Chapter 2
Theory

Abstract The median voter theorem predicts that a democratic government will implement a redistributive policy if the country's median income is below the mean income. Empirical observations provide a different picture than this theoretical prediction as we observe variations in redistributive policies enacted by different democracies. Two dominant theories on the welfare state in advanced democracies—the power resource theory and the "Varieties of Capitalism" model—try to explain these variations by means of conflicts or interactions between different classes. However, their explanatory power is limited because their underlying assumptions do not necessarily hold in emerging democracies. Individual preferences are determined not only by income status but also by non-economic group identities, such as ethnic group, that constitute the major social gap in emerging democracies. Due to imperfect information in political markets, where clientelism surpasses institutionalized party systems, voter preferences are not automatically channeled into public policy. Furthermore, in many cases, the state lacks sufficient capacity to implement policies. In other words, emerging democracies face the problems of multidimensional preferences, the failure of the political market, and weak state capacity. These political factors combine to determine the level of inequality reduction in emerging democracies. The inequality in emerging democracies can be better understood by examining the influence of these political factors found in the political process than by adhering to the class-based perspective.

Keywords Democracy · Inequality · Class · Preferences · Political market · State capacity

Democracy is the institutional framework to guarantee individual political equality. We know that in reality, there exists no perfect democracy that attains flawless political equality, but we can say that democracy assures at least *de jure* equal political rights. However, the problem is that political equality is not necessarily correlated with socioeconomic equality. In the real world, we find that socioeconomic inequality persists even in democratic nations. More precisely, we find that the levels of inequality reduction vary among democratic countries.

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Theoretically, the median voter theorem predicts that the median voter in the single dimension of policy preference spectrum is the decisive voter in free elections, on the conditions of perfect information, majority rule, and existence of two contenders. A candidate (party) whose policy stance is closest to the median voter's preference wins the competition and assumes power. Meltzer and Richard (1981) apply this theorem to public policy. In their model, the policy dimension is the level of public expenditure, and a voter's preference is decided through income status. They predict that government expenditure is decided by the mean–median income relationship. If median income is lower than mean income, the government would promote expenditures for the poor. The larger the gap between mean and median income, the more redistributive the government policy.

The median voter theorem itself has strong influence in the argument of the politics of inequality reduction. However, it has a limitation as it cannot explain the reasons for the occurrence of the variations in the real world, even if socioeconomic and demographic variables are controlled. Facing the limitation of the median voter theorem, the power resource theory (Esping-Andersen 1990) and the varieties of capitalism (VoC) argument (Hall and Soskice 2001b) try to provide alternative theories and thus explain the observed variations. The power resource theory focuses on the strength of class organizations and their links with political parties. The relative strength of certain class is considered as a determinant of social policy. The VoC argument, on the other hand, has departed from the perspective that considers class relations as confrontational, and claims that strategic interactions between classes are the decisive factor of social policy.

Although these arguments have become dominant, both also have limitations due to their focus on developed countries. Whether they are confrontational or interacting, inter-class relations are at the core of both arguments. However, class-based coalitional politics is unusual in emerging democracies, which are mostly developing countries.

In order to explain variations in redistribution and inequality reduction, particularly in emerging democracies, the hidden assumptions of previous theories should be scrutinized. We consider the causes of variations among emerging democracies that can be traced to three assumptions at different phases of the political process. The assumptions in question are as follows. First, voters' preferences are strongly decided by individual income status. Second, politicians and voters have perfect knowledge about each other, including their preferences, policy orientation, and credibility. Finally, the state has always sufficient capacity to implement laws and policies, including taxation and social policy.

These assumptions do not hold in many emerging democracies. In fact, many emerging democracies are characterized by multiple social cleavages, information constraints, a serious commitment problem, and weak state capacity. Examining these assumptions and related variables, we seek to provide a theory on inequality reduction in emerging democracies.

