

# *Democracy and Redistribution*

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## *Introduction*

Under what conditions are stable democracies adopted? What facilitates the survival of authoritarian regimes? What determines the occurrence of sudden revolutionary explosions, often leading to expropriation and left-wing dictatorships, such as the Soviet revolution? And, finally, what are the distributional consequences of different political regimes?

To answer these long-standing questions, a large theoretical literature has developed since Aristotle through Marx and Weber. In the last fifty years this body of work has been joined by a vast array of empirical studies in modern political science. Econometric studies have found democracy to be inextricably linked to economic development. In turn, different strands of more historical research have alternatively associated the existence of democratic regimes with either the destruction of the agrarian world, the formation of cross-class coalitions or the growing strength of the working class. Finally, under the renewed influence of neoinstitutionalism, several scholars have claimed that a stable democracy can prosper only when sustained by a particular set of constitutional rules and embedded in certain social norms and practices.

Yet for all the extensive treatment that the causes and the consequences of the process of democratization have received, we still lack a convincing theory of political development and transitions. Take, to start with, the well-known positive correlation between democracy and economic development – uncovered by Lipset in 1959, replicated by numerous studies in the following decades, and confirmed by Przeworski and Limongi's sophisticated analysis of the world sample of nations in the period from 1950 to 1990. Excluding Duverger's law on the effect of single-member districts on party systems, it may be the strongest empirical generalization

we have in comparative politics to date. But even cursory analysis reveals at least three important weaknesses.

First, we do not know how well that correlation travels back to the period preceding World War II – in fact, it probably does not, since most nineteenth-century democracies thrived in countries that, by today's standards, we would consider relatively poor. Second, it is unclear how the level of per capita income, or, more generally, the extent of economic development, may explain the reverse side of the introduction of democratic regimes, that is, the occurrence of political violence and revolutionary explosions as well as the emergence of various types of right-wing and left-wing dictatorships across countries. Finally, and above all, the correlation between development and democracy is still in need of a full-fledged description of the causal mechanisms through which democratic (and authoritarian) regimes are established. It is true that several explanations have been developed to account for the relationship between economic modernization and political democratization. Still, they remain incomplete. None of them has characterized either the preferences that different political actors, be they individuals or social groups, harbor toward different political regimes or the strategies that the former engage in to bring the latter about. In other words, they have not employed analytical microfoundations to develop a theory of regime change. Consequently, the scholarly literature cannot explain with precision the conditions under which different political systems emerge and break down.

The refusal to employ analytical tools to build a theory of political transitions has not remained circumscribed to modernization theory. As will be detailed in the first section of this introduction, this theoretical strategy has been fairly common to all the scholars working on the issue of regime transitions. And this is what, in most likelihood, has led the most influential surveys of democratization literature, such as Huntington's *The Third Wave*, to abandon any unified causal theory and to present the emergence of current democracies as the result of multiple and alternative causal paths.<sup>1</sup>

With the deficiencies of the literature on democratization in mind, this book develops, and systematically tests, a unified model that derives the distribution of different political regimes, that is, the occurrence of

<sup>1</sup> See Huntington (1991). To some extent, Dahl (1971) takes a similar theoretical stance, discussing democratization as the result of a laundry list of diverse economic, cultural and chronological factors.

## Introduction

democracies, right-wing authoritarian regimes and revolutions leading to civil wars and communist or left-wing dictatorships, from a set of simple yet reasonable assumptions about the preferences and resources of social actors or individuals in a given country: the domestic distribution of economic assets, that is, the degree of economic equality; the nature of those economic assets, broadly determined by their mobility; and, finally, the distribution of political resources (to repress or outmaneuver any opponents) among individuals. In turn, the political logic of distributive conflict that underlies the choice of political regimes is employed to explain the redistributive consequences of each political regime.

As I examine in a more extended manner later in this introduction, and then fully in Chapters 1 through 4, democracy prevails when either economic equality or capital mobility are high in a given country. On the one hand, economic equality promotes democracy. As the distribution of assets and income becomes more balanced among individuals, the redistributive impact of democracy diminishes and the probability of a peaceful transition from an authoritarian regime to universal suffrage increases. On the other hand, a decline in the specificity of capital, that is, a reduction in the cost of moving capital away from its country of origin, curbs the redistributive pressures from non-capital holders. As capital becomes more mobile, democratic governments must curb taxes – if the taxes were too high, capital would escape abroad. Accordingly, the extent of political conflict among capital holders and nonholders diminishes, and the likelihood of democracy rises.

