Globalization, Democracy, and Income Inequality:
The Lesson from Middle-Income Countries

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| ABSTRACT |

Have globalization and democratization brought us a more equitable society? How do governments of different types respond to inequality in the period of globalization? From the empirical model examining 37 middle-income countries during the period from 1970 to 2000, the author does not find evidence to support the conventional wisdom about the fairer redistributive outcome in democracies. At the same time, the empirical results indicate that high levels of capital flow lead to a more equitable society. Each part of globalization does not have a consistent and uniform impact on income inequality.

I. Introduction

The last three decades have witnessed two grand transformations: the third waves of globalization and democratization (World Bank 2002; Huntington 1991). These two simultaneous gales have had unprecedented influence on the lives of people all over the world. Yet, the answers to their economic and political implications have not converged so far. Have globalization and democratization brought us a more equitable society? Is economic globalization responsible for the increase in economic inequality in the past two decades? How do governments of different types respond to inequality in the period of globalization? Are democracies successful in minimizing the negative economic consequences of economic growth that affect the distribution of income and wealth?

The two bodies of literature on the effects of globalization and democracy on income inequality have remained in "mutual isolation" (Rudra and Haggard 2005, 1016). Studies on democracy and globalization have been conducted independent of each other.[1] Yet, since it has recently been argued that trade liberalization affects the choice of political regime (Held et al. 1999; Rogowski 1989), empirical analysis of inequality without either democracy or trade openness as a main independent variable may not uncover unbiased causal mechanisms between them.

Previous studies offer diametrically opposed theoretical expectations of the effects of globalization and democracy on income inequality. As shown below, the empirical evidence is not conclusive. Some research illustrates

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1) Some exceptions are Adsera and Boix (2002), Reuveny and Li (2003), and Rudra and Haggard (2005); however, they vary in terms of the dependent variables, such as the public sector, income inequality, and welfare spending, respectively.

their positive effects, but others find their negative effects. These inconclusive findings are mainly due to some methodological problems in research designs, such as reliability and validity of measurement, misspecification of model, and the lack of well-measured data in sufficient and unbiased samples.

My study is distinctive in two ways. First, I improve previous studies by collecting more extensive pooled time-series data for post-tax family income inequality. My sample is larger than any income inequality samples used in previous studies. It is accomplished by using the latest data, World Income Inequality Database (WIID) 2007, which is composed of a corrected WIID1, a new update of the Deininger and Squire Database, and new estimates from the Luxembourg Income Study and Transmonee.

The second distinct part is to explore trends of economic inequality in middle-income countries, which I consider to be ideal cases for measuring the effect of globalization and democratization simultaneously. The primary reason to focus on middle-income countries is that the effects of globalization have been different in societies at different levels of economic development. Garrett argues that globalization has been a boon for middle-income countries. "[Middle-income] countries that are more integrated into international markets

<Table 1> The Patterns of Globalization by Income Level

		Trade		Capital Flows		FDI	
		Level	Change	Level	Change	Level	Change
High Income	Mean	82.6	-1.7	3.3	2.8	2.3	2.7
Countries	SD	72.2	10.4	2.6	2.4	2.1	2.4
Middle Income	Mean	80.0	7.9	1.7	1.2	1.5	0.8
Countries	SD	42.8	18.2	2.4	1.9	1.8	1.8
Low Income	Mean	55.7	5.7	0.5	0.8	0.4	0.2
Countries	SD	31.8	14.4	1.0	1.1	0.5	0.8

Note: Level: Openness in the 1980s
Change: Change in openness between the 1980s average and the 1990s average
SD: Standard deviation
Source: World Bank, *World Development Indicator*

have had higher economic growth rates and less income inequality, without experiencing any more economic volatility" (Garrett 2001, 4). In contrast, in low-income countries that have experienced more rapid integration into global market, economic growth has been considerably lower and inequality has been relatively higher because they are lack of basic fundamentals for the economy to work, such as human capital, physical infrastructure, political institutions and the like.

Table 1 shows that the differences of globalization between these two groups are remarkably large: level of trade openness in middle-income countries is almost the same as the one in high-income countries and it increased more rapidly than any other groups; both levels and changes of capital flows and foreign direct investment (FDI) in middle-income countries are more than three times as large in the low-income group.