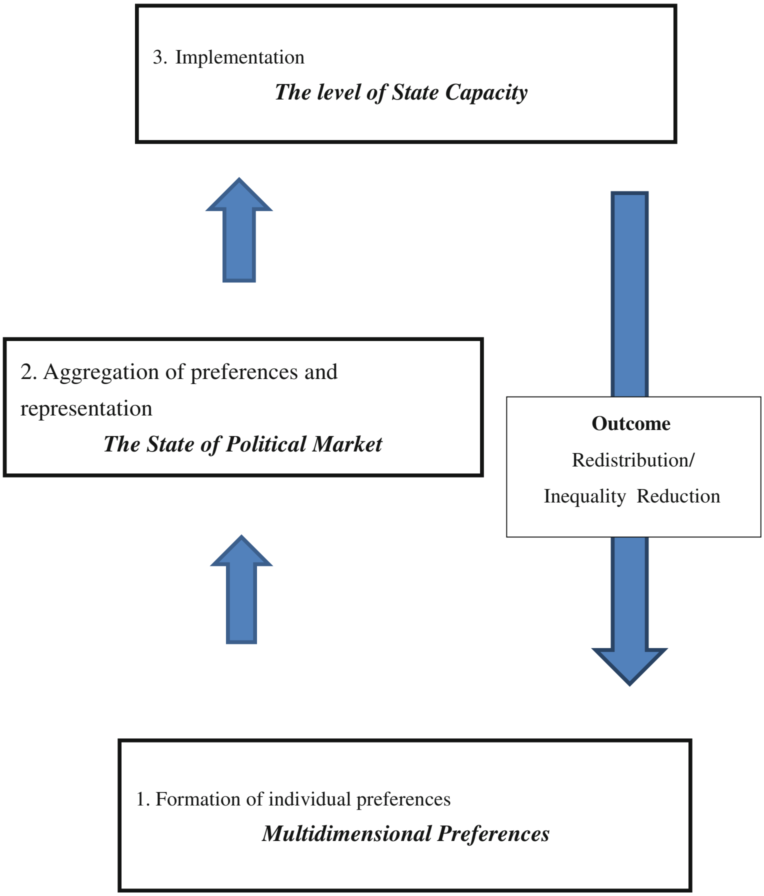

Fig. 2.1 Three political variables affecting inequality reduction in political process. *Source* Authors

Figure 2.1 illustrates the stages of political process and political variables affecting inequality reduction. The arrows indicate the sequence, not causality, of the political process. The political process begins with the formation of individual preferences, through aggregation of preferences and representation, and to policy implementation. We identify three political determinants of income inequality at these stages, namely, multidimensional preferences (at formation of individual preferences), the state of political market (at aggregation of preferences and representation), and the level of state capacity (at implementation). We will comprehensively elucidate the functioning of these political factors in the following sections.

2.1 Multidimensional Preferences

The first variable can be found at the foundation of the political process, which is the formation of individual preferences.

The median voter theorem holds in inequality reduction as long as voters cast their votes based on their income status. However, a problem arises if voters deviate from this expected voting behavior. In reality, the poor do not always support a political party that proposes inequality reduction at an individual level. This reflects the fact that individual income status is not the only determinant of voter preferences (Haggard et al. 2010; Kaufman 2009a, b; Alesina and La Ferrara 2005).

In general, we identify three major streams in explaining the formation of preferences for inequality reduction, namely income, beliefs, and group identities.[1] Note that these explanations are not mutually exclusive. Among these, we focus on group identity. Multidimensional preferences are caused by group identity.

Although individual income status is not a sole determinant of preference, it remains a fundamental one. This forms the underlying argument of previous theories. An individual receives greater benefits under inequality reduction if one's income status is lower than the mean income. The poor prefer greater redistribution, whereas the rich would prefer avoiding tax burden to support inequality reduction, particularly redistribution. A rational individual constructs his/her voting strategy to maximize benefits based on the payoff structure determined by his/her income status. The VoC argument adds "risk" as another factor influencing individual preferences regarding social policy (Iversen 2005, 2010; Rehm 2009; Rehm et al. 2012). Those who face a larger risk of losing their job or income reduction seem to support a larger welfare state. Although risk is not about current income, it affects expected future income. Both theories set a high value on individual benefits (income) in preference formation. However, "risk" could be included in the following "belief" if it is calculated based on a subjective probability.

Despite its dominance as an independent variable, as discussed, individual income status does not sufficiently explain variations in inequality reduction under democratic rules. Besides income status, subjective perception on the manner in which income status is determined is another possible determinant for preference. Such a perception is termed "belief." Beliefs are often shared by a community or the whole society. Collective beliefs, i.e., "culture," are considered to influence individual beliefs and preferences. One often-mentioned belief is an individual's perception of "fairness." This reflects whether people consider income as the result of personal efforts or as something that cannot be altered by individual effort. It is claimed that those who believe in personal effort in obtaining a better income tend not to support redistribution even if they belong to the lower income group. On the

[1] Corneo and Grüner (2002) identify three explanations for preferences, namely the "homo economics effect," the "public values effect," and the "social rivalry effect." In other words, these actually include income, beliefs, and interpersonal relations. This is the standard classification that we follow.

other hand, those who think that luck or family background determines income levels are expected to have higher support for redistribution. Preferences are produced from strategic calculations based on the probability of one's ability to change income status by one's own efforts (Alesina and Angeletos 2005; Alesina and Giuliano 2009; Bénabou and Tirole 2006; Alesina and Glaeser 2004). Closely related to fairness, individual expectations for social mobility affect preferences. Those who expect a higher future income with a greater subjective probability would not prefer as much inequality reduction even if their current income is not high (Alesina and La Ferrara 2005; Guillaud 2013; Piketty 1995). In addition, political socialization and the historical path of a country shape beliefs. Luttmer and Singhal (2011) and Corneo and Grüner (2002) find that people born in highly redistributive countries and former socialist countries tend to support greater redistribution.[2] This means beliefs are connected to a context.[3]

Beliefs make individual preferences deviate from individual income status. Nevertheless, beliefs are not necessarily related with the age of a democracy (newly democratized or advanced). We find the variations in the effects of beliefs even among advanced democracies. In our focus on the specific causes of variations in inequality reduction among emerging democracies, we focus on group identity (interpersonal relations), particularly ethnic identity.

