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Does Democracy Promote Equality?

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by

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Abstract

The linkage between liberal democracy and income inequality has been the subject of considerable empirical research. However, the literature has largely ignored advances in the techniques for measuring income distribution which help to improve and strenghten the robustness of research findings in this field. By drawing upon recent developments in data collection and formal analyses, this paper explores inequality trends in selected Western democracies over the 1970s and 1980s. The results indicate that the gap between rich and poor is widening in some countries but not in all, thus pointing to the role of national policies in the redistribution of income. Conventional models grounded on demand driven policies persuasively explain declining income inequality, yet fail to account for the rising trends in the 1980s. Reasons for this failure are the omission of political 'slack' as a key dimension in redistributive options and the fallacy of linearity. The paper shows that despite significant progress, we are still not in a position to be confident of our theories and methods.

In the postwar period there was a widespread feeling that democratic countries were converging towards greater income equality. It was believed that democracy helped to narrow the gap between rich and poor because lower income groups improved their economic position by availing themselves of the opportunities offered by electoral politics. Universal suffrage aided a shift of power away from the well-off and towards the poorer groups of the population, and this more equal distribution of power would eventually lead to the oblivion of poverty .[1]

The direct connection between the electoral mechanism and inequality was further tightened by an indirect link. Democratic regimes reduced income differences because they were allegedly unable to stimulate and sustain rapid economic growth which in itself exacerbated inequality; by hindering economic growth democratic institutions forged a fairer society. [2]This hypothesis was built upon the well-known Kuznets' inverted U-relationship between income inequality and economic growth which posited that equality dropped in the early stages of rapid economic development; one could speculate, however, whether he would own this inference.

Following these theoretical arguments, several empirical studies have been undertaken to assess the validity of the reported linkage between democracy and inequality. Unfortunately research findings have failed to add up to unequivocal conclusions.[3] While some authors found that on average democratic countries experience less income inequality,[4] others presented evidence which either refuted the negative correlation or showed no significant relationship. [5]

Such contradictory findings raise doubts over both the adequacy of the methodological tools employed or the existing theoretical accounts, although it is worth noting that most research in this field of study is somewhat outdated. Distributive concerns were more dominant during the 1970s and early 1980s but recently they have played a marginal role in the social sciences as argued in Atkinson's appropriately titled paper ' Bringing the income distribution in back from the cold'. [6]The aim of this paper is to provide a step towards redressing this imbalance. It demonstates that research dealing with the democracy- inequality effect is likely to benefit from advances in formal and empirical analyses of income distribution. Furthermore, the paper questions the basic theoretical assumption of the bulk of this literature which considers the form of government as the key explanatory variable.

In the next section I introduce the Luxembourg Income Study datasets used in this paper and I discuss their merits and limits. Section two argues that while scholarly work has been chiefly concerned with the measurement of democracy, it is at least as important to worry about the measurement of inequality. Section three looks at inequality trends in selected Western democracies and shows that some countries experience a wider gap between rich and poor in the 1970s and 1980s, thus refuting the existence of a negative association between democracy and inequality. Section four then examines alternative explanations for rising inequality trends, including national policies. Section five describes the manner in which policymakers might influence income redistribution and illustrates the usefulness of the first incidence method to evaluate that influence. Section six summarizes the literature dealing with the incentives for income redistribution in a liberal democracy. Its main shortcomings are addressed in section seven which highlights the omission of political 'slack' and supply -side factors from mainstream explanations. The last section questions the assumption of linearity underlying the bulk of the literature on the democracy-inequality linkage and suggests some avenues for future research.

1. The Luxembourg Income Study

Some reasons for the discrepancy obtained in empirical results are easy to understand. Explorations of the democracy -inequality link are besieged by formidable methodological problems, such as design, measurement and quality and comparability of datasets. Simple differences in any of these issues may quickly translate into discordant results.

As Sirowy and Inkeles correctly point out research findings in this field of study are chiefly plagued by two obstacles. First, there are serious problems of data comparability. Information on income distribution is confounded by global heterogeneity in its standard of collection. Some of the sources of this heterogeneity are the unit of analysis that is chosen, especially whether the data are based on households or individuals or whether the income figures are pre-tax or post-tax. Second, and partially related to the former, the relative absence of data at more than one point in time gives very little leverage in addressing questions in a longitudinal framework. Although the paper by Sirowy and Inkeles is mainly but not exclusively concerned with research focused on developing countries, these problems arise also in developed countries.

In this paper I attempt to surmount both obstacles by drawing upon the recent release of the Luxembourg Income Study (LIS) micro datasets, the only truely comparative data in the world. [7]The salient feature of the LIS data is that a large number of socio-economic and demographic variables have been drawn from national, usually government sponsored, surveys and have been made comparable across the datasets.[8] Thus, the problem identified by Sirowly and Inkeles regarding data incomparability is offset by the availability of LIS. More confidence can be attributed to the fact that distributional outcomes are not merely the outcome of changing concepts and definitions imposed on the data.[9]

Another advantage of the LIS datasets is that it allows researchers to overcome the second problem raised by Sirowy and Inkeles by drawing upon evidence assembled for more than one datapoint. In this way it is possible to examine trends in the pattern of income distribution over the years in various democratic countries. My paper is therefore based on better and more reliable datasets than have been available in the past.

2. Some neglected methodological aspects

Arguably, however, the reliability of research findings is not merely a matter of data quality. While scholars concerned with the democracy-inequality link have primarily focused on the measurement of democracy, a rigorous analysis of the distributive impact of democratic regimes necessarily addresses a number of long-lasting questions associated with empirical work on income inequality. Several methodological choices need to be made in distributional comparisons between countries.[10] A crucial set of questions, for instance, deals with the thorny issue of whether there is one best summary measure of income inequality. In this section I shall briefly point to the limits and risks of choosing only one summary measure of inequality, as it is custumarily done in the field of study under consideration, and I will look at the contribution made by equivalence scales.