With respect to the effects of regime type, it may be more beneficial to focus on the sample of middle-income countries. It has been argued that poor democracies perform much more poorly than relatively wealthy democracies. One of the main reasons may be that they score significantly worse than other democracies on all governance dimensions, such as rule of law, corruption, and bureaucratic quality (Keefer 2009). And also, Keefer shows that there is no difference between poor democracies and poor non-democracies with regard to such indicators. Therefore, if poor countries are included, it may be possible to underestimate the effect of democracy on income inequality.

The paper is structured as follow. Section II outlines the debate on the implication of globalization and democracy on inequality in the world. Section III describes the variables and the empirical research design. Section IV introduces the empirical results. And the last section summarizes the results and discusses their implications.

II. An Overview

1. Democracy and Inequality

Arguments that associate the types of regimes with economic inequality focus on levels of economic development, democratic institutional mechanisms, and welfare spending. While much of the literature seems to agree that economic growth, patterns of redistribution, and the economic and political power of lower income groups in determining the levels of income inequality are crucially important, it is controversial whether democracies or authoritarian regimes better provide these attributes.

The first theoretical resource of the claim that democracy leads to an equitable society can be traced back to Kuznets' model (1955). The gist of his model, dubbed the Kuznets curve or the inverse-U shaped pattern of inequality, is that as countries develop, inequality seems to expose specific patterns, that is, the initial rise and consequent fall. Kuznets notes that the main factors, which offset the "dislocating effects" of industrialization, are, on the one hand, "a better chance for organization, adaptation⋯[and] securing greater income shares" of an increasing proportion of the urban population, and, on the other hand, "the growing political power of the urban lower-income groups" (Kuznets 1955, 17). In this view, democracy is likely to facilitate equality indirectly through the detour of economic development.

Huntington and Nelson (1976) and Nelson (1987), supporting the logic of the Kuznets curve to a degree, identify the pattern of participation as a critical intervening variable. They argue that, in the early stages of development, both the process of economic development and the enlargement of political participation seem to lead to high levels of economic inequality, due to the rising gap of participation between the urban and rural population. Once the

peasantry and the urban working class start to benefit from the expansion of political participation, the model predicting that participation and equality are positively related begins to have explanatory power. Following the Kuznets curve, they all assume a curvilinear relationship between levels of participation and equality.

Second, scholars agree that democracy improves an egalitarian distribution of income by illuminating the democratic institutional mechanism itself, such as electoral competition and the expansion of political participation. The issues have a long academic history. Democracy induces the political process towards the left with the potential of decreasing income inequality (Lipset 1959). Democracies have three attributes that introduce the likelihood of lower distributional inequalities: universal suffrage, the right of organized political opposition, and the advent of collective action by the numerous poor populations (Lenski 1966).

The important analytical theory, relating regime types and income inequality, comes from Meltzer and Richard (1981). This theory assumes that the median voter is the most important voter to decide the levels of government spending. It implies that the levels of government spending depend on the association between mean income and the income of the median voter. Before democratization the median voter may be one of the wealthy; after the spread of universal suffrage the median voter may prefer political actors who are committed to higher levels of taxation and redistribution because his or her income may be less than average. In sum, the combination of democracy with universal suffrage and majority rule and an economically unequal society is likely to urge the government to allocate its spending to the poor more equally.

Following Meltzer and Richard (1981), Boix (2003) and Acemoglu and Robinson (2006) have built analytical models of the relationship between democracy and inequality. Describing the distributional results of different

political regimes, Boix (2003) explains the dynamic of the advent of democracies and authoritarian regimes as a consequence of different levels of inequality and different mixes of assets in the economy and of the political balance of power among various social groups. Acemoglu and Robinson (2006) also suggest that democracy favors more redistribution because it represents the interests of the majority of citizens.

This popular hypothesis has not, however, gone unchallenged. For instance, some scholars focus on institutional weakness in developing countries (Beitz 1981). Although in theory the mechanisms of democracy, such as electoral systems and broad participation, seem to function as a major catalyst for more equitable societies, in practice democratic institutions in developing countries do not work well. This is because, in Beitz's arguments, social-background inequalities affect the large uneven patterns of political influence. The poor are so powerless in the political games with the privileged class that they do not have any bumper to protect their interests. In this situation, democratic institutions do not work in the ways they should work.

Since Cutright (1967), many empirical studies on the effect of democracy on economic inequality are now available. As in the theoretical debates above, the studies have provided inconclusive results, although in recent studies the differences are now much reduced. A relatively fleshed-out version of quantitative research can be sorted into a series of distinct groups. We present three such groups from the relevant literature: cross-sectional studies, cross-sectional time-series studies, and political Kuznets curve. I will consider each in turn.