People grasp their own social status not only through their individual income but also through the status of groups to which they belong. These groupings are formed by nation, race, ethnicity, occupation, or residential areas (Alesina et al. 1999; Alesina and Glaeser 2004; Bénabou and Tirole 2011; De La and Rodden 2008; Dincer and Lambert 2012; Easterly and Levine 1997; Fernández and Levy 2008; Iversen 2010; Klor and Shayo 2010; Lindqvist and Östling 2009; Luttmer 2001; Shayo 2009; Roemer 1998). The group identity argument posits that individual preferences for inequality reduction would be shaped by the collective benefits for the group to which he/she belongs. If group identity becomes more salient than individual income status in people's perceptions, people would support a party that emphasizes the group identity even at the cost of individual benefits. Many

[2]Scheve and Stasavage (2006) argue that individual religiousness affects redistributive preferences and they conducted empirical examinations on this issue. They show that religious people prefer a lower level of redistribution. They emphasize the role of religion as a value that could substitute for the material benefits provided by redistribution.

[3]Current studies indicate that individual preferences are not independent of contexts. Here, contexts include structural conditions, political institutions, and existing social policy (welfare institutions). Beyond the direct effects of structure and institutions on social policy, these factors affect individual preferences for redistribution (Cramer and Kaufman 2011; Huber and Stanig 2009). Existing social policy affects individual preferences because it provides the basis for people's expectations for redistribution (Beramendi and Rehm 2012). We can describe this situation as a policy feedback between existing policy and individual preferences (Gingrich and Ansell 2012). Notably, the policy will be augmented or altered through the aggregation of such individual preferences. The degree of inequality in a society affects people's view of fairness. High inequality is expected to strengthen the poor's belief that luck matters more than effort in obtaining a higher income (Cramer and Kaufman 2011).

empirical studies reveal the significance of group differences in preference formation (Alesina et al. 2001; Luttmer 2001; Bénabou and Tirole 2011; Shayo 2009; Lindqvist and Östling 2009; Amat and Wibbels 2009; Dincer and Lambert 2012; Baldwin and Huber 2010).

Most of these studies particularly highlight ethnicity as a representative example of group identity.[4] Inequality would not be effectively reduced without public goods because public goods provision is generally considered an effective means of redistribution. If ethnic identity has a more crucial meaning than individual income status, redistribution would be less salient as long as ethnic identity does not perfectly coincide with income status.[5] Along similar lines, Habyarimana et al. (2007) suggest a link between ethnic heterogeneity and underprovision of public goods in African countries.[6] Emerging democracies are mostly new nations, which often maintain various social cleavages. In fact, the correlation between years of democracy as of 2009 (regime durability of Polity IV of democracies as of 2009) and ethnic fractionalization (Alesina et al. 2003) is −0.24, and it is significant at the 5 % level.[7] The correlation is not high, but this indicates that emerging democracies tend to have greater ethnic fractionalization. Group identity, particularly ethnic identity, seems to be one of the causes of difference in inequality reduction between emerging and advanced democracies.

Group identity is closely related to the multidimensionality of policy argument (Iversen 2010). Group identity appears as a second policy dimension in political competition and makes inequality reduction at individual level less salient. Theoretically, introducing a second policy dimension affects the final policy choice in the first dimension (Roemer 1998). In such a situation, the median voter theorem would not hold on the inequality reduction dimension. Eventually, the policy outcome would differ from the prediction based on the income distribution throughout the population. Group identity could therefore be exploited by some politicians to secure greater support from society, such as agitating national, ethnic, and religious tensions when their opponents have policy programs closer to the median voter's preference in individual inequality reduction.

In the real world, political parties propose various programs in their policy platforms during election campaigns. Voters are forbidden to cast their votes on each issue, but choose a set of different programs from one party. This is referred to as policy bundling (Lee and Roemer 2006). Theoretical and empirical researches support that policy bundling affects voter choices. Bundling eliminates the policy

[4]Alesina et al. (1999) assert that public goods provision is inversely related to ethnic fragmentation though they examine US cities, not emerging democracies. Besides ethnicity, Haggard et al. (2010) emphasize residence and occupation as group identities, based on empirical examination of the data from 44 developing countries.