Scholarly work on the link between democracy and inequality usually relies on one summary measure, the Gini coefficient, named after the Italian statistician Corrado Gini. [11]The current popularity of this index probably derives from its inclusion in government publications and newspaper reports which makes it a familiar measure. However, the general acceptance of the Gini coefficient should not conceal its main shortcoming. The Gini is a modal-sensitive index which signifies that transfers among modal (middle) income individuals yield larger effects on the index. As a consequence, transfers among the poorer groups of the population exert weaker effects on the Gini coefficient than changes in the living standards of middle income classes. This says that the sensitivity of each index to the location of changes in the income distribution may reflect different rank orderings.

The implications of sensitivity results for distributional analysis are illustrated in Table 1 which compares the values for the Gini and for the Theil index, a bottom-sensitive index.[12] According to the computations for the Theil index, in the mid-1980s the United States was the most unequal country, followed by France and Italy while West Germany and the Scandinavian countries were the most equal, reporting much lower Theil values. The United Kingdom, Canada and Australia were located in the middle of the ranking. On the right hand side, Table 1 describes the new ranking produced when inequality is measured with the Gini coefficient, which we have seen is a middle (modal)-sensitive index. Some countries change their position quite dramatically, including Australia which moves up from its previous fifth position to second place and France which moves down from the second to the fifth position. In Canada and Norway inequality grows when measured with the Gini coefficient, but in the United Kingdom, Sweden and Italy inequality falls. Clearly the different rank orderings presented in Table 1 derive from the construction of the inequality measures which convert the Theil index into a bottom-sensitive

[Table 1. about here]

and the Gini coefficient into an index sensitive to transfers at the mode of the distribution. The upshot is that the construction of summary measures of income inequality involves value judgements that percolate into the final results and may be undesirable given the aims of research projects.[13] These examples highlight the limits and the risks of choosing just one summary measure of inequality because any index inevitably embeds potentially controversial views regarding distributional justice.

Another crucial aspect regarding the aggregation issue emerges from comparisons of economic well-being among households with different 'needs'. A single person with disposable income of £500 per month will, for instance, enjoy a very different level of economic well-being from that of a family with three children but with the same disposable income. It is therefore important for a sound distributional analysis to capture this difference by 'equivalizing' income. Yet research on the democracy-inequality linkage has invariably used income definitions which are not 'equivalized' and therefore this literature has been unable to take into account the economic needs of households with different sizes and compositions.

The use of a particular equivalence scale can greatly influence the distributional analysis of economic welfare within and between societies.[14] The equivalent income is the standard of living available to each member of the household unit, assuming income pooling. Total household disposable income is weighted for different needs to estimate the household equivalized income. Usually an equivalence scale adjusts household income in two ways. It gives smaller weights for children on the assumption that they have fewer needs than adults and it allows for some economies of scale which give lower weights to second and subsequent adults. Cash income is adjusted in order to construct a measure of the level of economic welfare available to the family. Several equivalence scales have been constructed to allow comparisons across households and their members. In this work I employ the OECD equivalence scale which is one of the most commonly used for distributional assessments.

3. Trends in the size distribution of income in Western democracies

Besides the methodological problems underlying distributional analyses, the trenchant criticism levelled at the literature on the democracy-inequality linkage is that it measures democracy at a single point in time. For Muller the 'genesis' hypothesis has little empirical validity because the positive effects of democratic institutions on inequality emerge only in the long-run.[15] In his opinion, rather than the establishment of democracy it is the continuity of the democratic experience which exerts a significant negative impact on income inequality. Since income distributions usually change very slowly, Muller's point is well taken.

One way to address this issue is to look at patterns of income concentration in Western democracies. If the contention that continuous years of universal suffrage pave the way for liberation from poverty is correct, we should expect declining inequality trends in Western democracies. Table 2 sets out the inequality values for selected LIS countries which offer information stretching back to the mid-1970s. Both the Gini and the Theil values show that inequality fell between the mid-1970s and the late 1970s/early 1980s in the

[Table 2 about here]

countries studied. In Sweden, the Gini coefficient dropped from 23.2 percent in 1975 to 19.9 percent in 1981, a percentage change of 16.5 points. Similarly, in the United Kingdom income inequality decreased with the Gini coefficient falling from 31.9 percent in 1974 to 27.6 percent in 1979, a drop of 15.5 percent. In the United States, Canada and West Germany reductions were more modest. A glance at the Theil values indicates two variations. Canada and the UK switch places and the percentage change in all countries, except for the United Kingdom and perhaps West Germany, is much faster. Assuming that modal-income groups overlap with middle-income groups, the latter fall behind when Gini is higher; in contrast, the poor are worse off when the Theil index increases. Accordingly, when examining trends which might affect lower income groups we should opt for a bottom-sensitive measure, such as the Theil index. If the aim of the research project is to assess the distributional consequences of democracy on lower income groups then using the Gini coefficient is likely to bias the research results given its sensitivity to middle income groups. However, apart from these issues both indices consistently show that over the 1970s there was a downward inequality trend.

The second 'wave' of LIS datasets, assembled between the late 1970s and mid-1980s, supplies a larger sample. Table 3 presents the inequality values for nine LIS countries with comparable information for the late 1970s and mid-1980s. It is important to note that the two

[Table 3 about here]

data points are not the same in each country, and the results need to be interpreted in view of the macro-economic climates which may have been different in the 1970s and 1980s.