The first group of studies exploring the relationship between democracy and inequality had come to form the simple cross-sectional works of the 1970s and the 1980s. Table 2 summarizes 11 studies I examined (Cutright 1967; Jackman 1974; Hewitt 1977; Rubinson and Quinlan 1977; Stack 1980; Weede and Tiefenbach 1981; Bollen and Grandjean 1981; Weede 1982; Kohli et al

1984; Bollen and Jackman 1985; Muller 1988).[2] The first thing to notice is that no clear answer to the nexus between democracy and income inequality has emerged from these studies.

Obviously, these confused findings do not stem from the problem of measuring income inequality, because even the five studies that used the same data of dependent variable, the Gini coefficients reported by Paukert (1973), show mixed results. In addition to the technically serious problems, such as the lack of the comprehensive data of income inequality, sample bias, and small number of cases, perhaps the fundamental problem of the first group of studies comes from the cross-sectional method itself. Bruno et al. (1998) note

<Table 2> Literature of the First Group: Cross-sectional Studies

	Relation	Income Inequality	N
Cutright 1967	Negative	Worker income among industry sectors	AC & DC N: 44
Jackman 1974	Non	Schutz coefficient of equality, so forth	AC & DC N: 60
Hewitt 1977	Non	Gini, Paukert 1973	AC N: 25
Rubinson and Quinlan 1977	Non	Gini, Paukert 1973	AC & DC N: 32
Stack 1980	Negative	Gini, Paukert 1973	AC & DC N: 37
Weede and Tiefenbach 1981	Negative and Mixed	Gini, Paukert 1973, so forth	AC & DC N: 46
Bollen and Grandjean 1981	Non	Gini, Paukert 1973	AC & DC N: 50
Weede 1982	Negative	Top 20% and bottom 40% income share	AC & DC N: 33
Kohli et al. 1984	Non	The ratio of the top 5% to bottom 20%	DC N: 20
Bollen and Jackman 1985	Non	The ratio of the top 20% to bottom 40%	AC & DC N: 60
Muller 1988	Negative	Gini and income share of upper quintile	AC & DC N: 55

Note: AC: Advanced countries, DC: Developing countries, N: The number of observations
Source: By author

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2) For more detail review, see Sirowy and Inkeles (1993).

that a cross-section analysis is not able to reveal the effect of change over time. The country-unit determinant of economic inequality, previous inequality, is correlated with present income level, so that a cross-sectional method does not catch the evolution of inequality with democracy through longitudinal periods.

Since the 1990s, this group has been displaced by a second group of researchers with a more sophisticated quantitative method. The research plan of cross-sectional time-series studies was made possible by using the panel data on economic inequality, Gini, or some other substitutes collected by the World Bank and some scholars. Table 3 presents four studies (Gasiorowski 1997; Reuveny and Li 2003; Rudra 2004; Burkhart 2005), which, surprisingly, are much fewer in number than the first research group, given the recent development of more sophisticated methodology, available panel data on income inequality, and the increasing concern for policy-wise implications of severe inequality. Yet, similar to the previous works, the quantitative results of the second group have been inconclusive. Two studies illuminate a nonrelationship between democracy and the annual percentage change in real manufacturing wages (Gasiorowski 1997) or the percentage of the top 20% total income (Burkhart 2005), whereas the other two studies support the hypothesis that political democracy reduces income inequality (Gini

<Table 3> Literature of the Second Group: Cross-sectional Time Series

	Relation	Income Inequality	Method	N	Period
Gasiorowski 1997	Non	Change in manufacturing wage	OLS, GLS	DC C: 60 N: 918	Until 1992
Reuveny and Li 2003	Negative	Gini, Deininger and Squire, 1996	OLS (HW robust)	AC & DC C: 69 N: 142	1960-1996
Rudra 2004	Negative	Gini, Deininger and Squire, 1996	2SLS	DC C: 35 N: 107	1972-1996
Burkhart 2005	Non	Top 20% income	2SLS	C: 50 N: 190	1978, 83, 88, 93

Note: AC: Advanced countries, DC: Developing countries, C: The number of countries, N: The number of observations
Source: By author

coefficients, from Deininger and Squire 1996) (Reuveny and Li 2003; Rudra 2004). Among them, only two focuses on the developing world and their findings are mixed (Gasiorowski 1997; Rudra 2004).