By contrast, authoritarianism predominates in those countries in which both the level of inequality and the lack of capital mobility are high. In highly unequal societies, the redistributive demands of the worse-off citizens on the wealthy are particularly intense. As a result, the latter have a strong incentive to oppose the introduction of democracy, which would enable the majority of the population to impose heavy taxes on them. The prevalence of highly immobile types of capital exacerbates the authoritarian solution. Unable to shift assets abroad to escape the threat of high taxes, capital owners grow more resolute in their efforts to block democracy.

Whether or not the adoption of an authoritarian regime is stable, that is, unaffected by political conflict, depends on the political resources of the contending parties. If the lower classes are demobilized or the ruling elite has strong repressive capabilities, there is a peaceful and durable authoritarian regime. However, if the organizational capacity of the poor rises, the likelihood of revolutionary explosions and civil wars escalates. If the poor

win, they proceed to expropriate the assets of the wealthy and establish a left-wing dictatorship.

The redistributive consequences of each political regime are logically at odds with each other. In right-wing authoritarian regimes, transfers are practically zero (with taxes limited to financing and sustaining defense, police and administrative services). In democracies, the public sector grows steadily, pushed by both redistributive demands and, as I will elaborate later, pressures to reduce the volatility of business cycles and economic risks. In revolutionary regimes, the nationalization of private assets leads first to the introduction of central planning and socialism and, devoid of transparent mechanisms of political accountability, very often to widespread corruption and economic stagnation.

In the rest of this introduction I proceed as follows. In the first section, I examine the state of current theoretical and empirical debates over democratization and political development in general. There I detail the contributions and weaknesses of three broad types of research: modernization theory, the sociological approach to regime choice and rational-choice models. In discussing them, I gradually suggest a way to weave some of their components together to build a theoretically more compelling and empirically more satisfactory model of political transitions. In the second section, I offer an overview of the argument of the book. In the third section, I detail how the book is organized.

### *The Theoretical and Empirical Debate*

Within the vast literature on political development and political transitions, we can distinguish three broad strands of research: political modernization, the sociological literature on regime formation and, more recently, the notion of democracy as a political and institutional equilibrium.<sup>2</sup>

To make sense of the empirically robust association between the frequency of democracy and the level of economic development (Lipset 1959; Jackman 1973; Bollen 1979; Burkhart and Lewis-Beck 1994; Przeworski and Limongi 1997), the literature on political modernization has offered three explanations of the emergence of democracy.<sup>3</sup> In the first account, the

<sup>2</sup> For an excellent survey of the first two strands of work, see Rueschemeyer, Stephens and Stephens (1992), Chap. 2.

<sup>3</sup> Although here I make an effort to distinguish them analytically, they often are lumped together in modernization writings.

## Theoretical and Empirical Debate

predominance of democratic institutions in developed countries has been attributed to a functional match between democracy and social modernization. Since a market economy is sustained by a free flow of information within an organizational environment based on predominantly horizontal networks, this explanation holds that markets can prosper only when they are embedded in a political framework characterized by the recognition of constitutional liberties and democratic practices (Cutright 1963; indirectly, Lerner 1958). Accordingly, developed economies and political democracies should emerge and survive together, at least in the long run.

Mostly due to the lack of precision about the causal direction in that functionalist model, a second explanation, in part overlapping with the first one, emphasizes the extension of pluralistic values associated with the process of economic development. Here both rising education levels and the formation of an autonomous labor force (a labor force composed of employees increasingly required to make their own decisions in the production process) generate a public opinion that willingly tolerates the existing multiplicity of values and opinions and that embraces liberal democracy as the legitimate mechanism to settle its disagreements.<sup>4</sup>