It is immediately apparent that Table 3 paints a surprisingly different picture from Table 2. When measured by the Gini, several countries experience an upward inequality trend, although the extent of the rise differs. In the United Kingdom inequality grew faster than elsewhere, between 1979 and 1986 the Gini coefficient rose by 20.9 percent. Considering the fact that income distributions usually change very slowly this increase must be considered substantial. In Sweden, the Gini coefficient grew from 19.9 percent in 1981 to 22.9 percent in 1987, an increase of 13.1 percent. The upturn was less marked in West Germany, United States and Australia. But Table 3 demonstrates that the trend is not universal. Inequality fell by 4.0 percent in Canada and there were more modest drops in Norway, Israel and France. The lower part of the table demonstrates that the Theil values also report a mixed trend, with the fastest rise in Sweden, the UK and the USA and significant drops in Norway, Canada and Israel.

Before reaching any conclusion from this evidence, it is worth looking at inequality trends in another way. Summary measures may be unsatisfactory if, following John Rawls, one is solely concerned with the welfare of the least advantaged group. [16]We split the population into five equal sized groups (quintiles) according to their level of household income and make adjustments for their family size and composition. Table 4 illustrates the percentage share in household equivalent disposable income of the bottom 20 percent of the population compared to the top 20 percent. The values confirm the wide variety of experience within Western countries. In the United States the income share of the bottom quintile dropped from 6.2 percent in 1979 to 5.6 percent in 1986. At the same time, the income share of the top quintile increased from 39.2

[Table 4.about here]

percent in 1979 to 41.0 percent in 1986. As Danziger and Gottschalk argue in Uneven Tides, more income was carried over into the pockets of the rich and less into those of the poor.[17] In contrast to the USA, Sweden presents a rather different trend. The income share of the bottom quintile remained approximately stable, but the share of the top quintile fell modestly from 32.4 percent in 1981 to 32.2 percent in 1987. Poor people were slightly better off in Israel, Norway and West Germany, while their income remained stable in Canada. These figures show that over the 1970s and 1980s inequality trends converged in some Western countries, diverged in others or were static for specific income groups.

The general impression gained from the evidence drawn upon the LIS datasets calls into question hypotheses based on convergence. From the late 1970s the assumption of growing equality appears largely misguided because in several countries inequality grew substantially. My findings are congruent with existing evidence showing that income distributions in OECD countries exhibit pervasive dispersion, reflecting wider gaps between rich and poor.[18] These facts offer persuasive evidence discrediting the proposed linkage between fully fledged democracies and income inequality.

Variable and changing levels of income inequality within advanced liberal democracies indicate that there is no universal relationship between liberal democracy and the inequality outcomes under consideration. Sirowly and Inkeles define this alternative stance as the skeptical perspective. It is skeptical, I think, because it rejects the simplistic notion that the more equitable distribution of political power introduced by universal suffrage automatically levels income differences. Innumerable examples show that the form of government may be irrelevant to the distribution of income. For example, Communist dictatorships demonstrate that the concentration of political power is compatible with reductions in income differences. Therefore democracy cannot be considered a necessary condition for greater equality because authoritatian regimes also are able to lessen inequality.

But democracy is not a sufficient condition either. The conventional thesis that democracy has an in-built mechanism towards equality confronts the historical experience that social security benefits were first introduced by the desire to arrest its realization, as was the case in Germany under Bismarck and in Austria under von Taaffe in the 1880s. Conversely, in other countries where democracy arrived relatively early, such as in the USA, redistributive policies were introduced late.

The conventional thesis is additionally marred by its disregard of the problem of collective action.[19] Universal suffrage may open up channels of influence into the decisionmaking arena but such greater permeability of democratic regimes does not in itself guarantee that all income groups organize into powerful lobbies. Organization requires the accessibility to resources, including money, education and information of which poor groups by definition are relatively deprived. We must conclude that democracy is neither a necessary nor a sufficient condition for the levelling of income differences.

4. Alternative explanations

A typical first response, especially among economists, to rising inequality trends in Western democracies stressed the anticyclical nature of income inequality, whereby economic downturns inevitably implied wider income differentials.[20] The expectation was that as the economy recovered the 'rising tide would lift all boats'. However, as we have seen in the previous section distributional oucomes in the 1980s cast serious doubts on the so-called trickle down effect. Despite economic prosperity, income inequality in some Western democracies continued to accelerate.

For most economists this accelaration stemmed from the market sphere where wage differentials shaped the income distribution.[21] Analyzed within the conventional supply and demand curve, the rise in earnings dispersion is caused by a shift in demand away from unskilled labour and in favour of skilled workers. This structural change in the labour market is triggered by the liberalisation of international trade and by fierce competition from low-wage newly industrialized countries.[22]

Other explanations have pointed to technological progress which produced a bias favourable to skilled labour force. The diffusion of information technology put a premium on higher education with adverse effects on the less well educated people. In Australia, for example, approximately one in three middle earning jobs disappeared during the 1980s and most new jobs created were at low earnings. In other Western countries, including the UK and the USA, there was an expansion of the secondary labour market, with an increase in temporary and part-time workers employed in low skilled jobs. Thus, market income inequality reflected the phenomenon of the 'shrinking middle' whereby the proportion of workers with middle range income declined, a fact which produces disequalizing effects on the distribution of income.[23]

The explanatory power of the supply and demand model has been questioned on the grounds that it does little to account for the increased dispersion of earnings within occupational groups.[24] Differences within narrowly defined occupational or educational groups seem a good reason for seeking additional explanations. What is more, to the extent that income inequality is declared to be driven by structural or technological change, it has been largely devoid of serious analyses of its political context.