Last but not least, a third group of researchers draws attention to a hitherto unstudied phenomenon: the "long-term impact" of democracy on income distribution coupled with initial detrimental impact, which has been dubbed in a variety of ways such as a nonmonolithic or curvilinear relationship, an inverted-U curve, or a political Kuznets curve (Simpson 1990; Crenshaw 1992; Burkhart 1997; Acemoglu and Robinson 2002; Chong 2004). Contrary to the two previous groups, these researchers all seem to agree that it is not until new democracies are consolidated that the negative impact of democracy on income inequality starts to show up. Their finding is that intermediate levels of democratic governments have more skewed income distribution than low and high levels of democracy. The reasoning of Chong and Calderon (2000) is that a process of institutional reform, a result of democratization, may impose high initial costs on the informal sector, especially in developing countries. Given the fact that most of the members of the informal economy, who are typically poor, will have to learn new formal mechanisms, this process may induce a fall in absolute income, and then be followed by a higher level of income inequality. Therefore, an increase in income inequality may happen in the transition periods since a process of democratization is likely to impute the transaction costs to different socioeconomic sectors unequally.

2. Globalization and Inequality

The long-term economic consequences of globalization are, in theory, not controversial. International trade theory predicts that openness to trade and free capital flows induce an efficient allocation of scarce resources and

produce dynamic economic development (Williamson 1994; Sachs and Warner 1995; Rodrik 1997). Trade reduces inequality through intensifying economic competition, which diminishes the monopoly position of the upper class (Birdsall 1988), increasing labor productivity (Held et al. 1999) or prompting the winner from trade to remunerate the losers (Rodrik 1997).

Despite the persuasive arguments on the long-term implication of globalization, the theoretical studies on trade and capital flows have cast different views on the potential effects of globalization on inequality between developed and developing countries. The first and second theoretical assumptions below on the relationship between them generate diametrically opposed expectations. First, with regard to the potential significance of domestic political power relations, labor organizations, leftist parties, and other interest groups, which are expected to be the driving forces for social policies (Hewitt 1977), are relatively more vulnerable in developing countries than they are in developed countries. Even though they are not ineffective in all developing countries, few countries highlight the dominant positions of social and political groups, which are favorable to redistributive policies, more clearly than the Western European countries.

Second, international trade theory predicts the identity of the winners and the losers that will follow trade liberalization. Stolper and Samuelson (1941) argue that higher trade openness provides distinct distributional outcomes to different factors, depending on their relative scarcities, levels of economic development in each country, and land-labor ratio. Expansion of trade is likely to hurt unskilled labor but benefit skilled labor and capital owners in developed countries, because the former is scarce and the latter is relatively well endowed there. However, it is expected to benefit unskilled labor in the developing world, because they are an abundant factor (see also Rogowski 1987). Therefore, trade is likely to increase income inequality in developed countries, but decrease it in developing countries.

Finally, at the heart of the literature on the distributive effects of economic development is the Kuznets hypothesis, which holds that when societies promote national wealth, income inequality first increases, peaks, and then decreases, as the returns of the factors of production converge (Kuznets 1955). An inverted U-shaped curve represents the relationship between income inequality and economic development. Existing empirical studies on the Kuznets curve are controversial as well. While Ahluwalia et al. (1979) and Higgins and Williamson (1999) argue that they cannot reject the Kuznets hypothesis, Deininger and Squire (1998) do not find supporting evidence. If the Kuznets hypothesis actually works, it would be reasonable to expect that there is no linear relationship between growth and inequality and that greater openness has differential effects at different levels of development.

Surprisingly, few political scientists have conducted empirical systematic research on the impact of globalization on income inequality. At the same time, the literature on globalization and welfare spending is voluminous. Yet, its main empirical findings are inconclusive, and, in their view, following the first assumption I mentioned above, the effects of economic openness differ depending on level of economic development. One strand of research argues that commitment to social welfare in the Organisation for Economic Co-operation and Development (OECD) countries protect the disadvantaged from economic disorder related with globalization (Cameron 1978; Garrett 1998; Katzenstein 1985). By contrast, research on developing countries has only recently started, but so far it has presented mixed results about globalization and the extent of social welfare spending: a positive or, at least, not a negative relationship (Quinn 1997; Rodrik 1997; Rudra and Haggard 2005) and an inverse correlation (Garrett 2001; Rudra 2002; Kaufman and Segura-Ubiergo 2001).