[5]This implies that variance of income within the same ethnic group is approximately zero.

[6]However, focusing on public goods provision as a measurement of redistribution may be misleading if public goods provision is based on ethnic favoritism (Kramon and Posner 2013).

[7]The observations include the countries whose polity 2 scores are equal to or greater than 6 as of 2009. $N = 92$.

salience of some issues. The salience of individual income status would be reduced through being combined with other issues in electoral competitions.[8]

Note that group identity is not the sole source of multidimensionality. National security, environmental problems, trade liberalization, and many additional issues seem not directly related to group identity. Nevertheless, if we carefully examine the causes of these issues, various types of group identity actually generate many of them as political issues.[9] For example, the group identity of farmers matters to a great extent in trade liberalization.

In the following empirical examinations in Chap. 4, we focus on group identity, particularly ethnic identity, as a cause of multidimensionality because they often constitute the second dimension in emerging democracies.

The argument of ethnic identity has another implication. If ethnic identity induces private goods provision that enables the exclusive provision of benefits to a specific ethnic group, it would be a patron–client network issue. We discuss this aspect later.

To sum up, preferences for inequality reduction are not formed simply based on individual income status. Even if income status determines preferences, this would not necessarily control individuals' political behavior. Among the factors affecting individual preferences, multidimensionality caused by group identity is vital in emerging democracies. If a policy issue other than individual inequality reduction becomes salient, people would not focus more on it. People may support politicians/political parties whose policy stances on individual income inequality do not match their own preference on the issue. Inequality reduction policy would thus differ from predictions based on class-induced preferences.

2.2 Political Market Failure

Even if people have preferences based on income status, these would not be reflected in actual policy without proper aggregation and representation. This is the issue of political market.

Policies and political support are traded between politicians and voters. Such transactions are conducted in the political market. However, this market is not free

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[8]From the social choice perspective, Riker (1982) rejects the populist interpretation that voting should ensure the social policy that people desire. He asserts that voting at most enables people to remove elected officials who deviate from people's interests. This is the liberalist interpretation of voting. Expecting that the median voter's preference is achieved as social policy is populism in Riker's terminology.

[9]Decentralization of fiscal structure is also identified as a second dimension (Beramendi 2012). The relationship between inter-class redistribution and inter-regional redistribution may be an interesting topic for further discussion and research. The relationship between the inter-class redistribution and geographically targeted transfers (pork-barrel projects) could be another possible issue. Jusko (2008) examines the significance of geography (geographical distribution of low income voters), though her main argument concerns the effect of an electoral system on redistribution.

from failure. Political markets can cause inefficient resource allocation. Keefer (2007b) terms such a political market failure as "political market imperfections." Political market failure hampers inequality reduction even if a majority of voters demand it. This is a serious problem, especially in emerging democracies. Emerging democracies' political markets, often newly introduced after democratization, can lack the establishment of an efficient transaction mechanism. Variations in inequality reduction are caused by differences in efficiency within the political market.[10]

An inefficient political market includes information constraints and underdeveloped political institutions, especially political parties. These elements are in fact interrelated because an institutionalized party system is a strong means to solve the problem of information constraints.

As Stokes (2005) highlights, information constraints cause a commitment problem. In a newly democratized political market, voters do not have sufficient information about politicians. Voters do not know whether they can trust politicians to keep their preelection promises after being elected. This problem arises due to lack of available information about a politician's actual policy orientations. If voters have full knowledge of politicians' nature, they can judge whether politicians' promises are empty. Otherwise, voters face difficulties deciding whom they should support. Simultaneously, information constraints also deprive the political elite of an effective way to mobilize voters who suspect politicians' promises of being empty. Politicians would lose the incentive to secure public support through policy platform.

We find the commitment problem even on the voter side. A politician would be uncertain if he could rely on voters' support as long as voters are not fully committed to supporting politicians who promise to provide benefits. In particular, redistribution through public goods raises the probability of voter's defection due to the free rider problem in public goods provision.

The commitment problem under information constraints generates an alternative style of political mobilization, namely patron–client networks. Patron–client networks are personal networks based on the exchange of private goods and political support. A patron knows his clients on a face-to-face basis. This enables a patron to easily monitor and control clients. Clients also know that their patron will definitely provide benefits, mostly in the form of private good transfers. Such personal relations mitigate information constraints and solve the commitment problem. Political mobilization is conducted through patron–client networks in which both politicians and voters share the information of others (Keefer 2007a, b; Keefer and Vlaicu 2008; Kitschelt 2000; Magaloni et al. 2007; Robinson and Verdier 2003; Stokes 2005, 2007).