Yet the evidence presented throughout this paper clearly shows that while international forces are probably at work there is no universal pattern. In the UK there was an unparalleled growth in inequality but in other Western countries inequality dropped and yet in others the trend was stable. Precisely because of the differences in the pattern of income inequality, neither declining nor rising inequality were unavoidable fates. If some democracies were nevertheless unable to avoid growing inequality, then the reasons must lie less in international forces than in the varying strategic options of their leaders.

These results lend credence to the hypothesis which points to national policies as a key dimension in the changing pattern of income inequality.[25] The general validity of this claim is sustained by studies detecting an association between cutbacks in redistributive programmes and growing income inequality. Gramlich et al find that changes in government policies in the USA increased the Gini coefficient by approximately 40 percent over the 1980s.[26] In a similar vein, Johnson and Webb attribute almost half the rise in inequality in the United Kingdom to alterations in the tax-transfer system since 1979.[27] It is evident that in seeking to understand income inequality we need to explore the politics of income redistribution.

5. Policy actions and reactions

Before examining the driving forces behind income redistribution in a liberal democracy, it is important to understand the manner in which policymakers redistribute income. Numerous empirical studies support the contention that transfer benefits are progressive.[28] The literature confirms that, in any given year, social security transfers have substantial redistributive effects. By contrast, comparative research indicates that tax policy has little impact on overall income distribution, with direct taxes being moderately progressive and indirect taxes moderately regressive. [29]The ambiguity of tax incidence and the possibilities of tax avoidance mean that the redistributive effects of tax policy are likely to be very small. For this reason transfer payments are regarded as 'the main mechanism of redistribution'.[30]

What is more, Smeeding et al[31] showed that over the 1980s the second most important income source after income from work is that of cash benefits. In Sweden cash benefits accounted for almost 30 percent of gross income and in the UK cash benefits were four times the amount of self-employment income. Hence the share of transfer benefits in total household gross income may be quite substantial. This says that transfer income is an intermediate mechanism between market income and take-home pay, adding weight to the contention that the design and selection of entitlement rules by governments is crucial in shaping the size distribution of income.[32]

The key importance ascribed to transfer policies springs from their impact on the personal distribution of income which directly affects the living standards of many individuals. As Castles affirms, transfer benefits 'address the major social problem of contemporary societies - the poverty remaining after the initial distribution of incomes through the market mechanism'.[33] Thus the role of income redistribution by means of cash transfers cannot be understated. Its importance has far-reaching consequences for the standard of living of most individuals. [34]

Against this background, one major drawback of scholarly work on the democracy-inequality link is to overlook the dynamics from distribution to redistribution. The reason is that most research findings rely on just one income concept - either pre/transfer (market income) or post/transfer-post/tax income - thereby presenting a static picture of income inequality. In this manner the literature fails to gauge the variation between pre/transfer and post/tax income inequality and blurs our understanding of the efficacy of government intervention in alleviating or aggravating income inequalities.

Fortunately, the Luxembourg Income Study datasets allow researchers to move beyond the straightjacket imposed by ready available data definitions and concepts. It is now possible to conduct a cross-national study of the redistributive impact of direct transfers and taxes by using the first incidence method which compares the distribution of disposable income (take-home pay) with market income. [35]Figure 1 shows the Gini values for pre/transfer, post/transfer and post/tax income (only direct taxes) during the late 1970s and early 1980s. It is evident that the major recorded redistribution was that associated with cash transfers. There was a substantial redistribution in Sweden where the Gini coefficient for post/transfer income was roughly 50 percent its pre-transfer value. The effect of direct taxes appears more pronounced in the United Kingdom where the drop from pre/transfer to post/transfer Gini was approximately the same as that between post/transfer and post/tax Gini. Direct taxation had a lower distributional impact in all the other countries. In the United States, the narrow gap between the Gini values for pre/transfer and post/transfer income suggests a less effective redistributive system. West Germany and Canada recorded a lower pre/transfer inequality, further reduced in West Germany

[Figure 1 about here]

by generous cash benefits. It is important to note that the first incidence method assumes rather unrealistically that government intervention does not affect the distribution of market income. Consequently, the redistributive impact of the tax-transfer system may be somewhat overstated.[36]

6. The incentives for income redistribution in a liberal democracy

Having examined how policymakers might redistribute income, the next question is why they would wish to do so. At two distant ends of the spectrum stand interpretations based on rational choice theory and political sociology. For rational choice theorists who endorse the Downsian view,[37] ruling parties redistribute income to enhance their chances of being re-elected; for political sociologists governing parties have contrasting distributive goals that are consistent with the interests of their core constituencies.[38]

Rational choice theorists believe that voters have specific preferences on redistributive policies, and that they select parties which are closest to their position in the policy space. In plurality-rule systems, if the frequency distribution of voters is single peaked, vote-seeking parties adopt policies close to the median voter.[39] Downs affirmed that democracy narrowed the gap between rich and poor because 'the equality of franchise in a democratic society creates a tendency for government action to equalize incomes by redistributing them from a few wealthy persons to many less wealthy ones'[40]. On the assumption that median voters and median income groups overlap, this view posits that middle classes benefit from redistributive efforts. Along these lines many scholars have conducted studies focusing on the median voter as the key to understanding the politics of income redistribution.[41]

For other rational choice theorists the political business cycle best explains the incentives for reducing income inequalities by means of cash transfers. This model assumes that parties manipulate instruments of budgetary policies, such as expenditure and taxation, to achieve short-term electoral benefits. Political business cycles are typically characterized by spending cuts early in the term, followed by generous benefits later . The pattern is expected to recur cyclically, with parties deferring the costs of pre-election increases in the level of transfer benefits until after the election. Democracy fosters the eradication of poverty because major extensions of public intervention occur as a means of vote-seeking.[42]

In sharp contrast to this perspective, political sociologists chiefly focus on socio-economic cleavages. A typical assumption is that 'parties have contrasting income distribution goals that are consistent with the locations of their core constituencies in the hierarchy of income classes.'[43] Lower income-classes, which make up the core constituency of left-wing parties, have greater exposure to rising unemployment and normally bear a disproportionate share of the social costs of economic recessions. Their relative position in the income distribution is therefore improved by a generous system of social security. While leftwing parties reduce income inequality by redistributing income from rich to poor, rightwing parties, in a process of contagion from the left, become less anti-egalitarian in order to appeal to low income groups.

