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The Effect of Political Regimes on Inequality, 1963-2002

Sara Hsu¹

This paper provides evidence on the relationship between economic inequality and political regime. Where much of the literature argues that democracy is egalitarian, we find that indeed it is not, and we suggest that the conventional argument is an artifact of the data scales commonly in use. Using the latest UTIP-UNIDO data set on economic inequality (Kum 2008) and an original, categorical data set on regimes, we find that particular regime types do influence the level of inequality. In particular, communist countries and Islamic republics are more equal than their economic characteristics would predict, while conservative (as distinct from social) democracies are somewhat *less* equal than otherwise expected. Further, within democratic countries with changing governments and policies, we find short-term shifts in the level of inequality. However, these are generally smaller than those associated with major differences of regime type.

The paper is structured as follows: we first discuss the literature on democracy, inequality and political regimes; we then describe our political classification scheme and methodology; next, we present a model of economic inequality based on regime type and economic and demographic indicators. We conclude with policy implications of these findings.

Democracy and Inequality in the Political Science Literature

Much of the literature on democracy and inequality finds that democracy and equality are positively related. Timmons (2008) divides the theoretical work on this relationship into three categories: papers citing a median-voter mechanism of income redistribution, according to which the government intervenes as mean incomes diverge from median incomes, papers citing political competition as a mechanism to induce public support, which induces an increase in public services, and papers citing labor market regulation as the mechanism whereby inequality is reduced in democratic governments.

¹ Trinity University and University of Texas Inequality Project. Prepared for UNRISD.

Numerous empirical studies report a positive relationship between democracy and equality. Reuveny and Li (2003) argue that democracy *and* trade reduce inequality². Lee (2005) examines the interaction between democracy, public sector size, and inequality, concluding that the public sector in democracies reduces inequality. Chong (2004) uses a variety of techniques to identify an inverse U-shaped relationship (increasing then decreasing in inequality) in the period from 1960 to 1997. Chong points out both the differences in time periods studied in various works on the relationship between democracy and inequality, as well as the shortcomings of using the Deininger and Squire Gini measures of inequality³.

Some of the literature investigates a causal relationship the other way: between inequality and democracy, asking whether inequality results in more democracy or less. Acemoglu and Robinson (2001) assume a relationship between non-democracy and inequality, their idea being that the elite in unequal societies prevent consistently redistributive democracy from emerging⁴. Bourguignon and Verdier (2000) examine the relationship between democracy, inequality and economic development, in a model where political participation is determined by the level of education. Based on this model, they argue that higher income per capita positively affects democracy and growth, while higher levels of inequality negatively affect democracy and growth.

From this literature, the notion that democracy promotes equality has achieved the status of a conventional wisdom, yet some skeptics remain. Gradstein and Milanovic (2000) provide an extensive literature review, covering fifty years. Of this literature, they state:

To sum up, while the earlier research failed to detect any significant correlation between democracy and inequality, more recent studies based on improved data sets and bigger data samples typically cautiously suggest existence of a negative relationship between the two. Two hypotheses seem to be especially promising in the light of this recent research:

² This study uses the World Bank Gini as computed by Easterly (a revised version of Deininger and Squire) and the Polity III measure of democracy.

³ Chong uses Freedom House and Polity IV measures of democratization.

⁴ In a later paper (2002), the same authors argue that reduced inequality follows redistribution that occurs after democratization, which is an alternative explanation for the Kuznets curve. Acemoglu and Robinson use a measure of democracy based on voting rights in Western countries..

one that defines democracy in terms of the length of democratic experience, and another that specifies a curvilinear relationship between democracy and inequality (p. 21).

Yet Gradstein and Milanovic are themselves skeptics: they look at the Eastern European transition economies, finding evidence of rising inequality in the democratic transition.⁶

A major problem in assessing levels of inequality and their relationship to political regimes is the reliability of the measures. Problems with the Deininger and Squire dataset on income inequality and its successors are well known. These include sparse data coverage and heterogeneous methods and definitions, leading often to gross inconsistencies between the Deininger-Squire comparisons and those of other data sets, such as the Luxembourg Income Studies (Galbraith and Kum 2003). These issues raise the question of whether widely-used measures of economic inequality are truly consistent, reliable, and comparable from one country to the next. The UTIP-UNIDO data set recently updated by Kum (2008), provides an alternative approach that is dense, consistent, and comparable between-countries. It therefore makes possible close observation not only of differences in inequality between countries with differing regime types, but also of changes in inequality associated with political change over time.

The other measurement problem concerns the characterization of political regime, and particularly the meaning of the term “democracy.” This meaning has changed over time, while generally drawing on concepts of participation (voting rights and civil liberties), competition (presence of other parties), and free and fair elections. In contrast to an inequality measure, some of the scoring (and weighting) of these characteristics is inevitably subjective. Some indices, which are discussed below, score the degree of democracy on a continuum, while others use a binary score: either a country is a democracy or not. Continua are particularly problematic, since they tend to treat authoritarian regimes of all types as though their most important characteristic is simply how far removed they may be from democracy. No distinction is drawn, in particular, between fascism and communism, despite the diametric ideological opposition of these two regime types. In addition, as Gradstein and Milanovic point out, the relationship

⁶ The Gradstein and Milanovic use the Freedom House index as a measure of democratization and Milanovic (1998) and the DEC database for inequality measures.

between democracy and inequality is cumulative: democracy is not revolution, and should work its effect on economic outcomes only over time.