Economists and researchers from the World Bank have conducted empirical work on the effect of globalization on inequality. Smeeding (2002), Dollar

and Kraay (2004), and Edwards (1997) report that there is no evidence of a negative impact of trade liberalization on inequality. However, Barro (2000) and Spilimbergo et al. (1999) find that trade openness is associated with a high level of inequality, and globalization results in global income being unequally distributed.[3]

III. Model Specification and the Variables

To find the effects of globalization and democracy on income inequality in middle-income countries, I test the hypotheses with pooled time-series cross-sectional data of inequality that cover 37 middle-income countries[4] during the period from 1970 to 2000. Pooled time-series designs may exhibit group specific heteroskedasticity and within-group serial correlation. Although they do not bias the estimated coefficients, these problems tend to produce inefficient and biased standard errors for the coefficients.

To reduce the severity of these problems, Beck and Katz (1995) recommend an ordinary least squares (OLS) regression with the lagged dependent variable using panel-corrected standard errors (PCSEs). However, whether to include or exclude in the model a lagged dependent variable that, in itself, is required

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3) Of course, there are conflicting arguments about the relationship between, on the one hand, capital flow and FDI, and, on the other hand, income inequality. For a brief review, see Reuveny and Li (2003).

4) Belarus, Bolivia, Botswana, Brazil, Bulgaria, Chile, Colombia, Costa Rica, Ecuador, Egypt, El Salvador, Estonia, Guatemala, Hungary, Jamaica, Korea, Latvia, Malaysia, Mexico, Morocco, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Romania, Russia, Slovakia, Slovenia, South Africa, Sri Lanka, Thailand, Turkey, Uzbekistan, Venezuela, Yugoslavia.

to get rid of serial correlation of errors, has recently stimulated a lively debate in the literature. Some scholars do not suggest including a lagged dependent variable because it may create econometric bias through consuming main parts of the trend in an outcome and suppressing the impacts of the other explanatory variables (Achen 2000; Greene 2003, 534; Plumper et al. 2005, 335). Moreover, technically, due to the uneven distribution of the dependent variable across the years, the model with a lagged dependent variable causes a number of losses of observations in my analysis.

I employ OLS estimation using PCSEs to deal with panel heteroscedasticity, but do not include a lagged dependent variable and unit dummies. Following the recommendation of Plumper et al. (2005), I use the Prais-Winsten transformation to eliminate serial correlation of errors, assuming first-order autocorrelation within panels (an AR1 process).[5] All explanatory variables are lagged by one year to control for the potential exogenous effects of income inequality.

The dependent variable, income inequality, comes from the GINI variable in the World Income Inequality Database (UNU-WIDER 2005).[6] As for the effects of globalization, I divide them into three categories, following the contemporary literature of international political economy: *Trade openness, Capital Flow,* and FDI (see for example Reuveny and Li 2003 and Swank 2002). The reason of disaggregating the effects of globalization is that it is far from a monolithic economic factor. In theory, two main theories on international political economy, international trade theory and the capital mobility thesis, provide somewhat different theoretical expectation on the effects of globalization on economic outcomes. In practice, as Garrett (2000, 952) presents, different facets of globalization, such as trade and capital flows,

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5) For more discussion on the model specification, see Yi (2011).
6) A more detailed discussion is available from the author upon request.

do not move together.

The importance of these flows to a country differs hinging on their magnitude relative to the size of the domestic economy. Accordingly, globalization in this article is operationalized by the level of trade integration and capital flow as a percentage of gross domestic product (GDP): here, the measure of trade openness is the sum of the total imports and exports as a share of a country's GDP (trade openness = [imports + exports]/GDP), financial openness is measured as gross capital flows as a share of a country's GDP (financial openness = [capital inflows + outflows]/GDP). FDI inflow is the value of net inflows of FDI as a share of a country's GDP. The globalization data are taken from *World Development Indicators*.

The measure of *Polity* is taken from the Polity IV data set (Marshall and Jaggers 2005). Countries are ranked from -10 (strongly autocratic) to 10 (strongly democratic), which I have rescaled to a $0-10$ scale for easier interpretation. Following Przeworski et al. (2000), I apply a dichotomous measure of Democracy based on a distinction between authoritarian and democratic regimes. The theoretical rationale is obvious. Operationalization of dichotomous regime types allows me to investigate whether two regimes reveals significant differences in terms of an effect on the distribution of income. To develop a categorical form of the Polity IV data, I follow the works of Brown and Hunter (1999), Kaufman and Segura-Ubiergo (2001), and Rudra (2004) by dividing combined Polity Scores in two: any country scored 7 or above on this index is coded democratic, the others are coded authoritarian. I assign authoritarian governments a score of 0 and democratic governments 1.