However, efficiency is sacrificed by reliance on patron–client networks, especially if we examine redistributive effects. Mobilization through patron–client networks is accompanied by a lack of public goods provisions, intermediary

[10] As for the basic concept of political market and its efficiency, see North (1990).

exploitation, and arbitrary selection of beneficiaries. First, patron–client networks prefer private transfers because of the non-exclusive nature of public goods, which render the personal exchange of benefits and support more difficult. Generally, public goods and private goods are used for redistribution, but many effective redistributive polices take the form of public goods provisions. Although we find redistributive effects from private goods provisions,[11] the scope and extensiveness of such redistributions are limited. Second, benefits are not distributed directly from politicians, but through grassroots political leaders under patron–client networks. Because of its reliance on personal ties, patron–client networks are sustained by grassroots political leaders who can monitor and mobilize voters. As they have the incentive to increase their personal benefits by taking some portions of provided benefits, the overall pool of available benefits is reduced in the distribution process. Third, beneficiaries are not targeted based on objective criteria such as income level, but rather by political loyalty.[12] Private goods transfers can be efficient in redistribution as long as targets are well-defined and transfers are implemented without patron–client networks, such as the conditional cash transfers in recent years (Diaz-Cayeros and Magaloni 2009).[13] Otherwise, goods would not be provided to those who should receive them.

As a type of patron–client network, ethnic ties are utilized to reduce the commitment problem. People consider distinguishable social cleavages as reliable criteria for social groupings. Ethnic ties provide the high probability of creating a network of trust and a reliable source of information about the natures of politicians and voters (Habyarimana et al. 2007; Chandra 2007; Dincer and Lambert 2012; Franck and Rainer 2012). We dealt with ethnic cleavages as a cause of multidimensionality in the previous section, but it can be also discussed in the context of political market failure. Although these two aspects of ethnic ties can be conceptually separated, their actual effects on inequality reduction are caused by their combination.

Political market failure is also associated with a deficiency in accountability. In other words, it is an issue of voter capacity to penalize politicians who do not respond to their demands. The costs of monitoring and penalizing elected officials are highly related to voters' status and nature (Taylor-Robinson 2010). Voters, especially poor voters, usually have fewer means to acquire information regarding the performance of officials. Generally, information accessibility is highly

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[11]However, Kitschelt (2001) cites clientelism as one of the major causes of welfare retrenchment.

[12]There is an argument regarding the nature of recipients in terms of swing and core voters. Swing voters are not strongly attached to any political leaders, whereas core voters are. Generally, core voters are given more resources under conditions of high electoral risk (Cox 2009; Dixit and Londregan 1996; Robinson and Torvik 2009; Magaloni et al. 2007). At any rate, it is clear that objective socioeconomic criteria are not applied.

[13]Contrary to the argument of private goods provision through clientelism, private goods provision can weaken patron–client relationships in some cases. Borges (2011) argues that direct poverty alleviation policies by the federal government, including a cash transfer program, undermined the local political machine in Brazil.

correlated with education level. Poor voters whose educational attainments are generally lower have relatively greater difficulties accessing this information. The problem of monitoring and penalizing politicians is a typical principal–agent problem (Ferejohn and Rosenbluth 2009; Gilens 2001). Poor voters are more vulnerable to agency slack due to information asymmetry.

Political parties are expected to solve the problems of information constraints and commitment. Voters usually use a politician's party affiliation to guess his/her nature. Policy orientations of established political parties are common knowledge in the society. Such parties have established track records of policy making and policy stances that signal to voters the current policy stances of parties. Established parties also have internal procedures to select party leaders and nominate candidates who agree with the party's stances. Through the party's records and internal procedures, voters acquire information regarding the nature of politicians who belong to a party. On the other hand, established parties have stable supporters in the society. Politicians have better information regarding the voters. As long as parties are well established, political market malfunctions would be mitigated. However, emerging democracies have a serious problem in relation to political parties. Many political parties in these democracies are new and fluid. Parties have no established track records of past behavior. It is not even rare to find frequent mergers and splits of parties. Voters have no clues as to discerning the politicians' true natures.

The notion of party system institutionalization is useful for analyzing the stability and regularity of political competition as well as stable interest aggregation. Mainwaring and Scully (1995) define party system institutionalization in terms of four points: first, consistency in both the rules and nature of inter-party competition; second, stable roots in society; third, a strong sense of legitimacy for the electoral process and parties as the primary method of governing; and fourth, avoidance of control by certain personalities (at the highest level of organization) and routine intra-party procedures.[14] Party system institutionalization ensures predictability and reliability in the process of interest aggregation by political parties. This promotes trust between politicians and voters. Conversely, if the party system is not well institutionalized, linkages between politicians and voters tend to be more personal and clientelistic. Accountability and interest aggregation would not function under such a situation (Hagopian 2007; Mainwaring and Torcal 2006).