Thus a first step toward an improved look at the effect of political regime on inequality requires creating a reliable and complete typology of political regimes. Such a typology need not and should not presume anything about the direction of effect of any particular regime type on inequality: that much can be determined from the data. Nor should it place regimes on a scale, as indexes or continuous classifications schemes do, for this implicitly imposes an ordering of effect, without reference to the data. Rather, a typology should simply attempt to distinguish between regime types that – for whatever reason – may reasonably be expected to conduct economic policy in internally similar and externally distinctive ways. It is a grouping system – not more or less. This is what we attempt to provide.

Regime type classification began in the 1950s and 1960s with Lipset's (1959) and Cutright's (1963) examination of democracy and modernization. This type of work was furthered by Dahl' (1971) and Gurr (1974) and made more usable by Gurr (1990) with the creation of the Polity II database, which extended previous work to cover all years within a specified time period, rather than just measuring regime persistence. Gastil (1991) followed with the creation of the Freedom House database. Since then, additional work has been done to refine or re-specify regime classification systems.

Today the most widely used political regime databases are those of Freedom House, Polity, and Vanhanen. All grade political regimes on continua. Freedom House looks at political and civil rights, using a subjective scale to rank degree of democracy, partly in terms of election outcomes, partly in terms of balance of power. The Polity measure of democracy is an additive number based on the degree of competitiveness of political participation and government recruitment and the degree of constraints on the chief executive. Vanhanen also looks at competition and participation, measuring percentage votes for smaller parties and percentage of adults that voted in elections.

Cheibub & Gandhi (2004) divide regime types between authoritarian and democratic, based on data taken from Przeworski et al. (2000)^{8,9}. In further sub-

⁸ Alvarez et al. (1996) previously make a similar dichotomous classification scheme, focusing on the definition of democracies using criteria related to contestation.

categories, Przeworski et al. (2000) classify regime types in terms of their colonial past or civil war status, and also in terms of majority religion, although these categories are not at the forefront of the classification scheme. Przeworski et al.'s work on democracy and development is dichotomized to some degree between democracy and dictatorship. However, because inequality is not a central focus of their work, the authors do not classify regimes by ideology and therefore the effect of a full range of regime types is not examined. They nevertheless find that both democracies and dictatorships are more unstable in countries with high levels of inequality.

Hadenius and Teorell examine authoritarian regimes, classified in terms of hereditary succession, use of military force, and the presence or absence of popular elections. Authoritarian regimes are identified using the Polity/Freedom House definition of authoritarian regime type. Separate categories are used for democracy as a whole, military with party classification, monarchy with party classification, theocracies, transitional regimes, civil war, and foreign occupation; specifically, the Hadenius and Teorell categories include the following: Limited Multiparty, Partyless, No-Party, Military, Military No-Party, Military Multiparty, Military One-party, One-Party, Other, One-Party Monarchy, Monarchy, Rebel Regime, Civil War, Occupation, Theocracy, Transitional Regime, No-Party Monarchy, Multiparty Monarchy, Multiparty Occupied, and Democracy.

The World Bank Database, created by Beck, Keefer and Clarke (2006) includes descriptive information about elected executive and legislative officials and their parties as well as indices regarding election competitiveness and government stability. For comparison to our regime classification scheme, we used the Executive Index of Electoral Competitiveness, which ranks the executive electoral process between 1 and 5 for autocracy and between 6 and 10 for democracy.

There are two main ways in which we depart from previous regime classification schemes. First, we use categorical variables to classify separate regime types rather than continuous variables that rank the degree of democracy. Second, we classify regimes based on a combination of state ideology and/or type of government, rather than by

⁹ Przeworski et al. look at regime transition effects, which we do not.

common criteria such as the presence or absence of elections, or evaluations of civil and political liberties.

“Ideology” is a loaded term, but here we wish to define it as in Skopcol (1985):

I prefer to reserve the term “ideology” for idea systems deployed as self-conscious political arguments by identifiable political actors. Ideologies in this sense are developed and deployed by particular groups or alliances engaged in temporally specific political conflicts or attempts to justify the use of state power. Cultural idioms have a longer-term, more anonymous, and less partisan existence than ideologies. When political actors construct ideological arguments for particular action-related purposes, they invariably use or take account of available cultural idioms, and those idioms may structure their arguments in partially unintended ways.

Ideology is used as justification for power, and through the use of ideology, state actors choose to use or not use cultural idioms that are conceived of as expressions of ideology, in the degree of enforcement of freedoms, in degree of political power provided to citizens, and in the general structure of government. We apply distinctions in ideology when they are potentially relevant in terms of inequality -- in specifying a distinction between communist and social democratic regimes, for example. We do not apply distinctions when they are not as relevant, as in regimes which follow a specific national political ideology that does not extend to other states.

Political Regime Classification and Methodology

We further depart from the “degree of democracy” method of classification used in Freedom House and Polity databases to the extent that we do not impose any ordering on our categories. Our maintained hypothesis is simply that differing regime types are likely to differ systematically in the amount of inequality present in the societies they

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