For control variables, I include three region dummies (*Asia, Post-Communist,* and *Latin America*), *Transition, Income (log), Income (log)*², *Growth Rate, Age Structure,* and *Inflation. Transition* is a dummy that is coded 1 for the first five years of democratic rule and 0 for all other years. Following previous studies that showed uncertainty and instability in transition periods

(O'Donnell and Schmitter 1986; Przeworski 1991), the variable deals with a potential short-run disruptive effect of regime change on inequality. A standard measure of economic development is GDP per capita (in constant 2000 US$). I measure *Income (log)* as the logarithm of GDP per capita, and *Growth Rate* as the annual growth rate of GDP. Since the original data on real GDP per capita is highly positively skewed, the method of logarithmic transformation is employed.

To index the *Age Structure* of the population that is young, I add the percentage of the population age 0-14 years. I also control for the *inflation rate*, although the anticipated sign on this factor is ambiguous. The data for control variables, *Income (log), Growth Rate, Age Structure*, and *Inflation*, are from the *World Development Indicator*. To see whether the Kuznets curve exists, scared numbers of Income, *Income (log)^2*, are included. If the effects of *Income (log)* and *Income (log)^2* on inequality are positive and negative, respectively, we can believe that there would be the inverted U-shaped curve relationship between growth and inequality.

IV. The Empirical Results

Table 4 and 5 present the estimates for changes in income inequality from the full sample. As for controls, first, I expect *Transition* would have a positive coefficient on *GINI* due to the uncertainty and instability of the transitional periods. But, the empirical results show that its effect is not statistically significant. The effects of levels of economic development and its square are not statistically significant in most of the models, except for Model 4 in Table 5. Their directions of coefficients, however, do match what scholars of a Kuznets

<Table 4> Results for Income Inequality with Democracy (dummy)

	Model 1	Model 2	Model 3	Model 4
Trade	0.011 (0.021)	0.015 (0.021)		
Capital Flow	-0.011 (0.037)		-0.015*** (0.004)	
FDI	0.029 (0.098)			0.043 (0.077)
Democracy (Dummy)	0.466 (1.603)	-1.196 (1.370)	1.656 (1.653)	-0.901 (1.383)
Transition	-0.747 (0.676)	-0.313 (0.560)	-0.864 (0.668)	-0.406 (0.602)
Asia	-9.066 (7.676)	-5.546 (7.502)	-17.038*** (5.053)	-17.478*** (4.057)
Post-Communist	-9.952* (4.862)	-24.210*** (3.017)	-22.509*** (3.866)	-24.163*** (2.961)
Latin America	5.439*** (1.517)	1.002 (1.474)	6.233*** (1.720)	1.288 (1.063)
Income (log)	-19.916 (27.068)	11.253 (26.413)	-22.052 (25.144)	-16.057 (13.691)
Income (log)^2	1.401 (1.673)	-0.566 (1.632)	1.549 (1.545)	1.138 (0.880)
Growth Rate	0.024 (0.062)	0.024 (0.063)	0.027 (0.058)	0.023 (0.059)
Inflation	0.000 (0.000)	0.001^ (0.000)	0.000 (0.000)	0.001^ (0.000)
Age Structure	0.108 (0.372)	-0.037 (0.334)	0.075 (0.357)	-0.065 (0.288)
Constant	110.496 (119.445)	-7.212 (112.916)	119.589 (111.391)	102.953 (61.351)
N of Countries	37	37	37	37
Observations	221	231	222	231
Adjusted R2	0.9601	0.9587	0.9600	0.9594

^p<.10; *p<.05; **p<.01; ***p<.001

curve anticipated. Coefficients of some control variables, *Growth Rate* and *Age Structure*, move in the expected direction, but they do not reach standard thresholds of statistical significance. *Inflation* is associated with income

inequality as an anticipated way, and its effects are marginally significant in five out of eight models. Three region dummies show the predicted directions of their effects and most of them, especially *Post-Communist*, have strong statistical significance. I will explain the regional implications in the next section.

Turning now to the substantive variables highlighted in the general discussion of democracy, my finding is that the effects of *Democracy* (dummy) and also the continuous democracy score, *Polity*, on income inequality are not statistically significant in all models. These results do not support the conventional wisdom about the fairer redistributive solution to conflicts in democracies. My findings here are not at odds with a few statistical studies focused on the developing world, which often present the nonrelationship between democracy and inequality as showed in Table 2 and Table 3. One technical reason would be that some very poor and authoritarian countries with a "high level of inequality" are excluded from my sample of middle-income countries. Such countries are Armenia (the highest Gini, 56.3), Barbados (46.4), Cambodia (46), Cameron (50.8), Guinea (55.1), Guyana (54), Lesotho (63), and Uganda (46.9). I defer until next section a more extended discussion of democracy.

