.03.002
Klor EF, Shayo M (2010) Social identity and preferences over redistribution. J Publ Econ 94(3–4):269–278. doi:10.1016/j.jpubeco.2009.12.003
Luttmer EFP (2001) Group loyalty and the taste for redistribution. J Polit Econ 109(3):500–528. doi:10.1086/321019
Luttmer EFP, Singhal M (2011) Culture, context, and the taste for redistribution. Am Econ J Econ Policy 3(1):157–179. doi:10.1257/pol.3.1.157
Menkyna FT (2014) A theory of ethnic diversity and income distribution: a legislative bargaining approach. Eur J Polit Econ 34:52–67. doi:http://dx.doi.org/10.1016/j.ejpoleco.2013.12.002
Milanovic B (2000) The median-voter hypothesis, income inequality, and income redistribution: an empirical test with the required data. Eur J Polit Econ 16(3):367–410. doi:10.1016/s0176-2680(00)00014-8
Milanovic B (2010) Four critiques of the redistribution hypothesis: an assessment. Eur J Polit Econ 26(1):147–154. doi:http://dx.doi.org/10.1016/j.ejpoleco.2009.10.001
Raundenbush SW, Bryk AS (2002) Hierarchical linear models: applications and data analysis methods, 2nd edn. Sage, Thousand Oaks, CA
Scervini F (2012) Empirics of the median voter: democracy, redistribution and the role of the middle class. J Econ Inequal 10(4):529–550. doi:10.1007/s10888-011-9183-2
Shayo M (2009) A model of social identity with an application to political economy: nation, class, and redistribution. Am Polit Sci Rev 103(02):147–174. doi:10.1017/S0003055409090194
Solt F (2009) Standardizing the world income inequality database. Soc Sci Q 90(2):231–242. doi:10.1111/j.1540-6237.2009.00614.x
West BT, Welch KB, Gałecki AT, Gillespie BW (2014) Linear mixed models. A Chapman & Hall book, CRC Press, an imprint of Taylor & Francis Group, Boca Raton
Yamamura E (2012) Social capital, household income, and preferences for income redistribution. Eur J Polit Econ 28(4):498–511. doi:http://dx.doi.org/10.1016/j.ejpoleco.2012.05.010

Chapter 5
Political Determinants of Income Inequality: Panel Analysis

Abstract Most previous studies on the determinants of income inequality across countries included emerging and advanced democracies in one sample, which raises concerns that the independent variables' effect might be largely attributed to the differences between the emerging and advanced democracies. This study mainly addresses variations among emerging democracies while also outlining the differences between emerging and advanced democracies. Thus, it investigates the effects of political market failure and weak state capacity upon income inequality using an unbalanced panel dataset for the 1985–2012 period for emerging democracies across continents ($N = 57$), advanced democracies ($N = 18$), and all democracies ($N = 75$). The fixed effects (FE) model with a lagged dependent variable (LDV) was adopted because it controls for the country-specific effects, captures the gradual nature of changes in income distribution, and errs on the conservative (underestimate) side in coefficient estimation. The dependent variable is the estimated after-tax Gini coefficient. The challenge of finding measurements of incremental and cumulative change in institutional quality was addressed by choosing (1) the age of the largest opposition party for political market and (2) higher-order lags of the Quality of Government indicator and the control of corruption for state capacity. The analysis demonstrated that both political market quality and state capacity reduce inequality; however, the latter takes more time to show its effect. The results were supported by robustness checks for influential observations and an alternative dependent variable.

Keywords Democracy · Inequality · Political market · Party competition · State capacity · Corruption · Developing countries

The previous chapter examined the formation of equality preferences. This chapter shifts the focus to policy formulation, implementation, and their outcomes. Most previous studies on the determinants of income inequality across countries included emerging and advanced democracies in one sample, which raises concerns that the independent variables' effects might be largely attributed to the differences between the emerging and advanced democracies. This study mainly addresses variations among emerging democracies while also outlining the differences between emerging and advanced democracies. Thus, it investigates the effect of political

© IDE-JETRO 2016

T. Kawanaka and Y. Hazama, *Political Determinants of Income Inequality in Emerging Democracies*, SpringerBriefs in Economics,
DOI 10.1007/978-981-10-0257-1_5

market failure and weak state capacity upon income inequality using an unbalanced panel dataset for the 1985–2012 period for emerging democracies across continents ($N = 57$), advanced democracies ($N = 18$), and all democracies ($N = 75$). The fixed effects (FE) model with a lagged dependent variable (LDV) was adopted as it controls for the country-specific effects, captures the gradual nature of change in income distribution, and errs on the conservative (underestimate) side in coefficient estimation. The dependent variable is the estimated after-tax Gini coefficient. The challenge of finding measurements of incremental and cumulative change in institutional quality was addressed by choosing (1) the age of the largest opposition party for political market and (2) higher-order lags of the Quality of Government indicator and the control of corruption for state capacity. The analysis yielded strong evidence that political market quality and state capacity reduce income inequality; however, the latter takes more time to show its effect. Robustness checks for influential observations (regions and time periods) and an alternative dependent variable (the poorest 20 % of the population) supported these results.

5.1 Conceptualization: Political Market and State Capacity

5.1.1 Political Market: Programmatic Competition and Political Kuznets Curve

As Chap. 2 elaborated, political market quality depends on the clarity of party orientation and programmatic party competition. A lack of clarity in party orientation and programmatic competition implies that voters choose parties not as an indication of policy preferences but due to (provided or expected) patronage (Hagopian 2009). Although the dataset complied by Kitschelt (2014) includes variables for clientelistic and programmatic tendencies, those variables pertain to a single time point (2008 or 2009) and are thus time-invariant. The FE model adopted in the current analysis can incorporate only those variables that change over time. Among possible time-variant variables, the mean age of political parties is often used to measure party system institutionalization (Hanusch and Keefer 2014; Gehlbach and Keefer 2012).[1] This measurement, however, comprises two components that have contrasting effects on programmatic party competition. On the one hand, the age of the governing party may mirror the lack of competition in predominant party systems—a situation that often characterizes emerging democracies (Mozaffar and Scarritt 2005; Doorenspleet and Nijzink 2013)—whereas in competitive party systems, the age of the governing party may simply reflect maturity. The general effect of the governing party's age on party competition for

[1]The mean age of political parties is defined as the mean of the ages of the first government party, second government party, and first opposition party (Beck et al. 2001).

all types of party systems can be either weakly negative or mixed. On the other hand, opposition parties are particularly ephemeral in those predominant party systems; most of them gradually disappear every election (Mozaffar and Scarritt 2005). In competitive party systems, too, the lack of left–right (programmatic) party competition gives birth to new radical opposition parties that channel voter grievances; the presence of established opposition parties is a strong indication of programmatic competition (Roberts 2013).

The age of major opposition parties—in particular, that of the largest opposition party—thus better captures the level of programmatic competition than that of the governing party or the mean age of political parties. The largest opposition party represents the core element of the opposition and the strongest challenge to the incumbent in programmatic competition. Using the largest opposition party's age avoids conflating one-party dominance with political market quality. This variable is valid even when the largest opposition party is a former regime party. Former regime parties are generally well organized and well-known by the voters; new incumbent parties therefore face serious electoral challenge to present a clear policy to the electorate (Croissant and Völkel 2012; Hicken and Kuhonta 2011; Smith 2005).

In a broader context of political market quality, some scholars suggest that the distributive effect of democratization changes over time. According to the political Kuznets curve theory, democratization initially expands the income gap between the rich and poor but eventually narrows it (Acemoglu and Robinson 2002; Chong 2004; Tam 2008). This argument, primarily based on Western European history prior to the early 20th century, highlights the impact of a gradual expansion of suffrage and education. Their expansion initially increases inequality because only the elite benefit from them; however, later, universal suffrage and mass education help to reduce inequality (Acemoglu and Robinson 2002; Bourguignon and Verdier 2000). Supportive findings were obtained from analyses of panel datasets that include both democratic and non-democratic countries covering the period from the 1960s to the mid-1990s (Chong 2004; Tam 2008).

However, in almost all emerging democracies and their non-democratic predecessors analyzed in this study for the 1985–2012 period, universal suffrage has been established. Geddes (2007) also highlights that numerous non-democratic regimes in the late 20th century pursued redistribution at the expense of traditional elites through land reform, expanded education, and industrialization. Moreover, compared with the datasets used by Chong (2004) and Tam (2008), the panel dataset used in this chapter encompasses longer periods of democracy than non-democracy. The poor were underrepresented because of the lack of parties that represent their interests under non-democratic systems. In this sense, democratization provides the electorate a greater choice of representatives. Thus, greater competition for public office realized by democratization does not privilege the rich as in the case of suffrage expansion; on the contrary, it favors the poor over the rich who enjoyed easier access to state authorities than the poor when electoral competition was restricted. Although the effect of democratization is expected to benefit the poor immediately rather than later, this study's analysis tests for the presence of a political Kuznets curve.

5.1.2 State Capacity: Corruption's Kuznets Curve

The effect of state capacity on income equality hinges substantially on controlling corruption. Corruption has been considered to aggravate inequality by increasing tax evasion, thus benefiting the rich while also reducing social expenditures designed to assist the poor. This claim, however, is supported only by cross-sectional studies (Gupta et al. 2002; Gyimah-Brempong and de Gyimah-Brempong 2006) or a panel analysis of 10-year interval first-differentiated data (Chong and Gradstein 2007). Panel analyses of data with time intervals of four or fewer years do not report such a monotone relationship (Andres and Ramlogan-Dobson 2011; Dobson and Ramlogan-Dobson 2012). Even among cross-sectional studies, Chong and Calderón (2000) demonstrate that institutional quality has an inverted-U curve effect on inequality, while deriving the contrasting conclusion that institutional quality increases equality in developed countries but reduces equality in developing countries. We argue that these puzzling results arise because, in the short term, the spurious positive effect of corruption on inequality overwhelms the genuine negative effect of corruption.

The spurious positive effect of corruption emerges for two reasons. First, redistributive policies aimed at reducing inequality inherently foment corruption; greater corruption thus appears to reduce inequality while, in reality, redistribution is the actual cause. Alesina and Angeletos (2005) indicate that large governments and redistributive policies induce corruption through tax loopholes, project allocations, and regulations that favor rent seekers. Second, policy measures to rein in corruption affect the poor by reducing the informal sector that most rely on to generate their incomes (Andres and Ramlogan-Dobson 2011; Dobson and Ramlogan-Dobson 2012; Balafoutas 2011).[2] de Freitas (2012) argues that a large informal economy, by evading income taxes, induces the government to resort to indirect taxes, which are theoretically more regressive than income taxes. In the same context, Mahon (2011) shows that tax reforms in Latin America increased inequality, apparently because they relied heavily on indirect taxes. Changes in corruption may thus reflect policies for reducing inequality or those for controlling corruption. While a reduction in corruption may contribute to income equality in the long run, policies that reduce corruption (or inequality) may increase inequality (or corruption), at least in the short term.