The theories summarized so far give particular prominence to the interests and concerns of the electorate and predict that inequality drops in liberal democracy as a response to voters' preferences. This prediction, however, is swept aside by the evidence marshalled in the previous pages which show that in some countries inequality rose over the 1980s. So, what remains to be explained is why some policymakers might not set out to redistribute income or are unsuccessful in attempting to do so. Since implementation failure is a a subject on to itself and thus goes beyond the scope of this paper I shall focus on the weakness of demand driven models.

7. A missing dimension: political 'slack'

The literature on the redistributive impact of ruling parties has with good reason emphasized the role of demand driven policies. Oriented towards the paradigm of representative democracy, exogenous preferences and inter-party competition, this literature stresses the responsiveness of elected representatives to voters' demands. According to this thinking, democratic governments articulate the interests of the electorate and respond to their redistributive wishes. Ruling parties are conceived as inputs that mechanically tie the demands of society to redistributive outputs.

Normatively speaking this argument is correct, but its practical significance may be somewhat exaggerated. Not all elected representatives wish to meet voters' redistributive expectations. Reasons for manipulating entitlement and eligibility rules may be intimately connected to supply-side factors. Atkinson notes that whether or not the preferences of the electorate are translated into public policy depends on the degree of 'slack' in the political process - the autonomy from voters which gives decisionmakers a margin of freedom.[44] Seen in this light, it is possible that politicians engage or avoid to engage in income redistribution without regard to the preferences of the electorate.

For example, Redmond and Sutherland find that in Britain there have been gainers and losers within the low income population, partly because of increased generosity on benefit levels for some claimants and the restriction of eligibility for others between 1978/9 and 1994/5'.[45] This circumstantial evidence suggests that ruling parties may have engaged in income redistribution to encourage shifting coalitions of supporters between risk-exposed voters and insured voters. Politicians may devise redistributive strategies aimed at constructing new social identities in order to forge electoral alliances among protected voters. Redistributive policies are well-suited to trigger issues of identity because they define categories of privileged and less privileged people. Rather than merely responding to voters' demands, income redistribution may be driven by supply side forces.[46]

Theoretical accounts of the democracy-inequality link have ignored that social cleavages are salient in any democracy only to the extent that political parties mobilize the groups affected by those cleavages. Elected representatives are not merely vote takers, but act as vote makers by shaping the choices of the electorate.[47] Party leaders are thus viewed as autonomous actors that are able to manipulate policies so as to mould collective identities. Ongoing disputes over matters that may at first seem technical and abstruse, such as old-age pension, indexation, waiting time, are in reality conflicts for redistributive advantages among social groups.

It is somewhat disquieting that distributional conflicts can be easily disguised. When some Western democracies reacted to the economic downturn of the 1970s and 1980s by slashing spending for antipoverty programmes and social security benefits, elected representatives seemed to have embraced the conclusion that slow growth and large deficits were caused by redistributive programmes. However, as Danziger and Smolensky poignantly remark 'how this proposition - the truth of which has not been proved - became conventional wisdom was left as a mystery'.[48] Conventional wisdom concealed the fact that redistributive programmes are the products of intensely political choices, because they establish who is most worthy of favourable treatment by political leaders.

By redistributing income politicians may have created new social identities among protected and risk exposed people which transcend traditional class based identities. Several studies have suggested that status and ascriptive (or presumably ascriptive) elements such as age, sex, and ethnic boundaries have come to intersect with class boundaries.[49] Hence the politics of redistributive policies cannot be reduced simply to social class politics. This perspective shifts the focus *from* the social determinants of redistributive policies to the construction of social identities *by* redistributive policies. Such considerations raise important theoretical questions regarding the role of democratic governments in the formation of privileged and less privileged groups.

8. The fallacy of linearity

Aside from the disregard of supply side explanations, the dominant theoretical approach on the democracy -inequality nexus is further impaired by the assumption of a linear relationship between political democracy and income inequality.[50] This paper shows that the question of whether more or less democracy affects inequality is misconceived since democracies reveal a wide variety of experiences. The pattern of income inequality trends seen in section three testifies to the absence of any linear variation between democracy and the gap between rich and poor.

Existing theoretical models premised on a linear relationship seem therefore inadequate, and more re-conceptualization and re-theorization need to be conducted on the basis of what we consider important variables. This observation also holds for research based on quadratic functions. As mentioned earlier my results strongly suggest that perhaps the key variable is not the form of government. Between the form of government and distributional outcomes there is a complex set of institutional and contextual variables which affect those outcomes.

To avoid simplistic assumptions Esping-Andersen looks at structures of relationships within OECD democracies.[51] As the author claims, the pattern of class political alliances may go a long way towards explaining historical variations in welfare state regimes and distributional outcomes. His approach is premised on an interactive model centred on three factors. The nature of class mobilization, especially the working class and its effects on union structure and on the development of the labour party; this element takes into account the fact that the capacity of Labour and Socialist parties to influence redistributive policies is circumscribed by the power of right-wing parties. [52]What is more, given that the working class hardly ever constitutes a political majority, the second factor in this model is the structure of class political coalition while the third factor deals with past reforms. Interaction effects between these elements have crystallized industrialized countries into three distinct welfare state clusters labelled as liberal, conservative and social democractic.