I also find that globalization and domestic politics have a much more complex impact when globalization is disaggregated into trade liberalization, financial liberalization, and FDI. On the one hand, the effects of trade openness and FDI on income inequality are positive, but both are not statistically significant in all models. On the other, Capital Flow has positive coefficients and statistically significant in Model 3 in Table 4 and in Model 3 in Table 5. This result indicates that high levels of capital flow lead to a more equitable society. This is the strongest finding in my study. Thus, it is important to disaggregate globalization into discrete constituents.

What remains to be explained is the particular causal mechanisms by which

<Table 5> Results for Income Inequality with Polity (continuous)

	Model 1	Model 2	Model 3	Model 4
Trade	0.013 (0.022)	0.015 (0.021)		
Capital Flow	-0.005 (0.036)		-0.012*** (0.003)	
FDI	0.030 (0.100)			0.036 (0.082)
Polity (Continuous)	-0.194 (1.102)	0.183 (1.079)	-0.207 (1.103)	0.211 (1.095)
Transition	-0.245 (0.530)	-0.304 (0.490)	-0.325 (0.495)	-0.211 (0.495)
Asia	-9.640 (7.077)	-6.058 (7.191)	-19.400*** (3.517)	-18.811*** (3.037)
Post-Communist	-23.873*** (2.922)	-23.894*** (2.847)	-23.884*** (3.157)	-24.366*** (2.555)
Latin America	3.816*** (1.147)	0.782 (1.487)	4.614*** (1.006)	1.034 (1.084)
Income (log)	-15.044 (26.251)	11.741 (25.198)	-17.554 (23.562)	-15.751 (10.501)
Income (log)^2	1.107 (1.603)	-0.593 (1.550)	1.282 (1.420)	1.132 (0.678)
Growth Rate	0.027 (0.060)	0.027 (0.059)	0.031 (0.058)	0.029 (0.055)
Inflation	0.0004^ (0.0002)	0.001 (0.0003)	0.0004^ (0.0002)	0.001^ (0.0003)
Age Structure	0.061 (0.355)	0.017 (0.335)	0.012 (0.339)	-0.039 (0.282)
Constant	92.627 (116.924)	-11.388 (108.849)	103.683 (106.120)	100.291* (49.318)
N of Countries	37	37	37	37
Observations	221	231	222	231
Adjusted R2	0.9600	0.9593	0.9599	0.9600

^p<.10; *p<.05; **p<.01; ***p<.001

different facets of globalization would influence income inequality. Each part of globalization has a different impact on income inequality. Past research, as well as my study, offers very different propositions about globalization's

influence. Globalization is definitively not monolithic, and integration into global capital markets has a more ambiguous effect. At this point, there is no good explanation for why these different facets of globalization show a different profile. It is hard to fill these theoretical and empirical lacunae without the aid of detailed and sophisticated case studies.

V. Discussions and Conclusion

This paper asks how economic liberalization and democratization affect income inequality in middle-income countries. It investigates whether they generate more or less income inequality. As the previous statistical results have illustrated, the story is more complicated than a simple proposition. My findings leave open various questions rather than solve them. In many statistical studies, we cannot with confidence know which of the causal mechanisms actually affect outcomes. The statistical findings should be considered as indicating plausible but not definitive causal relationships. Nonetheless, I would venture to say that they do provide the clues for future research.

What accounts for the central picture I observe? One conclusion from my findings is that democracy is not working in middle-income countries as well as assumed. This is because the introduction of democratic rules of the game does not automatically mean the transformations toward more equable social and economic structures. New democracies have often been established in inhospitable conditions that would not allow the incipient democratic institutions to work well. In this sense, to work, a democracy needs sufficient time to grow to the extent that the influences of the democratic political

institutions would overcome the legacies of authoritarian and hierarchical structures.

I would imagine one clue of the causal explanation of why democracy does not have instantaneous effects on economic inequality from the theoretical discussions on Western European welfare states (Huber and Stephens 2001; Swank 2002), in which the redistributive policy of democratic governments is assumed as one of the main mechanisms of the democratic impact for lowering income inequality. Yet, this may not be the case in middle-income countries. Democracy provides the decision-making rules in the political arena, but it is not a panacea to fix socioeconomic problems. For poor people to get some benefit from democratic rule, they need the skills to make demands and the capacity to achieve their goals. It would be highly plausible, however, to assume that the poor in new democracies seldom hold satisfactory resources to have a voice in decisions. In addition, unlike established democracies, there may be a widespread patron-clientelistic nexus between political party leaders and supporters in new democracies. Clientelism, rather than universal program-based competition, would increase the uneven redistribution of benefits because it is related to personal exchanges, in which the people who have more resources may get more benefits. As a consequence, redistributive policies in middle-income countries are unlikely to be good for the poor.