The current analysis tests our claims that (1) the contemporaneous effect of state capacity (including corruption) on income inequality is more spurious than real and (2) the long-term effect of state capacity on income inequality is negative. Although the negative effect of corruption on inequality was evidenced thus far only by cross-sectional studies or a panel analysis of very long-interval (10-year mean) data, we replicate that effect using an annual panel that includes levels of state capacity going more than four years back. The effect of state capacity reverses in its

[2]For an empirical analysis of the informal economy, see Dreher and Schneider (2010), Blackburn and Forgues-Puccio (2009).

higher-order lags. The complex effect of state capacity is thus scrutinized in both the short and long term.

5.2 Research Design

5.2.1 Data and Samples

This study separately tests the effect of the three factors on income inequality for emerging democracies across continents ($N = 57$), advanced democracies ($N = 18$), and all democracies ($N = 75$), using an unbalanced panel dataset for the 1985–2012 period compiled from the Standardized World Income Inequality Database (SWIID), the International Country Risk Guide (ICRG), the Quality of Government Database, the World Development Indicators Database, and other sources. Democracies were defined as countries whose Polity2 score was at least 6 (in accordance with the definition of democracy in Polity IV) for any four consecutive years, which usually forms one presidential or legislative term, during the 2001–2012 period. This definition encompasses all democracies that have existed in the 21st century, including those that became a democracy or reverted to a non-democracy during the 12-year period. The democracies were then divided into (1) emerging democracies that became either independent after 1944 or democratic after 1959, and (2) advanced democracies that were both independent before 1945 and democratic prior to 1960. As exceptions to this definition, Colombia and Costa Rica were categorized as emerging democracies. See Table 5.1 for the sample of countries.

5.2.2 Panel Design

The panel analysis adopted the FE model with an LDV due to its better match with the current dataset in comparison with other models. Alternatives to the FE model such as a random effects model or a panel corrected standard errors (PCSE) estimation did not meet the dataset property. A random effects model was not chosen because the Breusch-Pagan test, by rejecting the null hypothesis of no dependence of variance on country, indicated that the independent variables were correlated with unobserved country effects. PCSE estimation is appropriate for a panel with a limited number of cross-sections for a long time period but not for a panel having more cross-sections than time points (Beck and Katz 1995), which is the case here. Hence, PCSE estimation was also rejected as an approach.

The FE model mitigates a potential problem of selection bias arising from unbalanced panels (or different numbers of observations per country) such as this dataset, because the country-specific intercept, which represents unobserved effects, captures

Table 5.1 Number of observations by country for model 1 for all democracies in Table 5.5 (N = 1275)

		East Asia and Pacific	South Asia	Middle East	Sub-Saharan Africa	Europe	North America	Latin America and Caribbean
Emerging democracies (n = 854)								
1	Albania					8		
2	Argentina							22
3	Bangladesh		12					
4	Bolivia							9
5	Botswana				18			
6	Brazil							4
7	Bulgaria					19		
8	Chile							16
9	Colombia							13
10	Costa Rica							27
11	Croatia					10		
12	Cyprus					16		
13	Czech Republic					12		
14	Dominican Republic							12
15	Ecuador							18
16	El Salvador							15
17	Estonia					12		
18	Ghana				7			
19	Greece					24		
20	Guatemala							15
21	Guinea-Bissau				1			
22	Honduras							6
23	Hungary					19		
24	India		16					
25	Indonesia	24						
26	Israel			24				
27	Jamaica							2
28	Kenya				6			
29	Latvia					13		
30	Malawi				13			
31	Malaysia	27						
32	Mali				15			
33	Mexico							26
34	Mongolia	10						
35	Namibia				12			
36	Nicaragua							15
37	Niger				4			
38	Panama							17
39	Paraguay							20

		East Asia and Pacific	South Asia	Middle East	Sub-Saharan Africa	Europe	North America	Latin America and Caribbean
40	Peru							24
41	Philippines	12						
42	Poland					15		
43	Portugal					24		
44	Romania					20		
45	Russia					13		
46	Senegal				13			
47	Slovenia					12		
48	South Africa				16			
49	South Korea	27						
50	Spain					27		
51	Sri Lanka		13					
52	Thailand	17						
53	Trinidad and Tobago							13
54	Turkey					23		
55	Ukraine					11		
56	Uruguay							14
57	Zambia				1			
Region total		117	41	24	106	278	0	288
Advanced democracies (n = 421)								
1	Australia	17						
2	Austria					27		
3	Belgium					9		
4	Canada						13	
5	Denmark					26		
6	Finland					27		
7	France					27		
8	Germany					20		
9	Ireland					27		
10	Italy					27		
11	Japan	25						
12	Netherlands					23		
13	New Zealand	27						
14	Norway					27		
15	Sweden					27		
16	Switzerland					22		
17	United Kingdom					27		
18	United States						23	
Region total		69	0	0	0	316	36	0

the idiosyncratic likelihood of absent observations (Wooldridge 2013, pp. 473–74). Furthermore, the FE model can accommodate an LDV model, which has three appealing properties in the context of the current research. First, the model is appropriate for situations where the effect of a change in an independent variable is distributed over time. Second, although the inclusion of an LDV makes the FE (and OLS) estimator inconsistent, the FE (not OLS) estimator becomes consistent when T becomes large. An appropriate value for T is 20 or greater according to Beck and Katz (2011, p. 342) while Baltagi (2008, p.148) cites an example of relatively consistent estimators when T reaches 30.[3] As the mean observation per country in the dataset is 14.9 for the emerging democracies and 16.9 for all democracies, potential estimator inconsistency should be far from serious.[4] Third, misspecification in the LDV model would lead to underestimation rather than overestimation of regression coefficients (Beck and Katz 2011, p. 336).[5] This tendency for underestimation prevents us from erroneously asserting significant impacts of the variables of interests.

In sum, the FE model with a LDV has three major advantages over other models. First, it enables addressing the question of whether socioeconomic and political changes account for incremental change in each country's income distribution. Second, it controls for country-specific conditions such as colonial experiences and path dependence more generally; it also reduces the selection bias inherent in unbalanced panels. These features of the model well serve the major interest of this study, which is to determine the impact of political and economic reform on income equality in emerging democracies and not to undertake a comparison of income equality among countries at different levels of democracy. Third, conservative estimates of variable coefficients deter a false claim of new evidence. Such caution is all the more necessary when the operational hypotheses rest on less-than-solid ground. The FE model with a LDV used here takes the following form:

$$DV_{i,t} = \alpha + \beta_1(DV_{i,t-1}) + \beta_2(IV1_{i,t-1}) + \beta_3(IV2_{i,t-1}) + \ldots + \beta_k(IVh_{i,t-1}) + \upsilon_i + \gamma_t + \varepsilon_{i,t}$$

where $DV_{i,t}$ is a measure of the dependent variable in country i in year t, $IV1$, $IV2$, … IVh with h independent variables, α is the intercept, β_k are k coefficients to be estimated, υ_i are fixed group effects, γ_t are fixed time effects, and $\varepsilon_{i,t}$ is a white-noise error term.

[3]Baltagi (2008) also shows that a random effects model may be erroneously rejected by the Hausman test when endogeneity is present and that a 2SLS random effects model is a better alternative in such circumstances.

[4]The robustness check for endogeneity using the Blundell and Bond System GMM estimator was initially considered. It is a superior extension of the Arellano and Bond GMM estimator, especially when the number of time points is small (Baltagi 2008, 160–162). However, using the SWIID for model estimation requires multiple imputations to incorporate into an analysis the standard errors for SWIID estimates. In STATA, multiple imputations are possible only for FE or random effects models, not for GMM estimators.

[5]Similarly, Angrist and Pischke (2009, 243–46) recommends adopting the FE and LDV models, respectively, to obtain the upper and lower bounds of the estimates.

Table 5.2 Variables and data sources

Variable name	Source
Gini net (Gini after tax)	Solt (2009)
Income share held by the lowest 20 % of the population	World Bank
GDP per capita logged, constant US$	World Bank
Inflation (%)	World Bank
School enrollment secondary (% net)	World Bank
Urban population (% of total)	World Bank
Trade openness	World Bank
Foreign direct investment net inflows (% of GDP)	World Bank
ICRG Indicator of Quality of Government	Teorell et al. (2013)
Control of corruption	PRS (2013)
Ethnic peace	PRS (2013)
Age of largest opposition party	Keefer (2012)
Freedom House/Imputed Polity2	Teorell et al. (2013)

5.2.3 Variables

Table 5.2 presents the variables and their data sources. The variables of interest are political variables whereas control variables comprise economic, demographic, and year or group dummy variables. All independent variables (variables of interest and control variables) were lagged by one year in the standard specification of the model. The variables for which there are concerns about endogeneity—such as the Quality of Government (QOG) indicator, corruption, and logged GDP per capita—were lagged by more years in extended models (see below).

Dependent Variable

The dependent variable, the after-tax Gini coefficient, is derived from the SWIID compiled by Solt (2009), who estimated before-tax ("market") and after-tax ("net") Gini coefficients as well as changes in the Gini coefficient after taxation ("redistribution") using the World Income Inequality Database (UNU-WIDER 2008), the Luxemburg Income Study Database (LIS 2008), and more recent country-specific databases. In this study, the estimated before-tax Gini coefficient and the estimated redistribution were also used as alternative dependent variables; however, the estimated after-tax Gini coefficient returned the most substantive results. As a robustness check, the income share held by the lowest 20 % of the population was used as an alternative dependent variable.

Political Market

The quality of political market was measured by the age of the largest opposition party (Beck et al. 2001). The relative validity of the largest opposition party variable in comparison with alternative party age variables, such as the mean party age,

Table 5.3 Pearson correlation coefficients for party age variables and legislative polarization, all democracies (N = 1912)

	Polarization	
	3-level	Binary
Party age		
Largest opposition party	0.20	0.19
Three major parties, mean	0.17	0.13
Largest governing party	0.14	0.09
Executive party	0.14	0.08
Party age logged		
Largest opposition party	0.23	0.21
Three major parties, mean	0.19	0.14
Largest governing party	0.13	0.08
Executive party	0.10	0.05

Source Compiled by the author from the dataset
Note Calculated for country-year observations for advanced and emerging democracies. The three-level polarization score is the original data whereas the binary polarization score was generated by collapsing categories one and two, thus having values of only zero or one

the age of the executive party, or the age of the largest government party, can be checked by examining whether the relevant party age is associated with economic policy competition between the incumbent and opposition. Economic policy competition was measured by the (legislative) polarization variable (Beck et al. 2001). Despite its connotation, the polarization variable indicates whether party competition in the legislature is either left versus right (=2), center versus left or center versus right (=1), or no programmatic competition (=0).[6] The correlation Table 5.3 demonstrates that the age of the largest opposition party is more strongly associated with polarization than any other party age variable regardless of logarithmic transformation or recoding of those variables. The alternative party age variables as well as corresponding party seat variables were also used for preliminary panel analyses but none of them had a significant effect on income inequality.