In sum, political market failure, which is characterized by information constraints and inefficient political transactions, impede inequality reduction predicted by the median voter theorem. Individual preferences for inequality reduction would not be properly aggregated or represented. Class-based coalitional politics, which is supposed to materialize the median voter theorem in inequality reduction, would not emerge in such a political market.

[14] Levitsky (1998) emphasizes the establishment of routine rules of the game within a party as a major component of institutionalization.

2.3 State Capacity

If we turn our attention to the final phase of the political process, implementation, we find the third independent variable, state capacity. State capacity affects all government functions. It has been often discussed in the economic development context, but is also crucial in inequality reduction. The level of state capacity decides the efficiency and effectiveness of government policy, including taxation and social policy (Robinson 2010).

State capacity is usually discussed in state–society relations (Evans 1995; Evans et al. 1985; Migdal 1988). Generally, social powers are sufficiently strong to evade state control in emerging democracies. In these countries, the state faces difficulties in penetrating the society. Regarding financial resources, weak capacity makes income monitoring difficult. Lacking information on income hampers efforts to secure sufficient revenue for government activities. Direct taxes are difficult to collect. The government has no choice other than rely on indirect taxes, which are relatively easy to capture. This situation eventually leads to a more regressive system of government finance (de Freitas 2012; Bird and Zolt 2005). The situation worsens if the informal economy is large. Inequality reduction would not be even attempted because people know that the state lacks the capacity to implement public policy for inequality reduction (Chuaire et al. 2014). We often observe such a situation in emerging democracies.[15]

Empirical studies on Latin America identify weak state capacity as the major cause of high inequality in the region. These studies claim that social powers strongly influence the government to minimize their burdens.[16] On the revenue side, this results in regressive tax systems.[17] Weak state capacity also causes stagnation in social policy implementation. Weak state capacity is represented by a lack of skilled professional bureaucracy.[18] The major problem is corruption.

Corruption creates opportunities for the rich to influence government policies. Bribing a tax agency to evade taxes is common in emerging democracies. Moreover, government output is also influenced by corruption. The rich are able to

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[15]Becker and Mulligan (2003) argue that more efficient tax and spending policies generally promote the growth of government expenditure based on the model of political competition among interest groups. This argument also implies the significance of state capacity as a determining factor of redistribution.

[16]Huber and Stephens (2012) attribute the less redistributive tendency in Latin America to the pressure applied by strong social groups.

[17]However, Mahon (2011) considers this regressiveness as closely related to economic liberalization, and especially with policies to prevent capital flight, which may be triggered by increasing taxes on capital and income.

[18]Mares (2005) and Mares and Carnes (2009) consider the lack of state capacity as a crucial problem in developing countries. From the perspective of the strategic alliance of different classes in social policy, they particularly argue that state social policy would not be attractive to sectors that tend to be exposed to external risks if state capacity is too weak to protect them.

extract preferential policies by bribing both the political elite and the bureaucracy. Even redistributive policies can be distorted to provide benefits to the rich.

Some empirical studies explore the effects of corruption on redistribution and inequality. Balafoutas (2011) argues that the rich can maintain low redistribution by buying the votes of the poor and bribing government officials. Through empirical tests based on the data from 118 countries, he finds that direct income tax rates are a negative function of government corruption. This means that corrupt governments create regressive tax systems. Carmignani (2009) and Chong and Gradstein (2007) reveal that weak government institutions are correlated with larger income inequality.[19] On the other hand, strong institutions (uncorrupt governments) gain the confidence of the citizenry for their redistributive function (Rothstein et al. 2010).

Overall, weak state capacity, which is common in emerging democracies, makes the implementation of inequality reduction more difficult.

2.4 Limitation of Class-Based Coalitions in Emerging Democracies

Political representation concerns the manner in which interests in society are channeled into the policy-making process. Various groups are expected to secure respective representation to have their preferences reflected in public policy. Biased representation causes a gap between the distribution of preferences in a society and policy outcomes.

Bueno de Mesquita et al. (2003) employ the notion of the winning coalition and the selectorate as keys to explain policy outcomes. The winning coalition is the group whose support enables the leader to stay in power. The selectorate is a broader group from whom the winning coalition is drawn. Their theory, called "selectorate theory," claims that the size and characteristics of the winning coalition determine the types of policies enacted by the political leader. The power resource theory is actually a special case of the selectorate theory, specific to the European context.[20] Specially, the theory assumes that coalitions are formed along with class cleavages.

Inequality reduction would not be promoted if the winning coalition comprises the rich. Under such a situation, social policies are designed to benefit only a small portion of the society because elected politicians are required to meet only the demands of their rich supporters. Politicians lack the incentives to provide benefits

[19]The empirical tests, however, are not limited to emerging democracies. The strength of institutions is measured by various indicators including economic freedom, civil liberties and the level of corruption.

