

Democracy and Income Inequality: Searching for a Reciprocal Causal Relation

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Abstract: The study of the relation between democracy and income inequality is puzzling scholars at least since the 1970s, however, still there is no agreement about how the relation between the two variables would shape nor how the causal mechanisms would work, and some scholars even denied the presence of any causal relation. The aim of the present work is to shed light on such a disagreement by addressing the relation between the two variables from a political science rather than a purely economic viewpoint, developing a more complete theoretical framework abandoning some of the economic premises mostly employed insofar. In particular, the work aimed to answer the following main research questions: does, and through which channels, the state's regime influences its levels of inequality? Does, and through which channels, inequality influence a state's regime? Is there a reciprocal rather than unidirectional causal relation between the two variables? Through the employment of a mixed inductive/deductive approach, the present work firstly analyses the theoretical and empirical literature on the subject. Secondly, based on the literature and on the most established theories, it presents some speculations about the functioning and the mechanisms underlying the relation between the two variables. Thirdly, to refine the theory, and to assess the presence of variables and sub-mechanisms interfering with the principal relations, it carries out the study of three peculiar cases that deviates from the established theories and from the speculations. Fourthly, using the insights provided by the case studies, it elaborates a refined theoretical framework capable to explain the relation between the two variables. Lastly, from the theoretical framework, it elaborates several hypotheses and tests them employing different econometric approaches. With respect to the two main variables, the quantitative analysis employed data on Gini from the Standardized World Income Inequality Dataset, and data on the quality of democracy respectively from the Unified Democracy Scores Dataset, the Polity IV Dataset and the Global States of Democracy Dataset. The estimates performed revealed some interesting results. First the estimates confirm that the quality of regime significantly reduce inequality, but only after a certain level of regime quality following the pattern of a political Kuznets curve, and that at the same time inequality negatively and significantly influences the quality of government. Second, they also confirmed the presence of a reciprocal causal relation between the two variables. In addition, the estimate confirmed that other variables and mechanisms concur in shaping the relation between the two main variables. In particular, education and the presence of a leftist government have a negative effect on inequality, corruption and the adherence to the economic neo-liberalism do increase countries' levels of inequality, protests increase the quality of the regime, and that repression, on the contrary, does not have any significant effect on the quality of the regime. Third, the estimates also confirmed that citizens' attitude toward inequality and redistribution and citizens' perceptions on social mobility do influence countries' levels of inequality. Lastly, the analysis of the effects of the different attributes of democracy on inequality and vice versa, through the employment of the Global state of Democracy indices, highlights that only some attributes of democratic quality significantly influence inequality while only some attributes are significantly influenced by inequality

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