Even though the idea that the extension of toleration reinforces or even causes democracy seems an eminently plausible one, to avoid turning it into a purely tautological concept, we need to ascertain what makes the practice of toleration relatively easier or less costly for the citizens of developed societies.<sup>5</sup> The decline in the costs of toleration, triggered by or associated with the process of economic development, has been alternatively attributed to either a shift in religious and cultural values or a change in the structure of material or economic relations. The link between religious practices and political democratization seems a tenuous one. Democracy was established in most developed countries well before most of them underwent a widespread process of secularization in the 1960s. Likewise, as I show in Chapters 2 and 3, there is no evidence that certain religions, such as Protestantism, with its imputed emphasis on individual autonomy, are more conducive to democracy than others.<sup>6</sup>

<sup>4</sup> This is the explanation emphasized in Lipset (1959: 79–80). It is also present in Dahl (1971), Bollen (1979) and Inglehart (1997: Chap. 6).

<sup>5</sup> This is readily acknowledged by Dahl (1971: 14–16). By contrast, the sources and operation of a tolerant attitude in politics remain much more ambiguous among other scholars, such as Inkeles (1966) or Lerner (1958).

<sup>6</sup> In Chapter 2, I show that a higher level of religious fragmentation reduces the likelihood of a democratic breakdown. This result actually reinforces the idea that the success of democracy

By stressing the transformation of the economic and social structure, the third theoretical account within the modernization school seems to supply a more convincing explanation for the fall in the costs of toleration that comes with economic development. As articulated by Lipset, the process of economic modernization results in both a reduction in the level of income inequality, which is a source of political conflict and fosters the adoption of authoritarian solutions, and the growth of a broad middle class, who then acts as a moderating political force (Lipset 1959: 83–84). But even in this case, in which there is an embryonic reference to the presence of certain actors and their interests, the theoretical account is cast in imprecise terms. One must concur with Rueschemeyer, Stephens and Stephens when, after summarizing the modernization literature, they conclude that the causal mechanisms linking economic development and the presence of a democratic regime still “remain, in effect, in a black box” (1992: 29). More precisely, the insufficiencies of the literature of political modernization stem from its lack of attention to a central theoretical link: political agency. Scholars working in this tradition have hardly depicted the actors that intervene in the choice of political regimes, the reasons that motivate their actions, and the political strategies they employ to secure their goals.

Devoid of a clear theoretical backbone, modernization theory has failed to provide a reasonable answer to at least three main issues in the process of political development. First, the occurrence of widespread political violence over time and the revolutionary waves of the last two centuries have never found an easy accommodation within modernization theory – why conflict should occur at certain income levels but not at others remains unclear. The emergence of communist regimes has been treated as a deviant outcome that must be explained through variables, such as the distribution of land and the emergence of guerrillas, which automatically fall outside of a crude linear theory of modernization. Second, modernization theory has fallen short of accounting for the short-term dynamics in the process of transition to (or away from) democracy – an issue that seems especially relevant for the segment of semideveloped economies, where democratic consolidation has been particularly elusive. Finally, the theoretical frailty of modernization literature has had important empirical consequences. If the level of per capita income directly predicts the likelihood of democracy (or, if Przeworski and Limongi are right, the likelihood

is related to a balanced distribution of power among different social groups rather than to the attitudinal traits of the groups.

## Theoretical and Empirical Debate

of democratic breakdown), then one cannot explain the presence of (at least partially) democratic episodes in societies that predate the phenomenon of economic modernization: some Greek city-states, the attempts made during the last period of the Roman Republic, several cities and territories (such as the mountainous Swiss cantons) in the late Middle Ages, and the agrarian democracies of the early nineteenth century (the Northeastern states in the United States, Iceland, Norway or Switzerland).<sup>7</sup> Conversely, if the level of per capita income merely proxies for a set of more direct causes, such as a changing distribution of income or a growing middle class, then we must specify those causes and develop the proper empirical tests to understand what shapes the choice of political regimes.