As an alternative measurement of political market quality, the Freedom House/Imputed Polity2 variable in the Quality of Government Database (Teorell et al. 2013) was adopted, which is calculated as a composite indicator of the Freedom House score and Polity score. Freedom House uses minority rights as one criteria when calculating its score. The question on its checklist most relevant to

[6]By definition, the polarization variable represents the "[m]aximum polarization between the executive party and the four principle parties of the legislature" (Keefer 2012, p. 19). As the polarization score is calculated as the difference between the executive party's economic orientation (1 = right, 2 = center, 3 = left) from that of any of the four principle parties whose economic orientation differs most from the former, the score yields values of zero, one, or two. The polarization variable was not used as an independent variable for the analysis in this chapter because it has low variation characterized by 63 % of the entire sample and 74 % of the emerging democracy sample having a value of zero.

minority rights asks, "Do cultural, ethnic, religious, or other minority groups have full political rights and electoral opportunities?"[7] In contrast, the Polity score focuses on checks and balances in political institutions but does not explicitly specify any element of minority rights. This composite variable thus captures political competition and minority representation in a balanced way. Although this variable is less focused on the level of programmatic party competition compared with the age of the largest opposition party, the fact that it comprehensively measures political competition among political parties and groups allows for testing the political Kuznets curve hypothesis that democratization initially increases income inequality because only the privileged enjoy political participation at its early stage (Acemoglu and Robinson 2002).

State Capacity

The effect of state capacity was measured by the Quality of Government (QOG) indicator (Teorell et al. 2013), calculated from three variables included in the International Country Risk Guide (ICRG) dataset (PRS 2013)—control of corruption (a ratio scale ranging from one to six), the rule of law (a ratio scale ranging from one to six), and bureaucratic quality (a ratio scale ranging from one to four)—and standardized to range between 0 and 1. The variables in the ICRG dataset are compiled by the Political Risk Service (PRS) using specialist evaluations of various political and economic risks of the countries around the world.[8] Among the three variables that form the QOG indicator, the control of corruption can have the most influential effect. QOG was thus replaced with the control of corruption per se in alternative models. The contemporaneous effect of state capacity was measured by the first lag of QOG or the control of corruption. Its long-term effect was gauged using different higher-order lags as well as means for five consecutive higher-order lags of QOG or the control of corruption.

Ethnic Peace

This study assumes that multidimensionality is a more proximate cause of policy input (preference formation) than that of policy outcome (redistribution or inequality reduction). The previous chapter demonstrated that the multidimensionality of policy issues, operationalized by ethnic fractionalization, discourages the formation of preferences for income equality. However, it does not preclude

[7]See the fourth question under the category of political pluralism and participation in the Checklist Questions and Guidelines (Freedom House 2011).

[8]Broad definitions of the variables are made public in the PRS website but their coding rules are not disclosed for the purpose of protecting the originality of its models, according to the answers given by the PRS to the authors' request for clarification of the coding rules.

ethnic fractionalization from affecting income equality (1) directly or (2) indirectly through preferences. There is cross-national evidence that ethnic fractionalization negatively affects redistribution or income equality (Alesina and Glaeser 2005, pp.140–43; Huber and Stephens 2012, p. 145). While it is necessary to examine the (direct or indirect) effect of ethnic fractionalization on income equality, the fixed effects model adopted in this chapter cannot accommodate time-invariant variables such as ethnic fractionalization.

Instead, the following analysis redirects the focus onto an activation of multidimensionality. An activation of multidimensionality, measured by ethnic tensions, may exacerbate income inequality by facilitating ethnic-based coalitions rather than lower-income coalitions. Two caveats must be highlighted. First, although an activation of multidimensionality is not independent of ethnic fractionalization (because societies that are purely homogeneous in terms of ethnic groups cannot have ethnic tensions), it cannot be assumed that ethnically more heterogeneous countries trend to have greater ethnic tensions. Second, an activation of multidimensionality in ethnically heterogeneous countries may have a different effect on income inequality than in ethnically homogeneous counties. The analysis of activated multidimensionality is thus not a substitute for the analysis of multidimensionality per se; it involves more uncertainties and is more explorative than the latter. The variable that measures the absence of ethnic tensions is available at the PRS (2013). This variable, renamed in the current study as ethnic peace, measures tensions in a country that arise from racial, ethnic, or linguistic differences at a ratio scale ranging from one (the highest level of ethnic tensions) to six (the lowest level) in the same manner as used for the control of corruption variable.

Control Variables

Control variables were chosen in accordance with the literature (see Table 5.4). The following variables were used as correlates of income inequality (expected effects shown in parentheses): the logarithm of real GDP per capita (+) and its square (−), inflation (+), secondary school enrollment (−), the young population (−), the old population (+), the urban population (−), trade openness (±), and foreign capital investment (±).[9] Year dummies control for concurrent shocks (e.g., a world economic crisis) and time trends (e.g., neo-liberalism). Kuznets (1955) argued that economic development has an inverted-U curve effect on income inequality but there have been few panel studies to support his theory; most of the supporting evidence is derived from cross-section studies that are prone to unobserved

[9]There are contrasting theories and mixed evidence regarding the effect of trade openness and foreign direct investment (Reuveny and Li 2003; Lee et al. 2007; Meschi and Vivarelli 2009; Ha 2012; Franco and Gerussi 2013; Goldberg and Pavcnik 2007).

Table 5.4 Cross-section time-series studies on democracy, social spending, and income distribution in developing countries

Author	Theoretical argument	Dependent variable	Independent variable[a]	Control	Panel model	Sample size	Period
Brown and Hunter (1999)	Authoritarian regimes are more sensitive to economic constraints; democratic regimes are more sensitive to political constraints	Social spending per capita	GDP per capita ▲ (if authoritarian), change in GDP per capita, debt service ratio, population over 55 ▲ (if democratic)	Inflation (dropped due to insignificance)	OLS with PCSE	17: Latin America	1980–1992
Lake and Baum (2001)	Uncontestable political markets provide more rents and less public services than contestable political markets	Secondary education enrollment, safe water access, measles/DPT immunization, infant mortality	Optimally lagged democracy index × |change in optimally lagged democracy index|▲	Per capita GNP, land area, population, urban population, OECD member	GEE with AR(1) and RSE	Max: 110	Max: 1975–1995, annual, or 3- or 5-year mean
Kaufman and Segura-Ubiergo (2001)	Efficiency (not compensation) effects globalization	Central government aggregate social welfare spending (% of GDP, % of total government spending, per capita)	Trade ▼, capital flow, democracy, president from a popular-based party	GDP per capita, output gap, population over 65, revenues	OLS with PCSE,[b] lagged DV, IVs as lags and changes, and two-way fixed effects[c]	14: Latin America	1973–97
	Labor-based presidents protect pensions	Central government social security spending	Trade ▼, capital flow, lagged democracy ▼, president from a labor based-party ▲				
	Democratic regimes favor human capital spending	Central government health and education spending	Trade, capital flow, lagged democracy ▲, president from a popular-based party ▼				

(continued)

Table 5.4 (continued)

Author	Theoretical argument	Dependent variable	Independent variable[a]	Control	Panel model	Sample size	Period
Rudra (2002)	Unskilled and unorganized labor fails to demand welfare spending	Central government social welfare spending (% of GDP, % of total government spending, per capita)	Potential labor power ▲, PLP × trade ▼,[d] PLP × capital flow CF ▼, democracy ▲	Young and aged dependents, urbanization, GDP per capita, GDP growth, debt, privatization	Country-fixed effects with lagged DV, 2S LS	53: Eastern Europe excluded	1972–95
Rudra (2004)	Social spending in developed countries protects the poor	Gini coefficient	Trade/GDP, portfolio flows, social security and welfare spending per capita ▼, education spending per capita▼, health spending per capita	Real GDP growth rate, population over 65, decade dummies	2SLS, Prais-Winsten estimates, PCSE	11: OECD	1972–96
	Social spending in developing countries favors the better off, with social security, health, and education spending, in descending order, providing the greatest benefit; the variation in the unegalitarian effect of the three spending items depends on the difficulty in forming cross-class coalitions	Gini coefficient, bottom quintile income share	Trade/GDP ▲, portfolio flows, social security and welfare spending per capita ▲, education spending per capita ▲, health spending ▲, Trade/GDP × social security and welfare spending per capita ▲, Trade/GDP × education spending per capita ▼, Trade/GDP × health spending ▼, democracy ▼	GDP per capita, GDP per capita,[b] population over 65, urbanization, decade dummies		35: Developing countries	1972–96

(continued)

Table 5.4 (continued)

Author	Theoretical argument	Dependent variable	Independent variable[a]	Control	Panel model	Sample size	Period
Avelino et al. (2005)	Trade openness (for globalization) is better measured using PPP than dollar.	Public aggregate social welfare spending	Trade openness in PPP ▲, capital mobility, democracy ▲,[e] trade openness × democracy, capital mobility × democracy ▲	Population over 65, unemployment, GDP in PPP per capita, change in GDP in PPP per capita, inflation, urban population, debt service ratio	OLS with PCSE, lagged DV, and two-way fixed effects	19: Latin America	1980–99
	Democracy is sensitive to interests with a large constituency	Public education spending	Trade openness in PPP ▲, capital mobility, democracy ▲				
		Public health spending	Trade openness in PPP, capital mobility, democracy				
	Democracies cannot slash spending for a small group of supporters	Public social security spending	Trade openness in PPP ▲, capital mobility, democracy				
Huber et al. (2006)	Long experience with democracy and leftist control of the legislature reduce inequality; social security and welfare spending is unegalitarian	Gini coefficient	Cumulated democracy indicator ▼, health and education spending/GDP, social security and welfare spending/GDP, legislative partisan balance ▼, democracy × social security and welfare spending ▼	GDP per capita, net secondary school enrollment, sector dualism,[f] inflation, youth population, stock of FDI, ethnic heterogeneity, repressive authoritarianism	OLS with robust-cluster standard errors (same results with PCSE, OLS, and REM)	18	1970–2000
Ross (2006)	Health spending benefits the middle- and upper-income households by subsidizing their health expenditure rather than targeting the poor	Infant and child mortality	Democracy indicator, democratic years	Period dummies, income per capita, economic growth, population density, HIV prevalence[g]	OLS with PCSE, country-fixed effects	168: Including high performing authoritarian regimes	1970–2000: five-year panel

(continued)

Table 5.4 (continued)