This model provides a step towards a deeper undertanding of distributional outcomes and offers an interpretation of why inequality trends might diverge between countries. [53]Nevertheless, it still leaves open the matter of why inequality patterns have changed <u>within</u> particular democracies in the past two decades. Have class political alliances de-crystallized? Or have some other political forces intervened? Has the dynamics of political competition changed, and if so, how has it changed? In his recent contribution Pierson maintains that the politics of retrenchment cannot be understood by applying the same framework used to understand welfare state development. [54] The goals and the political context within which politicians operate are radically different from those of postwar welfare state expansion. But Pierson himself admits that his account is inadequate to interpret the rising inequality trends observed in the UK and the USA, the empirical focus of his book.[55] What is missing therefore is an integrated view that throws light on the incentives to create, develop and make use of political 'slack' and the constraints and checks to exercise it. More specifically, work is needed to identify the politico-organizational features of democratic regimes which help the articulation of social solidarity or promote divisions between and within classes. Acknowledging that the debate over the relationship between democracy and inequality suffers from under-theorization may provide a good starting point for future enquiries and research.

Conclusions

This paper has been written with two beliefs in mind. First that advances in the formal and empirical analysis of income inequality help to refine and improve the robustness of research findings on the democracy-inequality effect. I have underlined in particular the risk of value judgements when measuring distributional outcomes, the role of equivalence scales and the usefulness of the first incidence method. It goes without saying that the methodological difficulties addressed in this paper underscore the fact that some problems have no easy answer.

Second, while it is a widely held view that research on the democracy -inequality linkage has been chiefly afflicted by methodological problems, my account indicates that perhaps the central issue is under-theorization. The bulk of the literature assumes a linear relationship between political democracy and the size distribution of income which is refuted by the results reported in this paper. Western democracies have undergone a variety of experiences, with inequality rising in some countries and falling in others.

Aside from the linearity assumption, the dominant approach is oriented towards the paradigm of representative democracy which fails to consider political 'slack' as the main opportunity for elected representatives to try to shape public opinion. We have seen that in principle political elites may alter the patterns of political coalition formation by manipulating eligibility and entitlement rules, and there is circumstantial evidence supporting this claim. The overall picture that emerges from this paper is incomplete and fragmented which indicates that we are certainly not a in a position to be confident of our theories and methods. One fruitful avenue for future enquires is therefore the development of explanations grounded on supply-side factors. In view of the negative implications of inequality growth for health, crime and education[56], research focused on the degree of political slack in liberal democracies is particularly urgent.

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6 . Anthony B. Atkinson, 'Bringing income distribution in from the cold', The Economic Journal, Vol. 107 (1997), pp. 297-321.

7 . The Luxembourg Income Study datasets have been made available since the late 1980s. They have been employed in several national and cross-national studies, see among others, Anthony, B. Atkinson, Lee Rainwater and Timothy Smeeding. Income distribution in OECD countries: The evidence from the Luxembourg Income Study (LIS). (Paris: OECD, 1995); Deborah Mitchell, Income transfers in ten welfare states (London: Avebury, 1991).

8 . It should be stressed that complete consistency cannot be assured because in each case the figures were drawn from national studies of income inequality which were not designed for the purpose of international comparison. Comparability in the LIS datasets is achieved ex-post.

9 . The income information in the surveys is subject to the sampling problems of non response and under-reporting, and the reader is cautioned to bear this in mind when interpreting the results. Moreover, the LIS data are subject to a range of conceptual limitations. No information is available on net imputed rent, or capital gains, though these are clearly important sources of income.

10 . This section greatly benefitted from the comments of Stefano Toso. For other issues regarding the methodology of distributional comparisons see W.van Ginneken and J.Park, Generating internationally comparable income distribution estimates (Geneva: ILO, 1984).

11 . Corrado Gini, Variabilitá e mutabilitá, (Bologna, 1912). It is only fair to point out that most scholars use at least two inequality measures, but usually one is a summary measure and the other is the percentile ratio.

12 . H. Theil, Economics and Information Theory (North Holland: Amsterdam, 1967).

13 . Frank Cowell, The Measurement of Inequality (Hemel Hempstead,Harvester Wheatsheaf, 2nd ed. 1995), pp. 60-65 .

14 . Fiona Coulter, Frank Cowell and Stephen Jenkins 'Equivalence Scales Relativities and the Extent of Inequality and Poverty', Economic Journal, vol. 102, (1992), pp.1067-1082.

15 . Edward, N. Muller, 'Democracy,'

16 . I borrow this idea from Anthony B. Atkinson, Income Distribution in European Countries,mimeo,STICERD (1995).

17. Sheldon Danziger and Peter Gottschalk.' Introduction', in Sheldon Danziger and Gottschalk,P. (eds.) Uneven Tides, (New York: Russell Sage Foundation,1993),pp.3-18.

18. Atkinson et al, OECD (1995).

19. Mancur Olson, The logic of collective action ,(Yale: Yale University Press,1965)

20. R. Blank, 'Disaggregating the Effect of the Business Cycle On the Distribution of Income', Economica, Vol. 56, (1989),pp. 141-163.

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22. AdrianWood, North-South Trade, Employment and Inequality: Changing Fortunes in a Skill-Driven World,(Oxford: Clarendon Press, 1994)

23. see OECD Employment Outlook, (1993).