In contrast to the theory of political modernization, the language of political agency has played a central role in the sociological theories of democratization. In his path-breaking work on regime change, Moore (1966) stressed, on the one hand, the particular balance between peasants and landlords, and, on the other, the interaction between the landlords and the commercial bourgeoisie as the key factors shaping the historical paths leading to democracy, fascism and communism in the mid-twentieth century. Luebbert (1991) later applied the same preoccupation with the role of social actors and classes to conclude that a cross-class coalition institutionalized through a pact between liberal and social democratic parties accounted for the triumph of democracy in several interwar democracies. Finally, Rueschemeyer, Stephens and Stephens (1992) associated the occurrence of a democratic regime with the strength of the working class.<sup>8</sup> There is no doubt that these authors probe more deeply into the causes of democracy than do the most quantitatively oriented researchers of the modernization literature. But they still sidestep the issue of explicitly modeling the preferences and incentives of actors engaged in struggles over the determination of the political regime. As a result, they offer another type of correlation analysis – one with fewer observations than modernization theory yet with a more sophisticated elaboration of the causes leading to the choice of political regimes than the one advanced by quantitative researchers.

Triggered by the democratic transitions of the 1970s and the 1980s, the third and last strand of research on the causes of democratization has veered away from both the statistical research and the sociological work

<sup>7</sup> For a similar critique, see Dahl (1971: 69).

<sup>8</sup> For a critical review of this literature, see Kitschelt (1992).

just reviewed. In what may be considered the foundational work of this type of analysis, O'Donnell and Schmitter (1986) insist on describing a democratic outcome as the result of a highly contingent pact among previously contending groups. Defining the latter in terms of their position toward the introduction of a democratic solution, the authors consciously suppress any direct reference to the groups' material interests or social status. Democracy is seen as a negotiated solution among the moderate forces of both the regime and antiregime elites.

Although first cast in non-game-theoretical terms, this approach to the problem of democratization rapidly received formal treatment. Employing the tools of game theory, democracy was then defined as an institutional equilibrium, that is, as a stable outcome that results from the strategic choices that different individuals or parties in contention make to maximize their own welfare (Przeworski 1991: 26–34; Weingast 1997). This venue of analysis formalized an insight partly intuited by some authors of the first wave of democratization studies. As stressed by Dahl (1971: 14–16), in the choice of political regimes all political actors assess the net benefits of tolerating a democratic regime, which implies the chance of losing the election, being in opposition and bearing the costs of the policies approved by the contending sector, against the utility of permanently excluding the opposing block through an authoritarian government. As the costs of toleration decline, that is, as the difference between their welfare under an authoritarian regime and in a democratic system diminishes, political actors increasingly favor a democratic regime. Similarly, as the costs of exclusion augment, that is, as the price of repressing the opposition goes up, democracy becomes a more acceptable alternative. In short, whenever all sides have no incentive to pursue an exclusionary strategy, democracy is established. Conversely, if any of them prefers to pursue an authoritarian path, political violence and ultimately a dictatorship prevail.

The insights generated by the application of game-theory tools to the study of democratic transitions play a crucial role in this book. Still, the existing formal characterization of a democratic equilibrium remains incomplete in two senses, and these must be addressed if we wish to solve the theoretical and empirical puzzles posed by the process of political development. First, the literature of democracy as an equilibrium does not specify the conditions under which the costs of rejecting or accepting a democratic outcome vary for the individuals participating in the political game; in other words, it does not describe what shapes their welfare function. Second, and in a related manner, it remains substantially ambiguous

## Theoretical and Empirical Debate

about who count, as actors in the process of establishing a political regime.<sup>9</sup> For both reasons, that approach does not describe the conditions under which democracy may or may not be out of equilibrium – that is, it cannot explain why democracies succeed in some instances yet fail in others. Thus, for example, it cannot account either for the breakdown of democracy in Spain in 1936 or for its stability after 1976. To use the title of the memoirs of Gil Robles, the leader of the largest right-wing political party in Spain at the time, “peace was not possible” in 1936 (Gil Robles 1978). By contrast, as Alexander (2002) shows, in the 1970s most conservative Spanish politicians judged their country’s transition to democracy to be unavoidable and hardly threatening. We must conclude that for democracy to have become a dominant strategy for all parties involved, the underlying conditions in which Spanish elites operated had to have changed in the historical interval.