Author	Theoretical argument	Dependent variable	Independent variable[a]	Control	Panel model	Sample size	Period
Lee et al. (2007)	Taxation and social spending mitigate the negative effect of foreign capital penetration on income equality	Gini coefficient[h]	GDP per capita ▲▼, export commodity concentration ▼, foreign trade structure[i], stock per capita ▲▼, public sector size × FDI ▼	Sector dualism, labor force share in agriculture, natural rate of population growth, secondary school enrollment ratio	Random effects (also fixed effects for baseline models)	60: 15 developed countries and 45 non-communist developing countries	1970–94
Huber and Stephens (2012)	Democracy and left political power are positively associated with education and health spending	Education spending Health spending Social security and welfare spending	Democracy (cumulative since 1945) ▲, long-term democracy (democracy minus 20), left political strength, repressive authoritarianism (cumulative over the past 15 years) ▼	GDP per capita, female labor force, youth population, urban population, ethnic diversity, FDI stock, external debt, trade openness, IMF program (cumulative), FDI inflows, industrial employment, veto points (constitutional), budget deficits	OLS with PCSEs and Prais-Winsten estimates	18: Latin America	1970–2007
	Education and health spending improves income equality by enriching human capital but social security and welfare spending contributes to income equality only under democracy	Percentage of the households living in poverty	Democracy (cumulative since 1945) ▼, long-term democracy (democracy minus 20) ▼, left political strength ▼, education spending (cumulative average/GDP), health spending (cumulative average/GDP) ▼, average years of education ▼, social security and welfare spending (current/GDP) ▼	GDP per capita, Gini, informal employment, inflation, female labor force, youth population, ethnic diversity, FDI stock, external debt, trade openness, IMF program (cumulative), FDI inflows, industrial employment			

(continued)

Table 5.4 (continued)

Author	Theoretical argument	Dependent variable	Independent variable[a]	Control	Panel model	Sample size	Period
		Gini coefficient	Democracy (cumulative since 1945) ▼, long-term democracy (democracy minus 20) ▼, left political strength ▼, education spending (cumulative average/GDP), health spending (cumulative average/GDP), average years of education ▼, social security and welfare spending (current/GDP) × democracy ▼	Sector dualism, inflation, female labor force, youth population, ethnic diversity, FDI stock, external debt, trade openness, IMF program (cumulative), FDI inflows, informal employment, industrial employment			

[a]Democracy or democratic indicators are included even if they are control variables in the cited studies
[b]On the right side of the equation, the dependent variable is a change value
[c]Angrist and Pischke (2009, 243–247) warned against an OLS model that combined FE with an LDV because the error term is correlated with the LDV. They recommend estimation using alternative models
[d]Potential labor power = skilled-to-unskilled labor ratio/surplus labor ratio
[e]The democracy indicator (continuous measurement) returned similar results
[f]Sector dualism was measured by the absolute difference between the percentage of the labor force in agriculture and agriculture as a share of GDP. The absolute difference was probably taken because the sector dualism variable was initially accompanied by the variable for employment in agriculture, which was subsequently dropped from the final models
[g]HIV prevalence represents health threatening conditions that are largely beyond the government's control
[h]Twelve technical indicator variables were used to incorporate various estimation methods and sources shown in the World Income Inequality Database (WIID)
[i]Foreign trade structure is maximized (minimized) when the country imports (exports) raw materials and exports (import) manufactured goods
Source Compiled by the author
Notes ▲ = positive effect. ▼ = negative effect. ▲▼ = inverted-U curve effect. No sign = insignificant effect. These signs indicate that all the models run returned coefficients with these signs and at least the majority of those coefficients were statistically significant
PCSEs Panel corrected standard errors for cross-sectional time-series data. PCSEs adjust for contemporaneous correlation of the error terms, but also require prior control for any serial correlation of the error terms (Beck and Katz 1995); AR(1): First-order autoregressive model; *RSE* Robust standard errors; *REM* Random effects model; *OLS* Ordinary least squares model; *2SLS* Two-stage least squares model; *GEE* Generalized estimating equation model

country-specific effects [see the review by Tam (2008)].[10] Among the control variables, young and old age groups in the population had inconsistent estimates for different models within the same sample. Therefore, the two variables were dropped from the final models shown in the results section. The data source for these control variables is the World Development Indicator Dataset.

Previous studies also included variables related to social expenditures but these were not used in the current analysis for the following reasons. First, although social spending data are available from the IMF's Government Financial Statistics (GFS), significant discrepancies exist in the GFS data compiled before and after 1990. Specifically, in the post-1990 dataset, two different values were recorded to reflect both accrual and cash basis accounting.[11] One problem is that most records on cash-based activities do not include non-monetary flows, whereas those on the accrual basis include both monetary and non-monetary flows. For each country, data entries do not necessarily follow the accrual-based system, the cash-based system, or either in a consistent manner. Second, the above dataset has a large number of missing values for emerging democracies, which would significantly reduce their sample size. Third, previous studies indicate that democratic developing countries have higher social spending than non-democratic developing countries (Kaufman and Segura-Ubiergo 2001; Rudra 2002; Avelino et al. 2005) but income equality does not significantly differ between the two groups of countries (Lake and Baum 2001; Rudra 2004; Huber et al. 2006; Ross 2006; Lee et al. 2007). In particular, Huber and Stephens (2012) showed that social spending had no significant effect on income equality in Latin American countries. Therefore, it was judged more reasonable to drop social spending variables and retain the current sample size than to include them and reduce the sample size.

5.3 Results

The results of multiple imputations using the FE model with an LDV are presented in Table 5.5. Models 1 and 2 estimated short-term effects of the independent variables that were lagged by one year. Models 3 through 6 examined the long-term effect of state capacity. The six models were run for the three samples, namely, all democracies, emerging democracies, and advanced democracies. This section concentrates on results for emerging democracies while referring to the differences from the other two samples. The last two models for advanced democracies could

[10]Kuznets (1955) suggested that economic growth initially increases inequality much more in developing than developed countries because the dearth of the middle class in the former concentrates more wealth in the hands of the rich.

[11]Spending calculated on an accrual basis is recorded "at the time the economic value is created, transformed, exchanged, transferred, or extinguished," whereas spending calculated on a cash basis is recorded "when the cash is received or disbursed" (International Monetary Fund 2001, pp. 28–29).

not be estimated because the set of omitted variables or categories was inconsistent for some imputations. This problem emerges when multiple imputations are applied to a small sample.

5.3.1 Political Market

The age of the largest opposition party—as the political market variable—has a negative effect on income inequality for the all democracies or emerging democracies groups at the 0.05 or 0.10 significance level depending on the model but not in advanced democracies as their political market quality is invariably very high. The Freedom House/Imputed Polity2 variable also has a negative effect on inequality in all or emerging democracies. Simultaneously, the effect of the Freedom House/Imputed Polity2 squared variable is positive. This indicates that democratization reduces inequality, at least at its initial phase. This difference from the earlier findings on the political Kuznets curve might be explained by the greater proportion of non-democracy observations in the previous studies than in this study. Furthermore, for the current sample, the effect of political market quality on inequality becomes positive only at the highest level that might be associated with growing income inequality in advanced democracies. In emerging democracies, therefore, even though democracy is immature, enhancing political competition and minority rights ensures greater income equality (Table 5.6).

5.3.2 State Capacity

The effect of state capacity, when measured by the QOG variable, on income inequality has an inverted-U curve, a finding that reflects the fact that the QOG variable and its square have positive and negative effects, respectively, as shown in Model 1.[12] The inverted-U curve is still present when the QOG variable is replaced with the control of corruption variable (Model 2) (or with Transparency International's Corruption Perception Index, the results of which are not shown in this study). The inverted-U curve effect of state capacity on inequality was reported by Chong and Calderón (2000) for cross-section data, but this study corroborates these earlier findings with a panel data. These findings are congruent with the argument made earlier in this study that the control of corruption spuriously increases inequality in the short term.

In the long term, however, the quality of government (or control of corruption) contributes to income equality. Models 3 through 6 demonstrate that the quality of

[12]These effects remained intact when the logarithm of GDP per capita and its square, which controlled for the (orthodox) Kuznets curve effect, were dropped from the model.

Table 5.5 Estimation results

	All democracies					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
L. Gini net	0.863***	0.860***	0.819***	0.818***	0.838***	0.835***
	(0.0159)	(0.0158)	(0.0244)	(0.0244)	(0.0195)	(0.0194)
L. GDP per capita logged constant US$	1.412	3.716*	0.499	0.462	1.978	1.711
	(2.044)	(2.089)	(3.566)	(3.604)	(3.235)	(3.259)
L. GDP per capita logged constant US$ squared	-0.0660	-0.202*	0.0126	0.0205	-0.0819	-0.0640
	(0.110)	(0.114)	(0.200)	(0.202)	(0.177)	(0.179)
L. Inflation	0.0000464	-0.0000366	-0.00223	-0.00241*	-0.00197	-0.00208
	(0.000273)	(0.000273)	(0.00136)	(0.00137)	(0.00132)	(0.00133)
L. School enrollment secondary	-0.0105*	-0.0118**	-0.00960	-0.0111	-0.0132*	-0.0141**
	(0.00568)	(0.00562)	(0.00751)	(0.00758)	(0.00674)	(0.00678)
L. Urban population	-0.0271	-0.0233	-0.125***	-0.119**	-0.0826**	-0.0781**
	(0.0236)	(0.0235)	(0.0470)	(0.0469)	(0.0385)	(0.0384)
L. Trade openness	-0.00322	-0.00333	-0.00728	-0.00662	-0.00639	-0.00584
	(0.00422)	(0.00422)	(0.00626)	(0.00629)	(0.00534)	(0.00536)
L. Foreign direct investment net inflows	0.0185	0.0187	0.0204*	0.0179	0.0178	0.0172
	(0.0118)	(0.0118)	(0.0121)	(0.0122)	(0.0121)	(0.0122)
L. Age of largest opposition party	-0.00329*	-0.00356**	-0.00416**	-0.00369*	-0.00448**	-0.00429**
	(0.00169)	(0.00168)	(0.00197)	(0.00197)	(0.00189)	(0.00189)
L. Quality of Government	8.647***					
	(2.419)					
L. Quality of Government squared	-6.344***					
	(1.925)					
L. Quality of Government mean for 6th-10th lags			-4.136***			
			(0.917)			
L8. Quality of Government					-2.790***	
					(0.697)	
L. Control of corruption		1.140***				
		(0.307)				
L. Control of corruption squared		-0.156***				
		(0.0413)				
L. Control of corruption mean for 6th-10th lags				-0.480***		
				(0.120)		
L8. Control of corruption						-0.313***
						(0.0847)
L. Ethnic peace	0.0251	0.0439	-0.0333	-0.0494	-0.0495	-0.0555
	(0.0787)	(0.0790)	(0.123)	(0.123)	(0.102)	(0.102)
Constant	-2.623	-11.36	13.72	12.55	3.738	4.026
	(9.209)	(9.494)	(15.94)	(16.03)	(14.60)	(14.69)
Observations	1275	1275	913	913	1008	1008