24. Atkinson, 1997.

25. Danziger and Gottschalk, pp.3-18.

26. Edward E. Gramlich, Richard Kasten and Frank Sammartino,'Growing Inequality in the 1980s: the Role of federal Taxes and Cash Transfers', in Sheldon Danziger and Peter Gottschalk, (eds.), Uneven Tides, (New York: Russell Sage Foundation, 1993),pp. 225-249.

27. Paul Johnson and Steven Webb,'Explaining the Growth of UK Income Inequality 1979-1988, Economic Journal, vol. 103, (1993), pp.429-435.

28. Transfer benefits are subsidies in cash income distributed to individuals who meet specified entitlement and eligibility criteria, such unemployment benefits. On the efficacy of transfer benefits see Markus Jantti and Sheldon Danziger, 'Does the Welfare State Work? Evidence on Antipoverty Effects from the Luxembourg Income Study',Working Paper 74, CEPS/INSTEAD (1992); and Peter Saunders, Welfare and Inequality, (Cambridge: Cambridge University Press, 1994), pp. 44-50.

29. Ann Harding,'A Lifetime Vs Annual Tax-Transfer Incidence: How Much Less Progressive?', The Economic Record, vol.69, (1993)pp. 179-191.

30. Stein Ringen, The Possibility of Politics, (Oxford: Clarendon Press, 1987),p. 175.

31. Timothy Smeeding, Michael O'Higgins and Lee Rainwater, 'Poverty,Inequality and Income Distribution in Comparative Perspective', (London: Harvester Wheatsheaf,1989).

32. Andrea Brandolini, Nonlinear Dynamics, Entitlement Rules, and the Cyclical Behaviour of the Personal Income Distribution, Centre For Economic Performance, London School of Economics, Discussion paper No.84.(1992).

33. Frank Castles, 'Changing course in economic policy: The English-speaking nations in the 1980s', in Frank Castles,(ed) Families of Nations, (Aldershot: Dartmouth ,1993), pp. 12.

34. In the light of these considerations, it is striking that economics textbooks only discuss the *functional* distribution of income, which is the division of the sources of income by factor shares : income from work and income from capital (rent, dividends and interest).

35. David,Dodge, 'Impact of Tax,Transfer and Expenditure Policies of Government On the Distribution of Personal Income In Canada', Review of Income and Wealth, Vol.2, (1975),1-52.

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37. As Downs put it, ' parties formulate policies in order to win elections, rather than win elections in order to formulate policies', Anthony Downs, An Economic Theory of Democracy, (New York: Harper & Row,1957), p. 28.

38. These arguments are further developped in Rosa Mulé,' Explaining the party-policy link', in Party Politics, vol. 3, (1997) pp. 493-512.

39. Vote seeking parties will not implement redistributive policies aimed at capturing the median voter if:a) there are multiple issue dimensions; b) there is a single dimension, but the frequency distribution of voters is double-peaked and alienation/abstentions are significant ; c) there is a single dimension but differential alienation/abstention across two parties; d) there are more than three parties and easy entry for new parties.

40. Ibid.p 198.

41. It is not entirely clear whether convergence to the centre would involve redistributing income to the poor or only to the middle class. See John Bishop, John P. Formby and James W. Smith, 'Incomplete Information, Income Redistribution and Risk Averse Median Voter Behaviour', Public Choice, vol. 68, (1991),pp. 4 1-55. Assar Lindbeck and Jorgen Weibull, 'Balanced-Budget Redistribution As the Outcome of Political Competition,' Public Choice, vol.53, (1987),pp. 131-139. T. Persson and G. Tabellini (1994) Is inequality harmful for growth? American Economic Review, Vol. 84, pp.600-621.Gerald W. Scully and D.J.Slottje, 'The Paradox of Politics and Policy in Redistributing Income', Public Choice, vol. 60, (1989),pp. 55-70. Van-Wijck, Peter and Wil Arts, 'The dynamics of income inequality in a representative democracy: the case of the Netherlands', Rationality and Society, Vol. 3 (1991), pp. 317-42.

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Table 1. Ranking of 10 OECD countries according to the Theil index and the Gini coefficient (Household post/tax-post/transfer equivalent income).

Country	Theil index%	Gini coefficient%	Country
United States	21.3	35.5	United States
France	17.9	30.9	Australia
Italy	16.6	30.7	Italy
United Kingdom	16.5	30.6	Canada
Canada	16.2	30.4	France
Australia	16.1	30.3	United Kingdom
Netherlands	15.7	29.4	Netherlands
West Germany	13.5	26.4	West Germany
Sweden	10	24.3	Norway
Norway	9.8	22.9	Sweden

Source: Computed by the author from LIS. The countries datasets are the following: US, 1986; Australia, 1985-86; Italy 1986; Canada, 1981; France 1984; United Kingdom 1986; Netherlands 1983; West Germany, 1984; Sweden, 1987; Norway 1986.

Table 2 Trends in income inequality in 5 Western countries. (Household post/tax-post/transfer equivalized income).

Country	mid-1970s	late 1970s/ early 1980s	% change mid-1970s/ early 1980s
	Gini coefficient %		
United States	34.6	33.0	-4.8
Canada	32.4	31.1	-4.2
United Kingdom	31.9	27.6	-15.5
West Germany	23.9	23.0	-3.9
Sweden	23.2	19.9	-16.5
	Theil index %		
United States	20.8	18.2	-12.5
Canada	17.8	16.2	-8.9
United Kingdom	14.8	12.7	-14
West Germany	14.5	13.9	-4.1
Sweden	9.1	6.8	-25

Source: computed by the author from LIS datasets for the United States, 1974, 1979; Canada 1975,1981; United Kingdom, 1974; 1979; West Germany 1973, 1978; Sweden 1975; 1981.