Notice that the same problem haunts the nonformal conception of democracy as a political pact among elites. According to the most recent literature on democratic consolidation, a successful political transition hinges on the ability of political elites, who often have learned from dramatic past conflicts, to negotiate broad, encompassing agreements and to craft the proper constitutional framework.<sup>10</sup> Yet no political elite operates in a vacuum. Since politicians are always accountable to their principal, be it the voters or a certain social sector or political organization, they risk being displaced by a new set of representatives if they do not meet the interests and demands of their supporters – unless they have a monopoly over representation. Hence, the survival of any political pact cannot be understood without reference to its broader social implications. For an elite pact to be robust its consequences must fall within the boundaries of what is acceptable to the public. To put it differently, a too strict concept of democracy as an equilibrium in which political actors strike pacts regardless of the environment in which they operate and the preferences they represent does violence to the well-known correlation between democratic stability and economic development. Thus, to build a satisfactory theory of political transitions, we need to specify the actors that play the game as well as their preferences and political resources. And, to do so, we need to rely in part

<sup>9</sup> In Przeworski (1991: 26–34), for example, the actors are alternatively political parties, unions, the military, the bourgeoisie or even a coalition of some of these groups.

<sup>10</sup> See, for example, Gunther (1992), Linz (1993) and Linz and Valenzuela (1994). Notice that this insight about the learning “abilities” of political leaders goes counter to the empirical finding of Londregan and Poole (1990) that coups breed coups.

on the lessons developed by the sociological tradition of democratization literature.

In the next section I examine how these two main theoretical building blocks, that is, the game-theoretical treatment of the process of regime choice and the economic and social characterization of the players of the game, can be combined into a general theory of political transitions and regime change. I also describe how this approach generates insights that both accommodate and enrich the existing empirical research that has related the emergence of democracy and the process of economic development.

### *The Argument of the Book*

To build a theory of political transitions and regime choice, this book starts with the observation that a political regime is a mechanism employed to aggregate individual preferences about the ideal distribution of assets among those individuals governed by this institutional mechanism. In a democracy, all individuals vote (or may vote). In a dictatorship, only the preferences of part of society are taken into account to decide the final allocation of assets.

Since each political regime has different redistributive consequences, every individual supports the political arrangement that maximizes his welfare, or, more specifically, his final disposable income. The political strategy of each individual varies with the amount and type of economic assets he controls, always constrained by the costs he has to bear to achieve his preferred outcome. Those political costs derive from either excluding part of the population from voting or, conversely, trying to overturn the restrictions imposed by an authoritarian regime.

### *Economic Equality*

Given this simple set-up, the book predicts, in the first place, that increasing levels of economic equality bolster the chances of democracy. As the distribution of income becomes more equal among individuals, redistributive pressures from the poorest social sectors on the well-off voters diminish. Accordingly, the relative costs of tolerating a mass democracy decline for the holders of the most productive assets. In other words, since the tax they will pay in a democratic regime finally becomes smaller than the costs of repression that they would have to bear to exclude the

## Argument of the Book

majority of citizens, they accept the introduction of a system of universal suffrage.

The relationship between income distribution and the type of political regime can be traced back to Aristotle, for whom a well-functioning polity could take place only in cities devoid of extreme inequalities. Still, this book makes two contributions to this literature. In the first place, it formalizes the conditions under which income inequality affects the choice of political regime. The only analytical model relating democratization and equality has been recently developed by Acemoglu and Robinson (2000).<sup>11</sup> Yet, contrary to this book, they argue that because it is easier for the elite to credibly commit to future democracy than to future low taxes, the rich are more likely to introduce democracy when inequality is highest.<sup>12</sup> Since it is not obvious why democracy rather than a commitment to more redistribution in the future is harder for the elite to reverse, higher levels of inequality should generate more authoritarianism and lower taxes altogether. This simple intuition is borne out by the empirical analysis I present in Chapters 2 and 3. In the second place, this book engages in a systematic empirical test of the impact of income distribution on the chances of establishing a democracy. Muller (1988) in a direct manner and Lipset (1959) and Moore (1966) indirectly have offered empirical studies partly underlining the negative relationship between economic inequality and political democracy. But no scholar relating the rate of democratic success to the distribution of material resources has ever shown in a convincing manner the empirical validity of those claims. This has probably been due to the lack of broad and reliable data sets of income inequality until very recently. In the book I calculate the yearly probability of democratic transition and democratic breakdown as a function of income distribution in the period from 1950 to 1990, using direct data on income inequality provided in Deininger and Squire (1996). A second panel containing observations from the mid-nineteenth century to the late twentieth century measures the effect of inequality on regime transitions indirectly through the distribution of rural property and the level of human capital. The statistical analysis shows that democratization and, particularly, democratic consolidation have been systematically bolstered by high levels of income equality

<sup>11</sup> For a survey of the literature on democratization and inequality, see Landa and Kapstein (2001).