Notes Standard errors in parentheses.* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

Emerging democracies						Advanced democracies			
Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 1	Model 2	Model 3	Model 4
0.855***	0.847***	0.810***	0.806***	0.833***	0.828***	0.888***	0.892***	0.871***	0.858***
(0.0194)	(0.0195)	(0.0278)	(0.0277)	(0.0228)	(0.0226)	(0.0210)	(0.0208)	(0.0324)	(0.0345)
1.976	3.793	0.240	0.264	3.029	2.637	-4.273	-5.630	-21.94	-23.72
(3.018)	(2.990)	(5.206)	(5.215)	(4.811)	(4.826)	(11.72)	(12.03)	(16.76)	(16.90)
-0.0817	-0.195	0.0753	0.101	-0.107	-0.0673	0.140	0.220	1.009	1.086
(0.172)	(0.171)	(0.306)	(0.307)	(0.278)	(0.279)	(0.565)	(0.579)	(0.804)	(0.811)
0.0000459	-0.0000343	-0.00219	-0.00245	-0.00182	-0.00203	-0.0349**	-0.0349**	-0.0245	-0.0282
(0.000294)	(0.000294)	(0.00157)	(0.00157)	(0.00151)	(0.00151)	(0.0172)	(0.0172)	(0.0197)	(0.0199)
-0.0100	-0.0134	0.00614	0.0101	0.00250	0.00453	-0.00664	-0.00720*	-0.0140***	-0.0118**
(0.0102)	(0.0102)	(0.0150)	(0.0149)	(0.0127)	(0.0127)	(0.00433)	(0.00434)	(0.00464)	(0.00479)
-0.0325	-0.0259	-0.170***	-0.155**	-0.119**	-0.109**	0.0120	0.0130	-0.00114	0.0265
(0.0322)	(0.0320)	(0.0648)	(0.0643)	(0.0524)	(0.0522)	(0.0220)	(0.0217)	(0.0320)	(0.0334)
-0.00518	-0.00599	-0.0102	-0.00957	-0.00909	-0.00870	0.00631	0.00700	0.00763	0.00713
(0.00529)	(0.00521)	(0.00788)	(0.00790)	(0.00667)	(0.00668)	(0.00480)	(0.00485)	(0.00542)	(0.00543)
0.0296*	0.0255	0.0314*	0.0299	0.0261	0.0264	0.00476	0.00393	0.00662	0.00775
(0.0177)	(0.0176)	(0.0184)	(0.0184)	(0.0183)	(0.0183)	(0.0104)	(0.0104)	(0.00912)	(0.00912)
-0.00483*	-0.00472*	-0.00634**	-0.00590**	-0.00675**	-0.00668**	-0.000466	-0.000287	0.000970	0.00117
(0.00259)	(0.00258)	(0.00291)	(0.00290)	(0.00283)	(0.00282)	(0.00134)	(0.00135)	(0.00140)	(0.00140)
8.055***						6.171			
(2.997)						(5.365)			
-6.296**						-3.098			
(2.609)						(3.327)			
		-3.692***						-1.109	
		(1.171)						(1.531)	
				-2.470***					
				(0.879)					
	1.344***						0.212		
	(0.432)						(0.338)		
	-0.206***						-0.0205		
	(0.0630)						(0.0386)		
			-0.522***						0.132
			(0.158)						(0.120)
					-0.359***				
					(0.113)				
0.120	0.0964	0.0777	0.0833	0.0459	0.0467	-0.0316	-0.0323	-0.161*	-0.175**
(0.112)	(0.111)	(0.183)	(0.183)	(0.145)	(0.146)	(0.0799)	(0.0812)	(0.0869)	(0.0867)
-4.522	-10.71	13.07	10.18	-1.480	-2.128	29.32	37.06	125.7	132.1
(13.18)	(13.13)	(22.75)	(22.63)	(21.06)	(21.02)	(61.05)	(62.61)	(87.67)	(88.10)
854	854	621	621	688	688	421	421	292	292

Table 5.6 Estimation results with an alternative political market quality measurement: Freedom House/Imputed Polity2

	All democracies					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
L. Gini net	0.872***	0.871***	0.829***	0.829***	0.849***	0.848***
	(0.0137)	(0.0136)	(0.0232)	(0.0231)	(0.0193)	(0.0192)
L. GDP per capita logged constant US$	1.254	3.178	1.343	0.920	0.524	0.358
	(1.878)	(1.942)	(3.497)	(3.558)	(3.164)	(3.198)
L. GDP per capita logged constant US$ squared	-0.0448	-0.160	-0.0631	-0.0375	0.0117	0.0194
	(0.104)	(0.108)	(0.197)	(0.201)	(0.175)	(0.177)
L. Inflation	0.0000646	0.000000167	-0.00197	-0.00219	-0.00181	-0.00194
	(0.000270)	(0.000269)	(0.00133)	(0.00134)	(0.00135)	(0.00136)
L. School enrollment secondary	-0.00948*	-0.0107*	-0.0103	-0.0112	-0.00966	-0.0105
	(0.00563)	(0.00555)	(0.00745)	(0.00750)	(0.00679)	(0.00680)
L. Urban population	0.000119	0.000937	-0.0738*	-0.0691*	-0.0475	-0.0446
	(0.0218)	(0.0216)	(0.0417)	(0.0417)	(0.0353)	(0.0353)
L. Trade openness	-0.00343	-0.00323	-0.00473	-0.00470	-0.00564	-0.00554
	(0.00377)	(0.00375)	(0.00583)	(0.00586)	(0.00507)	(0.00507)
L. Foreign direct investment net inflows	0.00254	0.00263	0.00284	0.00261	0.00249	0.00240
	(0.00485)	(0.00484)	(0.00459)	(0.00461)	(0.00480)	(0.00480)
L. Freedom House/Imputed Polity2	-0.882***	-0.867***	-1.377***	-1.327***	-1.100***	-1.087***
	(0.228)	(0.226)	(0.358)	(0.356)	(0.289)	(0.288)
L. Freedom House/Imputed Polity2 squared	0.0600***	0.0601***	0.0985***	0.0930***	0.0823***	0.0797***
	(0.0185)	(0.0184)	(0.0293)	(0.0291)	(0.0231)	(0.0230)
L. Quality of Government	6.938***					
	(2.080)					
L. Quality of Government squared	-4.838***					
	(1.704)					
L. Quality of Government mean for 6th-10th lags			-3.584***			
			(0.849)			
L8. Quality of Government					-1.931***	
					(0.660)	
L. Control of corruption		0.946***				
		(0.260)				
L. Control of corruption squared		-0.130***				
		(0.0358)				
L. Control of corruption mean for 6th-10th lags				-0.422***		
				(0.113)		
L8. Control of corruption						-0.234***
						(0.0815)
L. Ethnic peace	-0.0836	-0.0454	-0.0521	-0.0618	-0.129	-0.125
	(0.0725)	(0.0721)	(0.116)	(0.116)	(0.102)	(0.102)
Constant	-0.834	-8.150	12.47	13.41	9.264	9.765
	(8.308)	(8.620)	(15.41)	(15.57)	(14.09)	(14.20)
Observations	1445	1445	967	967	1082	1082

Notes Standard errors in parentheses.* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

Emerging democracies						Advanced democracies			
Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 1	Model 2	Model 3	Model 4
0.869***	0.865***	0.825***	0.822***	0.847***	0.846***	0.887***	0.890***	0.867***	0.852***
(0.0161)	(0.0162)	(0.0263)	(0.0261)	(0.0222)	(0.0220)	(0.0195)	(0.0194)	(0.0316)	(0.0340)
2.143	3.647	2.640	2.124	2.243	1.978	-5.695	-6.661	-18.45	-20.35
(2.677)	(2.674)	(4.850)	(4.879)	(4.535)	(4.550)	(11.03)	(11.27)	(16.27)	(16.50)
-0.0862	-0.179	-0.116	-0.0655	-0.0554	-0.0337	0.212	0.274	0.850	0.936
(0.158)	(0.158)	(0.289)	(0.291)	(0.266)	(0.267)	(0.533)	(0.543)	(0.781)	(0.792)
0.0000568	0.00000559	-0.00194	-0.00221	-0.00179	-0.00196	-0.0322*	-0.0327*	-0.0211	-0.0232
(0.000290)	(0.000289)	(0.00153)	(0.00153)	(0.00154)	(0.00154)	(0.0166)	(0.0166)	(0.0192)	(0.0194)
-0.00855	-0.0117	0.00388	0.00782	0.00635	0.00702	-0.00741*	-0.00817**	-0.0148***	-0.0124***
(0.00940)	(0.00934)	(0.0146)	(0.0145)	(0.0125)	(0.0124)	(0.00413)	(0.00412)	(0.00463)	(0.00468)
0.00321	0.00448	-0.105*	-0.0930	-0.0734	-0.0671	-0.00541	-0.00448	-0.0181	0.00330
(0.0294)	(0.0289)	(0.0588)	(0.0588)	(0.0485)	(0.0485)	(0.0205)	(0.0203)	(0.0299)	(0.0307)
-0.00518	-0.00574	-0.00842	-0.00831	-0.00923	-0.00923	0.00614	0.00663	0.00562	0.00507
(0.00481)	(0.00469)	(0.00762)	(0.00765)	(0.00651)	(0.00650)	(0.00414)	(0.00418)	(0.00451)	(0.00454)
0.0149	0.0119	0.0252	0.0248	0.0201	0.0205	0.000146	0.0000371	0.000134	0.000315
(0.0165)	(0.0165)	(0.0178)	(0.0178)	(0.0184)	(0.0184)	(0.00293)	(0.00293)	(0.00264)	(0.00263)
-0.884***	-0.883***	-1.299***	-1.246***	-1.063***	-1.048***	25.37	25.25	9.277	19.00
(0.258)	(0.257)	(0.397)	(0.394)	(0.323)	(0.322)	(16.22)	(16.32)	(21.90)	(21.51)
0.0607***	0.0617***	0.0922***	0.0871***	0.0791***	0.0768***	-1.307	-1.303	-0.472	-0.972
(0.0214)	(0.0213)	(0.0330)	(0.0327)	(0.0265)	(0.0263)	(0.838)	(0.843)	(1.132)	(1.111)
6.325**						6.401			
(2.534)						(5.114)			
-4.469**						-3.177			
(2.267)						(3.175)			
		-3.252***						-1.373	
		(1.047)						(1.550)	
				-1.615**					
				(0.800)					
	1.077***						0.209		
	(0.351)						(0.319)		
	-0.163***						-0.0182		
	(0.0525)						(0.0364)		
			-0.471***						0.125
			(0.148)						(0.119)
					-0.267**				
					(0.107)				
-0.0369	-0.0301	0.0387	0.0465	-0.0328	-0.0242	-0.0431	-0.0455	-0.144*	-0.158*
(0.0999)	(0.0995)	(0.172)	(0.172)	(0.143)	(0.143)	(0.0717)	(0.0732)	(0.0837)	(0.0835)
-4.303	-9.445	6.120	6.030	0.633	1.060	-85.45	-78.74	62.78	22.60
(11.37)	(11.39)	(20.68)	(20.71)	(19.33)	(19.36)	(90.07)	(91.23)	(137.9)	(134.2)
999	999	662	662	746	746	446	446	305	305

government (or control of corruption) as its eighth lag, or as the mean for its sixth to 10th consecutive lags, reduces inequality.[13] The negative effect of the quality of government (as well as control of corruption) on inequality was the strongest in its eighth lag, and statistical significance declined through the seventh to sixth lag on the one hand, and through the ninth to 10th lag on the other, until the effect became not statistically significant by the fifth and 11th lags. The effect of corruption on inequality became positive by the third lag. The effects of the second and first lags were stronger than those of the third but were very similar to each other. Such a lag effect was not observed for per capita GDP.