Table 3. Trends in income inequality in 9 Western countries. (Household post/tax- post/transfer equivalized income).

Country	late 1970s early 1980s	mid-1980s	% change 1970s-1980s
Gini coefficient %			
Israel	33.7	33.0	-2.1
United States	33.0	35.5	+7.0
Canada	32.4	31.1	-4.0
France	30.8	30.4	-1.3
Australia	30.2	30.9	+2.3
United Kingdom	27.6	34.9	+20.9
Norway	24.9	24.3	-2.5
West Germany	23.0	26.4	+12.8
Sweden	19.9	22.9	+13.1
Theil index%			
Israel	20.3	18.7	-7.8
Canada	17.8	16.2	-8.9
United States	18.2	21.3	+17.0
France	18.1	17.9	-1.1
Australia	15.0	16.1	+7.3
West Germany	13.9	13.5	-2.8
United Kingdom	12.7	16.5	+29.9
Norway	11.1	10.0	9.9
Sweden	6.8	10.0	+47.0

Source: computed by the author from LIS datasets for Canada 1975,1981; Israel, 1979,1986; United States 1979, 1986; France 1979, 1984; Australia 1981/82-1985/86; United Kingdom 1979, 1986; Norway 1979, 1986; West Germany 1978, 1984; Sweden 1981, 1987.

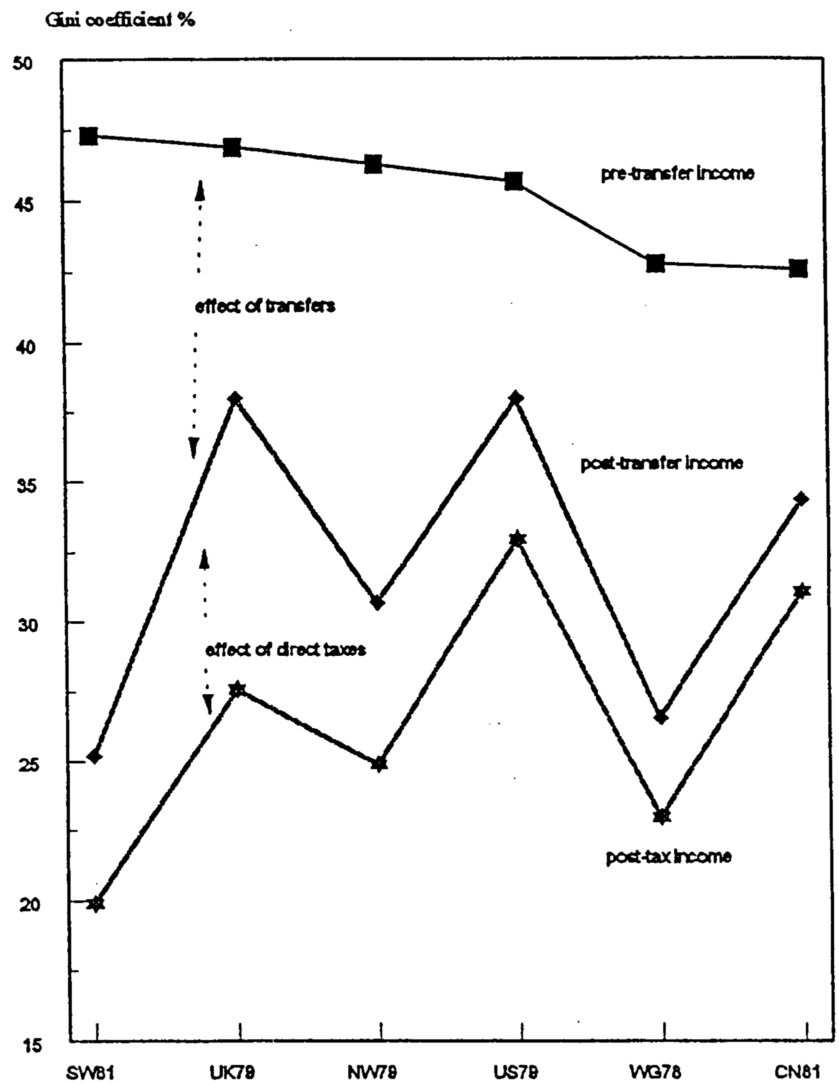
Table 4. Income share of bottom 20 percent and top 20 percent of the population in 9 Western countries. (Household post/tax-post/transfer equivalent income).

Country	bottom 20%		top 20%	
	late 1970s	mid-1980s	late 1970s	mid-1980s
United States	6.2	5.6	39.2	41.0
Canada	6.4	7.6	38.2	38.2
Israel	7.3	7.4	40.8	40.5
Australia	7.7	7.7	37.3	38.1
France	8.2	8.2	39.1	38.9
West Germany	9.1	9.5	37.0	35.9
United Kingdom	9.2	8.0	36.5	38.8
Norway	9.7	9.9	34.4	34.0
Sweden	9.8	9.4	32.4	32.2

Source: computed by the author from LIS datasets for Unites States 1979, 1986; Canada, 1975, 1981; Israel, 1979,1986; Australia, 1981/82, 1985/86; France 1979, 1984; West Germany 1978, 1984; United Kingdom 1979, 1986; Norway 1979, 1986; Sweden 1981, 1987.
*Countries are ordered according to the share of the bottom 20% in the late 1970s, starting with the lowest.

FIGURE 1

INCOME INEQUALITY IN PRE-TRANSFER, POST-TRANSFER AND POST-TAX INCOME IN 6 COUNTRIES



Note: SW: Sweden; UK: United Kingdom; NW: Norway;US:United States; WG:West Germany; CN: Canada

Source: computed by the author from LIS