[20]In essence, the critical realignment argument of Haggard and Kaufman (2008) belongs to the selectorate theory.

to people outside the winning coalition. We find two possible determinants of the type of winning coalition, which tend to take such biased policies. One is de facto disenfranchisement of certain sectors in the society. The lower income group is excluded in most cases. Another is political institutions that enable the small segment of the society to win power.

De facto disenfranchisement of the poor is mainly caused by lack of information. Information constraints deprive the poor voters of access to the political competition. More importantly, information constraints cause a serious coordination problem among the poor and divide them. Division, in turn, weakens their voice even if they constitute the majority of the population.[21]

De facto disenfranchisement of the poor explains the reasons for the ineffective implementation of inequality reduction even when a leftist government is elected. Regarding this, Rueda (2005) proposes the insider–outsider model and claims that labor has been split into two constituencies, namely those with secure employment (insiders) and those without (outsiders) (Rueda 2006, 2007). Leftist parties pursue policies that benefit only the insiders upon whose support the government relies. These studies are based on advanced capitalism, but similar arguments frequently appear in studies on Latin American politics. In many Latin American countries, social policy is designed to benefit the formal sector only, excluding the informal sector (Diaz-Cayeros and Magaloni 2009; Haggard and Kaufman 2008; Huber and Stephens 2012).[22] The formal sector constitutes the political base of the ruling parties, whereas the informal sector is fragmented and has difficulty sustaining collective action to enable it to participate in political competitions.[23]

De facto disenfranchisement of the poor deserves attention because it reduces the size of the winning coalition. In fact, electoral participation tends to be lower among poor voters in developed countries (Anderson and Beramendi 2008; Lijphart 1997).[24] Nevertheless, voter turnout itself is not a serious problem in emerging

[21]Weingast (1997) highlights the importance of the coordination problem, another expression of the collective action problem, in the argument regarding democracy.

[22]For social cleavages in Latin America, see Portes and Hoffman (2003) and Roberts (2002). Roberts (2012) explains the recent decline of inequality in the region through changes in the class structure and in distributive coalitions, which are mainly caused by the structural adjustment.

[23]Weyland (1996) attributes the continuing inequality in Brazil after democratization to the collective action problem among the poor.

[24]There are some empirical studies in this line for the US case, such as Filer et al. (1993) and Solt (2010), which support the effects of education, income, and income inequality on election participation. Feddersen and Pesendorfer (1999) and Matsusaka (1995) consider the role of information asymmetry in deciding voter turnout in the US context. Lassen (2005) claims that less-informed voters have generally lower voter turnout based on a natural experiment in Copenhagen. Rolfe (2012) emphasizes the effects of social networks acquired through education, rather than education as such. Jusko (2008) focuses on the effects of an electoral system on political leaders' responsiveness to the poor's demands. In her study, electoral incentives to be responsive to low-income citizens may be stronger under the single member districts than under the PR rules when poverty is highly concentrated.

democracies (López Pintor and Gratschew 2002). Many practice compulsory voting, and politicians mobilize poor voters through patron–client networks even without compulsory voting. If votes of the poor are traded among politicians who represent the interests of the rich, the winning coalition comprises the rich.[25] Nevertheless, this pattern could be actually included in the political market failure argument. The small size of a winning coalition that is dominated by the rich is produced through patron–client networks, which are a product of political market failure.[26]

Another factor that affects the wining coalition is political institutions. The institutional context, such as the electoral system, party system, and legislative–executive relations, affect the size and composition of the winning coalition.[27] In some cases, institutions induce coalitional politics among different classes (Ansell 2010; Iversen and Soskice 2006; Harms and Zink 2003; Lupu and Pontusson 2011).

If we use Lijphart's typology of majoritarian and consensus models (Lijphart 1999), a majoritarian model is expected to produce a smaller winning coalition compared with that produced under a consensus model. If a smaller winning coalition that excludes the poor is formed under a majoritarian model, it would generate lower inequality reduction. Especially, the electoral system is the key element here. The electoral formula affects coalition size. Generally, political parties need a smaller share of votes in a plurality system to hold power than in proportional representation (PR). However, parties need to seek coalition partners to secure the majority in PR.[28]

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[25]The winning coalition is not always monopolized by the rich. In the area of education policy, Ansell (2010) presents an interesting possibility of a winning coalition of the rich and the poor in opposition to the middle class. If the rich can buy off the poor in an imperfect political market, the rich can monopolize the winning coalition. The middle class would then find itself excluded.

[26]However, we should note that the poor are not always provided with preferable options in elections. The absence of options for the poor in elections is a consequence of the poor's underrepresentation in political competition due to costs. The cost of running a campaign is rising even in emerging democracies. Bugarin et al. (2011) theoretically and empirically show that election campaign costs rise in unequal societies, based on data from Brazil. Only those who are able to secure the necessary campaign funds can sustain an effective election campaign. This strengthens the influence of the rich and excludes the poor from competition. This could be interpreted as de facto disenfranchisement. Nonetheless, this is different from the class-based coalitional politics that assume existence of class-based parties. This is rather caused by political market failure, too.