5.3.3 Ethnic Peace

The variable for ethnic peace is correctly signed except for two models for emerging democracies, but was only statistically significant in two of the four models for advanced democracies at the 0.10 level. These findings suggest that the activation of multidimensionality is more likely to increase rather than reduce inequality but the effect is far from substantive. The same analysis with split samples of more- and less-fragmented countries yielded results similar to those from the full sample for all, emerging, and advanced democracies. One might speculate that low multidimensionality does not necessarily alleviate the negative effect of ethnic tensions on the formation of a redistributive coalition.

5.3.4 Control Variables

Most control variables have the expected signs, though none are significant for all models. Three other findings are worthy of note. First, trade openness had insignificant but consistently negative signs for the "all democracies" and "emerging democracies" groups and insignificant but consistently positive signs for the "advanced democracies" group. These contrasting results indicate the possibility that trade liberalization in developing countries benefits lower-skilled workers and labor-intensive sectors of the economy while the major beneficiaries are higher-skilled workers and capital-intensive sectors in developed countries. Second, foreign direct investment consistently has positive signs in all samples, although they are only significant in a few models. Third, the logarithm of the GDP per capita and its square, although consistently correctly signed, are not statistically significant for most models. In the current context, income's Kuznets curve effect is

[13]The lagged mean for the 6th–10th consecutive lags amounts to the mean for the 7th–11th consecutive lags; however, the variable name remains as the mean for the 6th–10th lags to keep consistency with other lagged variables (except for the eighth lag of QOG or the control of corruption).

absorbed by corruption's Kuznets curve. Models 1 and 2, when run without the QOG variable and the control of corruption variable, respectively, returned statistically significant estimates of the logarithm of the GDP per capita and its square (not shown in this study but available from the authors upon request).

5.3.5 Robustness Check

The robustness of the above findings was examined for the sample of emerging democracies in two ways. First, we searched for influential observations by rerunning the most parsimonious and fittest model, Models 3, with one region of countries at a time dropped from the sample for a total six regions (East Asia and

Table 5.7 Robustness check for influential observations: one region dropped from the sample of emerging democracies

	Region dropped from the sample of emerging democracies					
	(1) Eastern Europe and Former Soviet Union	(2) East Asia and Pacific	(3) South Asia	(4) Middle East	(5) Sub-Saharan Africa	(6) Latin America and Caribbean
L. Gini net	0.899*** (0.0252)	0.799*** (0.0315)	0.801*** (0.0325)	0.808*** (0.0281)	0.810*** (0.0278)	0.788*** (0.0318)
L. GDP per capita logged	1.445 (4.635)	−3.020 (5.916)	3.577 (6.215)	0.598 (5.287)	0.240 (5.206)	1.782 (6.054)
L. GDP per capita logged squared	−0.0871 (0.276)	0.242 (0.341)	−0.0555 (0.368)	0.0592 (0.310)	0.0753 (0.306)	0.0139 (0.358)
L. Inflation	−0.00215* (0.00121)	0.00206 (0.00867)	−0.00219 (0.00182)	−0.00219 (0.00158)	−0.00219 (0.00157)	−0.00178 (0.00157)
L. School enrollment secondary	−0.00913 (0.0111)	0.0126 (0.0175)	0.00503 (0.0261)	0.00496 (0.0152)	0.00614 (0.0150)	0.00765 (0.0155)
L. Urban population	−0.0840* (0.0504)	−0.179** (0.0734)	−0.217** (0.0884)	−0.161** (0.0670)	−0.170*** (0.0648)	−0.151** (0.0663)
L. Trade openness	−0.00823 (0.00590)	−0.00969 (0.00949)	−0.00681 (0.0124)	−0.00993 (0.00806)	−0.0102 (0.00788)	−0.0102 (0.00809)
L. Foreign direct investment	0.0208 (0.0135)	0.0777* (0.0442)	0.0212 (0.0227)	0.0306 (0.0187)	0.0314* (0.0184)	0.0356* (0.0187)
L. Age of largest opp. party	−0.00457** (0.00214)	−0.00566* (0.00318)	−0.0108* (0.00610)	−0.00622** (0.00295)	−0.00634** (0.00291)	−0.00726** (0.00292)
L. Quality of Gov't mean for 6th−10th lags	−1.445* (0.848)	−3.349** (1.340)	−4.281** (1.923)	−3.712*** (1.183)	−3.692*** (1.171)	−4.569*** (1.348)
L. Ethnic peace	−0.126 (0.137)	0.135 (0.203)	0.0727 (0.249)	0.0608 (0.189)	0.0777 (0.183)	0.160 (0.197)
Constant	6.176 (19.53)	28.57 (26.07)	−3.003 (28.03)	10.95 (23.24)	13.07 (22.75)	4.339 (25.87)
Observations	534	514	403	606	621	534

Notes Standard errors in parentheses.* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

Table 5.8 Robustness check with an alternative dependent variable: income share held by the lowest 20 % of the population

	Political market = age of largest opposition party					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
L. Income share held by lowest 20 %	0.119 (0.0784)	0.142* (0.0766)	0.0414 (0.0687)	0.0514 (0.0691)	0.0742 (0.0764)	0.0858 (0.0769)
L. GDP per capita logged	0.339 (0.356)	0.486 (0.364)	−0.0112 (0.327)	−0.0783 (0.330)	0.639* (0.333)	0.514 (0.336)
L. Inflation	0.00197 (0.00179)	0.00278 (0.00183)	0.00294 (0.00248)	0.00307 (0.00251)	0.00395** (0.00188)	0.00418** (0.00191)
L. School enrollment secondary	0.00503 (0.00426)	0.00448 (0.00440)	0.00393 (0.00396)	0.00168 (0.00388)	0.00614 (0.00427)	0.00379 (0.00428)
L. Urban population	−0.0191 (0.0241)	−0.0232 (0.0234)	0.0193 (0.0235)	0.00391 (0.0272)	−0.0306 (0.0227)	−0.0481* (0.0243)
L. Trade openness	−0.00246 (0.00267)	−0.00354 (0.00267)	−0.00793*** (0.00281)	−0.00752*** (0.00283)	−0.00772** (0.00308)	−0.00712** (0.00309)
L. Foreign direct investment	−0.0214** (0.0100)	−0.0182* (0.0100)	−0.0167* (0.00955)	−0.0146 (0.00969)	−0.0223** (0.0103)	−0.0210** (0.0105)
L. Age of largest opposition party	0.00126** (0.000595)	0.00118** (0.000581)	0.000995* (0.000518)	0.000679 (0.000539)	0.00117** (0.000568)	0.000953* (0.000572)
L. Quality of Government	−0.839 (1.667)					
L. Quality of Government squared	0.175 (1.387)					
L. Quality of Government mean for 6th −10th lags			0.691** (0.279)			
L8. Quality of Government					0.811*** (0.242)	
L. Control of corruption		−0.273* (0.153)				
L. Control of corruption squared		0.0390* (0.0230)				
L. Control of corruption mean for 6th-10th lags				0.105** (0.0518)		
L8. Control of corruption						0.113*** (0.0379)
L. Ethnic peace	0.0775 (0.0638)	0.0794 (0.0642)	−0.122* (0.0651)	−0.112* (0.0657)	−0.0217 (0.0677)	−0.0156 (0.0683)
Constant	−0.434 (3.489)	−1.620 (3.625)	0.896 (3.182)	2.412 (3.336)	−1.919 (3.281)	0.163 (3.366)
Observations	173	173	148	148	156	156

Standard errors in parentheses.* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

Note The number of observations by country is as follows:

Argentina 17; Bolivia 5; Brazil 4; Bulgaria 1; Colombia 7; Costa Rica 20; Croatia 1; Dominican Republic 7; Ecuador 5; El Salvador 9; Estonia 4; Guatemala 2; Honduras 5; Hungary 4; Latvia 3; Panama 5; Paraguay 10; Peru 13; Poland 10; Romania 9; Russia 6; Slovenia 2; Thailand 2; Turkey 6; Ukraine 7; Uruguay 9

	Political market = Freedom House/Imputed Polity2					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
L. Income share held by lowest 20 %	0.159** (0.0769)	0.169** (0.0763)	0.0556 (0.0713)	0.0599 (0.0703)	0.122 (0.0775)	0.136* (0.0769)
L. GDP per capita logged	0.340 (0.338)	0.507 (0.360)	−0.0517 (0.325)	−0.0161 (0.323)	0.746** (0.328)	0.715** (0.328)
L. Inflation	0.000304 (0.00169)	0.00113 (0.00169)	0.00210 (0.00249)	0.00303 (0.00247)	0.00174 (0.00176)	0.00185 (0.00177)
L. School enrollment secondary	0.00263 (0.00433)	0.00190 (0.00451)	0.00195 (0.00408)	0.000244 (0.00396)	0.00348 (0.00442)	0.00177 (0.00442)
L. Urban population	−0.00614 (0.0234)	−0.0107 (0.0227)	0.0193 (0.0236)	0.00265 (0.0251)	−0.0144 (0.0226)	−0.0250 (0.0234)
L. Trade openness	−0.000836 (0.00242)	−0.00135 (0.00239)	−0.00814*** (0.00297)	−0.00748** (0.00292)	−0.00420 (0.00270)	−0.00284 (0.00262)
L. Foreign direct investment	−0.0253** (0.0103)	−0.0214** (0.0104)	−0.0211** (0.0101)	−0.0206** (0.0100)	−0.0245** (0.0109)	−0.0248** (0.0109)
L. Freedom House/Imputed Polity2	0.0491 (0.0327)	0.0363 (0.0322)	0.0301 (0.0310)	0.0413 (0.0301)	0.0323 (0.0344)	0.0454 (0.0338)
L. Quality of Government	0.0195 (1.658)					
L. Quality of Government squared	−0.505 (1.398)					
L. Quality of Government mean for 6th−10th lags			0.705** (0.296)			
L8. Quality of Government					0.707*** (0.258)	
L. Control of corruption		−0.211 (0.157)				
L. Control of corruption squared		0.0285 (0.0239)				
L. Control of corruption mean for 6th-10th lags				0.133*** (0.0480)		
L8. Control of corruption						0.0994*** (0.0375)
L. Ethnic peace	0.0786 (0.0655)	0.0884 (0.0663)	−0.138* (0.0720)	−0.133* (0.0714)	0.0215 (0.0683)	0.0303 (0.0681)
Constant	−1.543 (3.157)	−2.638 (3.404)	1.150 (3.066)	1.733 (3.053)	−4.289 (3.074)	−3.515 (3.091)
Observations	182	182	154	154	163	163