<sup>12</sup> In a second formal model, however, Acemoglu and Robinson (2001) reverse the conclusion and sustain that equality promotes democracy.

and a fair distribution of property in the countryside across the world in the last two centuries. These results are also confirmed by the historical study I undertake on the development of political institutions in the states of the United States and in the cantons of Switzerland during the last centuries.

### *Capital Mobility*

In addition to showing the impact of inequality on the choice of political institutions, this book predicts that a decline in the extent to which capital can be either taxed or expropriated as a result of its characteristics also fosters the emergence of a democratic regime. As the mobility of capital increases, tax rates necessarily decline since otherwise capital holders would have an incentive to transfer their assets abroad. Similarly, when capital can be easily hidden from the state or when it becomes of a kind that can be used only by its owner, the temptation to confiscate it also declines. As the redistributive pressures from non-capital holders decline, curbed by an increasingly mobile capital, political conflict diminishes and the likelihood of democracy rises.<sup>13</sup> The recent transition to democracy in South Africa is an excellent case in point: whereas opposition to democracy ran high among the Afrikaner farming communities, it barely existed among the English-speaking financial and industrial elites, who could easily (and actually did) move their capital abroad (Wood 2000).<sup>14</sup>

As I develop more extensively in Chapters 1 through 3, by taking into account the type of economic assets, that is, the extent to which the assets are mobile or difficult to tax, we can make important empirical progress on at least two fronts. First, it clarifies why economies with a large proportion of fixed assets, such as the oil countries, remain authoritarian, despite having extremely high levels of per capita income (thus defying the predictions of modernization theory). Second, and more generally, it explains why economic development is associated with the triumph of democracy. The positive effect of economic development on democracy in part traces the declining levels of inequality in industrial societies. But

<sup>13</sup> This insight is related to Montesquieu's concerns about the ways in which tyrants could be restrained by mobile capital.

<sup>14</sup> As also noted by Wood (2000), the South African prospects for democratization improved as a segment of the Afrikaner community gradually moved from farming to industrial and financial activities in the postwar period, that is, from holding fixed assets to investing in mobile capital.

## Argument of the Book

the correlation between the two is due to the transformation that capital experiences with economic modernization. Economic modernization implies, first, a shift from an economy based on fixed assets, such as land, to an economic system based on a highly mobile capital. It is also associated with the accumulation of human capital, which is generally harder to expropriate than physical capital. Naturally, as the ease with which capitalists can escape taxation goes up, their support for an authoritarian solution declines.

### *Political Mobilization and Political Violence*

Besides the distribution and types of economic assets, political regimes are as well a function of the balance of power (that is, the distribution of political resources) among the parties in contention. As the least well-off overcome their collective action problems, that is, as they mobilize and organize in unions and political parties, the repression costs incurred by the wealthy rise. In other words, keeping the current levels of income inequality and capital mobility constant, a shift in the balance of power generates a change in the political institutions in place.

As extensively developed in Chapter 1, in economies with either relatively moderate levels of economic inequality or highly mobile assets, the political mobilization of the lower or working classes (or, similarly, a weakening of the governing elites as a result of external wars, the loss of external territories or the collapse of their foreign allies) should precipitate the introduction of a democratic regime. The relative costs of repression (compared to the tax losses due to democracy) rise to a point at which it is rational for the authoritarian elite to give way to democracy. This partly explains the sweeping and peaceful democratization of Western Europe after the First World War and the democratization wave in East Asia that followed the collapse of the Soviet Union.

In economies where inequality is high and capital is mostly immobile, that is, in societies in which the poor would benefit substantially from expropriating all assets, the same process of political mobilization triggers instead political violence, sometimes in the form of civil wars and revolutions. To understand the intuition behind this result, consider the most recent models developed in international-relations theory to account for the outbreak of wars. States would never go to war (and endure its destructiveness) if they had complete information about the capabilities of the contending parties and thus full knowledge about the final outcome of a conflagration