[27]Institutions also define politicians' strategy regarding which policy dimension should be given focus to win the elections (Amat and Wibbels 2009). This is the multidimensionality issue.

[28]Persson (2002), Persson and Tabellini (1999, 2003) claim that PR enhances non-targeted programs. Alesina and Glaeser (2004) and Milesi-Ferretti et al. (2002) indicate that a more redistributive policy would create a better chance of winning under PR. The effects of the electoral system on the winning coalition's size raise questions regarding the strategy of the pivotal player, the middle class. Assuming that a commitment problem exists among the rich, middle class, and poor, Iversen and Soskice (2006, 2008) claim that the middle class prefers to form a coalition with the rich rather than with the poor under the plurality system. The middle class' behavior is logically explained as a second-best choice. Under a plurality system, it is more difficult to ensure the loyalty of the ruling party after the election because the ruling party can stand with less

We need to be careful about making a rapid conclusion here. The larger size of a coalition itself does not mean that the poor are represented. For example, if the broad coalition comprises parties based on non-economic cleavages, such as various ethnic groups or patron–client networks, the demands of the lower income group would be suppressed within each group (Menkyna 2014).

The argument of the winning coalition's impact on inequality reduction holds as long as the society is divided by class, and political parties are organized through class cleavages. This assumption is questionable in many emerging democracies.

2.5 Other Variables

Although we examine three political factors as major objectives of this study, we should also briefly note other related factors.

Historical paths have been considered as a cause for variations in inequality reduction. First, historical paths are important in the formation of political coalitions.[29] Second, as mentioned above, historical paths determine collective beliefs regarding redistribution. Furthermore, the type of pre-democratization dictatorship is crucial to understand the manner in which historical paths affect redistribution (Mares and Carnes 2009). Recent studies on dictatorship recognize variations within authoritarian regimes. These studies elucidate different strategies that a ruler may use to consolidate power (Geddes 2007; Haber 2006). As a part of a dictator's political strategies, inequality reduction, particularly redistribution is utilized in some cases. In fact, as Mares and Carnes (2009) indicate, in many countries, social

(Footnote 28 continued)

cooperation from other parties. If the middle class cooperates with a leftist party and that party wins, the middle class anticipates a drastic tax hike after the election even if the party implicitly agreed to a moderate tax hike. A system where the rich dominate and taxes remain the same would therefore be less harmful for the middle class. On the other hand, PR solves the commitment problem because the middle class now holds veto power by virtue of having joined the ruling coalition. If so, it is likely that the middle class will form a coalition with the poor to achieve a moderate level of redistribution. This is preferable to non-redistribution. We assume here that the middle class is the pivotal player, which is basically true in advanced economies.

[29]They specifically examine the differences in regions: oligarchical rule and reliance on the urban sector in Latin America, the process of decolonization and the Cold War in Asia, and the communist party's existence in Eastern Europe. Writing along similar lines, Albertus and Menaldo (2011) discuss the manner in which the strength of the elite classes at the time of democratization determines redistribution in the post-democratization period. In developed countries, the type of industrialization affects the formation of labor unions and leftist parties (Iversen and Soskice 2009). The logic here is similar to the classical study of Lipset and Rokkan (1967) that advocates the "frozen cleavages" hypothesis. The method by which ethnic groupings gain political influence is often explained by colonial history (Laitin 1986). Posner (2004), however, refutes this argument, asserting instead the importance of cultural demography. Alesina and Fuchs-Schündeln (2007) note the significance of history and argue that individual preference is affected by the existence of communist parties in Eastern Europe.

policies are initiated under a dictatorship. The point we need to note is that the political market after democratization is built on the authoritarian legacy. Relatively inclusive authoritarian regimes that employ the cooptation strategy enable a continuation of social and political groups even after democratization. As it was formed by existing forces, the political market in the post-democratization period is relatively well established, unlike the drastic turnover of a dictatorship supported only by a small ruling group.

We also recognize the effects of non-political factors. These include demography, the level of economic development (Lindert 2004), development strategies (Haggard and Kaufman 2008; Hall and Soskice 2001a; Mares 2000; Rudra 2007; Wibbels and Ahlquist 2007, 2011), economic risks (Rehm 2009; Rehm et al. 2012), geography, economic openness, capital mobility (Adserà and Boix 2002; Rodrik 1997), and technology (Boix 2010; Kahhat 2010). There is still room for discussion on whether these variables have real effects on inequality reduction (Alesina and Glaeser 2004; Kaufman and Segura-Ubiergo 2001; Swank and Steinmo 2002). We will control these non-political variables in the following empirical examinations.

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