Pacific, South Asia, Middle East, Sub-Saharan Africa, Eastern Europe and the former Soviet Union, and Latin America and Caribbean). Although the fixed effects model controls for country-specific effects, certain independent variables might exert particularly strong effects in some countries but only weak effects in others. The estimation results for the six rounds presented in Table 5.7 shows, however, that both the age of the largest opposition party and QOG were statistically significant. In other words, regardless of the region of the world, political market quality and state capacity help to reduce income inequality. The same model was also tested for two shorter time periods, namely 1991–2012 and 1996–2012. For both periods, the age of the largest opposition party ($p = 0.030$ and $p = 0.069$, respectively) and QOG ($p = 0.002$ and $p = 0.002$, respectively) were statistically significant.

Second, since the SWIID is based on the standardization of various types of Gini coefficients, the most common alternative measurement of income inequality, i.e., the income share held by the lowest 20 % of the population, was used to check the robustness of the above findings. The country and year coverage of these data are much smaller than that of the SWIID. They do not include advanced democracies and the number of emerging democracies had to be reduced to 26, less than half the original size. The six models for emerging democracies in Table 5.5 were replicated with the lowest 20 % income share as the dependent variable.[14] The results shown in Table 5.8 reveal remarkable similarities with the earlier results regarding the effect of political market quality and state capacity. For political market quality, the age of the largest opposition party is correctly signed and significant except for Model 4. Freedom House/Imputed Polity2 is correctly signed although not significant for any model. For state capacity, both QOG and control of corruption in their 8th lag or their means for the 6th–10th lags were significant. Although the results for socioeconomic control variables were less consistent throughout the six models, the estimates for the two political variables of interest, i.e., market quality and state capacity, thus give strong support for the earlier findings presented in Table 5.5.

In conclusion, the evidence presented in this chapter supports the hypotheses that political market failure and weak state capacity increase income inequality in emerging democracies; however, the activation of multidimensionality does not significantly affect inequality in emerging democracies although it partly accounts for variations in inequality for advanced democracies. In sum, the main political reason for the failure of emerging democracies in improving income equality lies in the lack of party system institutionalization and governance reform. Ephemeral opposition parties are more likely to be personalistic or catch-all than programmatic and thus fail to generate policy competition with the incumbent. Anti-corruption policies exert ambivalent effects on equality in the short term; the merit of enhanced governance takes time to materialize as greater levels of equality.

[14]The GDP per capita logged squared and Freedom House/Imputed Polity2 squared were dropped because these variables did not display any curve linear effect.

References

Acemoglu D, Robinson JA (2002) The political economy of the Kuznets curve. Rev Dev Econ 6 (2):183–203. doi:10.1111/1467-9361.00149

Alesina A, Angeletos G-M (2005) Corruption, inequality, and fairness. J Monetary Econ 52 (7):1227–1244. doi:http://dx.doi.org/10.1016/j.jmoneco.2005.05.003

Alesina A, Glaeser EL (2005) Fighting poverty in the US and Europe, vol: pbk. The Rodolfo Debenedetti lectures. Oxford University Press, Oxford

Andres AR, Ramlogan-Dobson C (2011) Is corruption really bad for inequality? Evidence from Latin America. J Dev Stud 47(7):959–976. doi:10.1080/00220388.2010.509784

Angrist JD, Pischke J-S (2009) Mostly harmless econometrics, vol: pbk. Princeton University Press, Princeton, NJ

Avelino G, Brown DS, Hunter W (2005) The effects of capital mobility, trade openness, and democracy on social spending in Latin America, 1980–1999. Am J Polit Sci 49(3):625–641

Balafoutas L (2011) How much income redistribution? An explanation based on vote-buying and corruption. Public Choice 146(1–2):185–203. doi:10.1007/s11127-009-9589-6

Baltagi BH (2008) Econometric analysis of panel data, vol: pbk. Wiley, Chichester

Beck N, Katz JN (1995) What to do (and not to do) with time-series cross-section data. Am Polit Sci Rev 89(3):634–647. doi:10.2307/2082979

Beck N, Katz JN (2011) Modeling dynamics in time-series-cross-section political economy data. Ann Rev Polit Sci 14 (1):331–352. doi:10.1146/annurev-polisci-071510-103222

Beck T, Clarke G, Groff A, Keefer P, Walsh P (2001) New tools in comparative political economy: The database of political institutions. World Bank Econ Rev 15(1):165–176

Blackburn K, Forgues-Puccio GF (2009) Why is corruption less harmful in some countries than in others? J Econ Behav Organ 72 (3):797–810. doi:http://dx.doi.org/10.1016/j.jebo.2009.08.009

Bourguignon F, Verdier T (2000) Oligarchy, democracy, inequality and growth. J Dev Econ 62 (2):285–313. doi:http://dx.doi.org/10.1016/S0304-3878(00)00086-9

Brown DS, Hunter W (1999) Democracy and social spending in Latin America, 1980–92. Am Polit Sci Rev 93(4):779–790. doi:10.2307/2586112

Chong A (2004) Inequality, democracy, and persistence: Is there a political Kuznets curve? Econ Polit 16 (2):189–212. doi:10.1111/j.1468-0343.2004.00137.x

Chong A, Calderón C (2000) Institutional quality and income distribution. Econ Dev Cult Change 48(4):761–786. doi:10.1086/452476

Chong A, Gradstein M (2007) Inequality and institutions. Rev Econ Stat 89(3):454–465. doi:10.2307/40043041

Croissant A, Völkel P (2012) Party system types and party system institutionalization: comparing new democracies in East and Southeast Asia. Party Politics 18 (2):235–265. doi:10.1177/1354068810380096

de Freitas J (2012) Inequality, the politics of redistribution and the tax mix. Public Choice 151 (3):611–630. doi:10.1007/s11127-010-9761-z

Dobson S, Ramlogan-Dobson C (2012) Why is corruption less harmful to income inequality in Latin America? World Dev 40 (8):1534–1545. doi:http://dx.doi.org/10.1016/j.worlddev.2012.04.015

Doorenspleet R, Nijzink L (2013) One-party dominance in African democracies. Lynne Rienner, Boulder, Colo

Dreher A, Schneider F (2010) Corruption and the shadow economy: an empirical analysis. Public Choice 144 (1–2):215-238. doi:10.1007/s11127-009-9513-0

Franco C, Gerussi E (2013) Trade, foreign direct investments (FDI) and income inequality: empirical evidence from transition countries. J Int Trade Econ Dev 22(7–8):1131–1160

Freedom House Freedom in the world comparative and historical data. http://www.freedomhouse.org/template.cfm?page=439. Accessed 12 Nov 2011

Geddes B (2007) What causes democratization. In: Boix C, Stokes SC (eds) The Oxford handbook of comparative politics. Oxford handbooks of political science. Oxford University Press, Oxford, New York, pp 317–339
Gehlbach S, Keefer P (2012) Private investment and the institutionalization of collective action in autocracies: Ruling parties and legislatures. J Politics 74 (2):621–635. doi:10.1017/S0022381611001952
Goldberg PK, Pavcnik N (2007) Distributional effects of globalization in developing countries. J Econ Lit 45 (1):39–82. doi:10.2307/27646747
Gupta S, Davoodi H, Alonso-Terme R (2002) Does corruption affect income inequality and poverty? Econ Gov 3 (1):23–45. doi:10.1007/s101010100039
Gyimah-Brempong K, de Gyimah-Brempong SM (2006) Corruption, growth, and income distribution: Are there regional differences? Econ Gov 7 (3):245–269. doi:10.1007/s10101-005-0008-2
Ha E (2012) Globalization, government ideology, and income inequality in developing countries. J Polit 74 (2):541–557. doi:10.2307/23250655
Hagopian F (2009) Parties and voters in emerging democracies. In: Boix C, Stokes SC (eds) The Oxford handbook of comparative politics. Oxford University Press, Oxford
Hanusch M, Keefer P (2014) Younger parties, bigger spenders? Party age and political budget cycles. Eur Econ Rev 72 (0):1–18. doi:http://dx.doi.org/10.1016/j.euroecorev.2014.08.003
Hicken A, Kuhonta EM (2011) Shadows from the past: Party system institutionalization in Asia. Comp Polit Stud 44 (5):572–597. doi:10.1177/0010414010396460
Huber E, Nielsen F, Pribble J, Stephens JD (2006) Politics and inequality in Latin America and the Caribbean. Am Sociol Rev 71(6):943–963
Huber E, Stephens JD (2012) Democracy and the left: social policy and inequality in Latin America, vol: pbk. University of Chicago Press, Chicago
International Monetary Fund (2001) Government finance statistics manual 2001. International Monetary Fund, [Washington, D.C.]
Kaufman RR, Segura-Ubiergo A (2001) Globalization, domestic politics, and social spending in Latin America: a time-series cross-section analysis, 1973–97. World Polit 53(4):553–587
Keefer P (2012) DPI2012 database of political institutions: Changes and variable definitions. December 2012 edn
Kitschelt H (2014) Democratic accountability and linkages project: 2008–2009 dataset. Department of Political Science, Duke University, United States
Kuznets S (1955) Economic growth and income inequality. Am Econ Rev 45 (1):1–28. doi:10.2307/1811581
Lake DA, Baum MA (2001) The invisible hand of democracy: political control and the provision of public services. Comp Polit Stud 34(6):587–621. doi:10.1177/0010414001034006001
Lee C-S, Nielsen F, Alderson AS (2007) Income inequality, global economy and the state. Soc Forces 86(1):77–111
LIS (2008) Luxembourg income study database. http://www.lisdatacenter.org/
Mahon JEJ (2011) Tax reforms and income distribution in Latin America. In: Blofield M (ed) The great gap: Inequality and the politics of redistribution in Latin America, vol: pbk. Pennsylvania State University Press, University Park, Pa., pp 313–347
Meschi E, Vivarelli M (2009) Trade and income inequality in developing countries. World Dev 37 (2):287–302. doi:http://dx.doi.org/10.1016/j.worlddev.2008.06.002
Mozaffar S, Scarritt JR (2005) The puzzle of African party systems. Party Polit 11 (4):399–421. doi:10.1177/1354068805053210
Reuveny R, Li Q (2003) Economic openness, democracy, and income inequality: An empirical analysis. Comp Polit Stud 36 (5):575–601. doi:http://dx.doi.org/10.1177/0010414003251882
Political Risk Services (2013) International Country risk guide. The PRS Group, New York
Roberts KM (2013) Market reform, programmatic (de)alignment, and party system stability in Latin America. Comp Polit Stud 46 (11):1422–1452. doi:10.1177/0010414012453449
Ross M (2006) Is democracy good for the poor? Am J Polit Sci 50(4):860–874