This argument is comparable with the findings of the recent studies on the developing world. For example, Rudra (2004) finds that only education spending helps mitigate income inequality, but that health and social security and welfare spending do not in less developed countries. In a similar vein, Addison and Rahman (2001) illustrate that democracies in developing countries have spent less on primary education, which gives direct benefits to the poor, but that they have focused much on the spending on secondary and tertiary education. Their conclusion goes further than Rudra's. Even public spending on education is not beneficial for the poor. This is the case in Latin

America. Focusing on the dynamics between politics and income inequality in Latin America, Huber et al. find that the effects of health and education spending on income inequality are not statistically significant in their models. The reasons they surmise are that "the bulk of that spending is distributionally neutral," and that "it takes a generation for today's spending to show a return on that [human capital] investment and thus an effect on income distribution" (2006, 17). To sum up, while new democracies may be related to more generous social spending, the effects of welfare spending may not be favorable to the underprivileged in the developing world. I argue that the governments in the younger democracies may try to improve social security and welfare programs, but they do not target the poor people.

Middle-income countries are not monolithic. Here, two regional implications are of particular importance. First, in contrast to rest of the world, the post-communist countries have argued and, actually, provided generous provision of fundamental social insurance and services through the government. The broad scope of entitlements in left totalitarian countries generates strong public belief that any capitalist countries, at least in the middle-income world, could not surpass them in terms of the generosity of social policies. My results confirm this belief because the coefficients of *Post-Communist* are negative and statistically significant in my all models.

The second concerns the historically distinctive context in Latin America. It has been argued that Latin America has the most terrible redistributional outcome in terms of the depth and breadth of income inequality, mainly because of extremely unequal land distribution that has maintained since the colonial period without any important land reforms. Large landholders have dominated not only the agrarian sector but also the national economy (Rueschemeyer et al. 1992). High inequality in land distribution may increase income inequality in the urban sector by supplying plenty of unskilled labor and thus cheapening the average incomes of low-skilled workers (Huber et

al. 2006). My results show that the coefficients of *Latin America* are positive and strongly significant in four out of eight models, which largely confirms conventional wisdoms above.

This study is still incomplete and needs to be further developed. For instance, we may have to pay more attention to specifying possible concrete paths to reduce inequality in developing countries. Democratic institutions may do this through various routes, including total government spending, welfare programs, and public goods. Can we confirm the presence of the routes empirically? If so, which of the routes would turn out to be more important than others? In answering these questions, we could attain a clearer and more comprehensive understanding of how democracy reduces inequality in developing countries.

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【APPENDIX】

<Table A1> Overall Summary Statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
Income Inequality	288	39.6	13.0	18.5	65.8
Trade	1907	64.6	32.6	8	229
Capital Flows	1237	13.6	32.9	0	649
FDI	1572	1.7	2.5	-12.2	17.4
Democracy (dummy)	2221	0.3	0.5	0	1.0
Polity (continuous)	2221	0.3	7.4	-10	10.0
Income (log)	2010	7.6	0.7	5.7	9.6
Growth Rate	2010	2.0	7.0	-52.1	79.7
Age Structure	2510	35.5	9.0	14.4	50.6

[논문요약]

세계화, 민주주의, 그리고 불평등:
중견국가들을 중심으로

이대진 | 고려대학교

세계화와 민주화는 불평등에 어떠한 영향을 미치는가? 민주적 정부는 세계화의 시대에 불평등에 어떻게 대응하고 있는가? 이 연구는 이러한 질문들에 답을 찾고자 1970년부터 2000년까지 37개의 중견국가들(middle-income countries)에 대한 경험적 분석을 시도한다. 위의 분석을 통해 저자는 민주주의가 권위주의 정부에 비해 보다 평등한 재분배를 가져오는 것이 아니라는 것을 발견하였다. 또한, 세계화의 여러 지표 중, 해외자본의 흐름이 보다 평등한 사회를 가져왔으며, 세계화의 여러 지표들은 불평등에 각기 다양한 영향을 미친다는 것을 발견하였다.