Rudra N (2002) Globalization and the decline of the welfare state in less-developed countries. Int Organ 56(2):411–445

Rudra N (2004) Openness, welfare spending, and inequality in the developing world. Int Stud Q 48(3):683–709

Smith B (2005) Life of the party: the origins of regime breakdown and persistence under single-party rule. World Polit 57(3):421–451. doi:10.2307/40060108

Solt F (2009) Standardizing the world income inequality database. Soc Sci Quart 90 (2):231–242. doi:10.1111/j.1540-6237.2009.00614.x

Tam H (2008) An economic or political Kuznets curve? Public Choice 134 (3–4):367–389. doi:10.1007/s11127-007-9232-3

Teorell J, Nicholas Charron, Stefan Dahlberg, Sören Holmberg, Bo Rothstein, Petrus Sundin & Richard Svensson (2013) The quality of government dataset. http://www.qog.pol.gu.se. Accessed 25 Oct 2013

UNU-WIDER (2008) World income inequality database, Version 2.0c, May. http://www.wider.unu.edu/research/Database/en_GB/database/

Wooldridge JM (2013) Introductory econometrics. South-Western Cengage Learning, Australia0

Chapter 6
Conclusion

Abstract Democracies become unstable when people experience serious frustration with policy outcomes. Such frustration is caused by the gap between expectations and reality. This study examines one of the major sources of such frustration, which is inequality. As the majority of the population comprises the lower-income group in emerging democracies, inequality is supposed to be reduced by government policies through a democratic political process. However, the effects of democracy on inequality reduction are not universal in such democracies. Hence, a democracy's capacity can be measured by the extent to which the government reduces inequality. This study claims that three specific political factors obstruct redistributive policies in emerging democracies. These factors are multidimensional preferences, the failure of political market, and weak state capacity. By revealing deficiencies of political process caused by these factors, this study provides clues to understanding the instability observed in emerging democracies. The degree of seriousness of these three factors indicates the probability of political instability as they affect the gap between expectations and reality.

Keywords Inequality · Democracy · Developing countries

People have many expectations for democracy. For example, democracy is widely believed to generate political freedom, promote higher political participation, and make public policy reflect people's voices. However, higher the expectations of people from a democracy, the greater their disappointment would be if democracy fails to meet their expectations.

Income equality is a major concern of the majority of a society, especially in emerging democracies, most of whom are developing countries with high inequality levels. The lower income group, which constitutes the majority, believes that democracy will reduce inequality as long as their preferences are reflected in policy making. However, not all newly democratized countries were successful in meeting their demands. The mean level of inequality is higher in emerging democracies than in advanced democracies, while variations among emerging democracies are also

© IDE-JETRO 2016

T. Kawanaka and Y. Hazama, *Political Determinants of Income Inequality in Emerging Democracies*, SpringerBriefs in Economics,
DOI 10.1007/978-981-10-0257-1_6

large. This outcome of democratization disappoints the lower income group. Political instability can result, possibly harming the process of democratic consolidation.

The question posed is as follows: why does democratization fail in achieving income equality? Indeed, political regimes are not the sole determinant of income inequality. Economic and demographic factors among others are major determinants of inequality. Nevertheless, we believe politics is influential. Politics can intervene in the economic market. Redistributive policies could mitigate the income gap caused by socio-economic factors. Democratic institutions are supposed to be a foundation for the poor to have their political voices attended to in the political process.

In this sense, our question actually concerns the functions of democracy. Democracy is expected to result in policies that match the median voter's preferences, which are the preference of the poor in most emerging democracies. Therefore, our essential questions are (1) why democracy is unable to meet the preferences of the poor in public policy, contrary to theoretical predictions, and (2) what factors cause democracy to deviate from its predicted operations.

To answer these questions, we analyze the assumptions upon which the median voter argument and its extensions are formed. We find three assumptions that do not necessarily hold in emerging democracies. First, individual income status is not the sole determinant of individual preferences for public policy. Second, people's interests are not well aggregated and represented in policy making due to problems of political transactions between voters and politicians. Third, the state is not necessarily always capable of efficient policy implementation. We consider these three problems crucial in emerging democracies and relatively overlooked in previous studies on advanced democracies.

These problems are actually found at different phases of the political process. People's preferences are the foundation of political activities and competition. This is the starting phase of the political process. Interest aggregation and representation are the next step. In this phase, relationship between politicians and voters is the core issue. Implementation is the final phase of political process, the one where people's lives are affected. We use the terms multidimensional preferences, political market failure, and state capacity to identify problems at various phases of the political process, and we consider these problems the political determinants of income inequality, especially in emerging democracies.

For multidimensional preferences, we focus on group identity. An individual's policy preference is sometimes affected by the status of the group to which the individual belongs. Importantly, the group's status (usually recognized in terms of mean income) does not necessarily match each member's individual income. However, group identity hampers the possibility of cooperation between similar income classes across group differences. In other words, the dimension of group cleavage overrides the dimension of individual income in preference formation. In such a situation, instead of inequality reduction focusing on individual incomes, group-oriented measures would be supported. Even if these group-oriented measures could raise the mean income of a certain group, the intra-group gap between the rich and poor might remain. We find this issue is more relevant in emerging

democracies than in advanced democracies because emerging democracies are more diversified in terms of social cleavages other than class. Class-based coalitional politics, often found in advanced democracies, is not given in emerging democracies.

Political market failure is basically caused by information constraints. Emerging democracies do not have fully developed political institutions to mitigate the problem of inadequate access to information. Voters do not have full information about politicians' natures. Politicians, also, do not know regarding the behavior of voters. These information constraints make people depend on personal ties, patron–client networks. Patron–client networks render the exchange of political support and policy inefficient because such efforts are usually undertaken through private goods distribution. Redistributive effects are limited due to the limitation of private goods, intermediary exploitation, and inappropriate identification of beneficiaries.

State capacity matters at the implementation phase. Even though public policy is designed to reduce inequality, its effects would vanish if not implemented properly. Both the government's monitoring and regulatory power and the level of corruption are crucial. Most emerging democracies are new nations who are still working on establishing state power. As a result, state capacity tends to be weak. Or people might not even expect the state to conduct redistribution if they know that the state lacks capacity to implement policies.

We use econometric methods to examine the effects of three variables in Chaps. 4 and 5. Chapter 4 deals with individual level preferences, whereas Chap. 5 deals with country level inequality. First, we employ multilevel analysis on the two-level dataset to test the effects of group identity (multidimensional preferences) on individual preferences in Chap. 4. Individual-level variables are taken from the World Values Survey (WVS) Fifth and Sixth Wave datasets, while ethnic fractionalization is the single-country level variable. We find that preferences for income equality are weaker in more ethnically fractionalized societies. These results support our argument that group identities stimulated by high ethnic fractionalization subdue the effects of individual income status on preference formation. The first assumption of previous studies, namely that income status induced redistributive preferences, seems less relevant in divided societies.

In Chap. 5, the effects of two variables on macro level inequality were tested by employing the fixed effects (FE) model with a lagged dependent variable (LDV) on an unbalanced panel dataset compiled from the SWIID, ICRG, Quality of Government dataset, World Development Indicators, and other sources. We obtained mixed results from these estimations. First, regarding political market failure, we could not develop a direct variable to measure the market's precise level, but a proxy (age of the largest opposition party) indicates statistically significant effects on the level of inequality. We found it exerted a negative effect on income inequality for all democracies or emerging democracies. Second, the evidence clearly supports our argument on the effects of state capacity. The estimation indicates that weak state capacity (measured by Quality of Government) increases inequality. These results confirm that political institutions significantly affect the level of income inequality. As for multidimensionality, we further tested the effects

of activation of group identity on income inequality, aside from the static level of ethnic cleavage. We use ethnic peace as measurement. The results suggest that the activation of multidimensionality increases inequality, but the effect is not robust unlike those found for ethnic fractionalization on individual preferences as tested in Chap. 4. The macro level empirical tests support the effects of state capacity and political market failure on inequality reduction, whereas the effects of activation of multidimensionality are ambiguous.

In sum, empirical examinations provide mainly two results. The effects of multidimensionality at individual level are supported, while the effects of activation of multidimensionality are ambiguous at macro level. The effects of political market failure and state capacity are supported significantly.

Studies on political factors determining income inequality have been dominated by studies on advanced democracies. Our study focuses on emerging democracies, which have been relatively less explored. It has two main contributions. First, the bias present in previous studies on inequality caused by concentration on advanced democracies would be mitigated. Therefore, it is expected to move forward to produce a general theory of politics of income inequality. Second, problems specific to newly established democracies can be identified. This will eventually reveal conditions necessary for democratic consolidation.

Nevertheless, we must admit that our study has some limitations. One is the problem of populism. Populist regimes are usually given lower scores in Polity IV. It means they are considered less democratic. Still, they have significant redistributive tendencies, even though these are not sustainable. This is a case of high redistribution under faulty democracy. Accordingly, we could not properly situate populism in our theoretical argument. Moreover, populist effects might distort our estimations of political determinants in empirical tests.

Another issue is quality and availability of data. We depend on published datasets for our quantitative examinations. Unlike those available for OECD countries, standardized datasets for examining emerging democracies are difficult to find, although the SWIID, which we used in this study, is a remarkable endeavor to standardize inequality measurements. We therefore had to estimate the effects of the examined three variables based only on the countries able to provide the necessary information. This might lead to another type of selection bias. In addition, we could not find a direct indicator of political market failure in quantitative examinations due to lack of times series data about this factor. Building appropriate political and socioeconomic datasets for emerging democracies is crucial.

Despite these limitations, we believe our inquiry into inequality in emerging democracies provides significant implications for understanding democracy. The issue of inequality is attracting increasing public attention in recent years. The solution that democracy provides to resolve this issue has the potential to reveal the real true nature of democracy.

Index

© IDE-JETRO 2016

T. Kawanaka and Y. Hazama, *Political Determinants of Income Inequality in Emerging Democracies*, SpringerBriefs in Economics,
DOI 10.1007/978-981-10-0257-1