The Political Economy of Redistributive Policies

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1 Introduction

Many factors influence the distribution of assets and income that a market economy will generate. These include the distribution of innate abilities, the nature of technology, and the types of market imperfections which determine investment opportunities and the distribution of human and physical capital.

But any market system in embedded in a larger political system and independently of the influence of the market, the political system may either create or reduce inequalities of assets or incomes. The impact of the political system on distribution depends on the laws, institutions and policies enacted by that system. What institutions or policies a political system generates depends on the distribution of power in society and how political institutions and mobilized interests aggregate preferences. The political system will tend to generate inegalitarian forces if political power is concentrated in narrow elites or oligarchies, but it may also produce more egalitarian outcomes if political power is distributed widely or if many as opposed to a few interests are mobilized.

In fact, it is actually not possible to talk about “the market distribution of income” as if this was somehow free of politics. It is the political system, after all, that determines the nature of property rights and how free the market is. The outcomes the market itself generates will be heavily determined by policies and regulations passed by the state. Consider, for example, the impact of fiscal redistribution on inequality. As Lustig (2007) points out, the post-.sc distribution of income in Scandinavia is much lower than the pre-.sc distribution. But the pre-.sc distribution is already much lower than it might be because of the policy interventions of the state, such as its support for centralized wage bargaining, which already move the income distribution in a much more egalitarian direction compared to what it would be if wages were set in a more decentralized wage process (Wallerstein, 1999, Golden and Londregan, 2006). To consider another opposite extreme, in Apartheid South Africa prior to 1994, government regulations on the occupation and residential choices of Africans acted to change the wage structure and redistribute income from blacks to whites. They did this by reducing competition for white labor, thus increasing white wages, and
forcing blacks into unskilled occupation, thus pushing down their wages and simultaneously raising the profits of those, such as white farmers and mine workers, who hired unskilled labor. Thus government regulations, such as the Homelands policy or the Colour Bar, led to a much more inegalitarian distribution of income than would have resulted had wages been set in a “free” labor market (Lundahl, 1982). The cross national facts are clearly inconsistent with a view of inequality as stemming only from market forces. The role of institutions, particularly labor market institutions and the policies of the state are critical (Freeman, 2007).

A priori, it is impossible to say how political forces will move the distribution of income relative to that generated solely by “market” outcomes and what sort of market outcomes will be generated in the first place. But this view suggests that if we want to think about the cross-country stylized facts about the distribution of assets and incomes, the right place to start is comparative politics. For instance, the fact that rich countries tend to be much more egalitarian than middle income countries stems from their different political economies, rather than from purely economic factors such as the technologies they use or the extent to which they are globalized.

Indeed, to think about the facts about inequality it is interesting to begin with the observation that the general trend in the world in the last 100 years has been in the direction of a much more equal distribution of political rights and power. This is because of the spread of democracy. Though the forces unleashed by democracy are complex, a simple expectation is that the move from non-democratic political systems, such as those that ruled all of the World prior to the late 19th century, to more democratic systems, ought to have the effect of broadening the basis of political power. Since, prior to the onset of democracy, power was in most cases monopolized by the richer segments of society, one would naturally conjecture that this movement would have led to pressure for polities and regulations which would be relatively favorable to the newly enfranchised, and would thus involve some redistribution of income towards the relatively poor. In short, we would

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1 Nondemocracy would tend to be dominated by the rich either because the rich wield sufficient power to create such a regime or because those who can wield power for other reasons subsequently use this power to become rich.
expect democracy to reduce inequality relative to the levels experienced under non-democratic regimes.

This expectation is to a large extent fulfilled in the developed world. Though inequality has risen quite steeply in the United States and Britain in the last 20 years, available evidence suggests that the developed world, including these countries, is quite substantially lower than it was 100 years ago. There is of course controversy over why this is. For example, work by Piketty and his coauthors, see Piketty and Saez (2006) for an overview of their findings, has emphasized the importance of big shocks such as the first and second world wars in driving down inequality in Western Europe and the United States. Yet Piketty and Saez (2006) also explain the persistence of these shocks by appealing to institutional changes wrought by democracy. Similarly, though Stasavage and Sheve (2007) argue that long-run trends of inequality are not consistent with centralized wage bargaining having the large effect it appears to have in cross-sectional regressions, their data is also consistent with the onset of democracy being the main driving force behind falling inequality in the OECD countries.

It is very plausible that this fall in inequality in OECD countries played an important role in generating the acceleration of economic growth that they experienced after World War II. Eichengreen (2006) characterizes this as a period of “coordinated capitalism” a coordination almost certainly facilitated by the much more egalitarian distributions of assets and incomes.

Many poor and middle income countries have yet to go through this process and we don’t know if they will and this is probably the main reason why their levels of inequality are so much higher. Democracy is a much more recent phenomenon in these countries and indeed has yet to come to many, at least in a fully consolidated form (to use the terminology of Acemoglu and Robinson, 2001b, 2006). So it is possible that these countries are on the brink of the path followed by OECD countries, albeit with a 150 year lag. However, there is also evidence that this is not the case. We already know that democracy may be qualitatively different in Latin America, Africa or Southeast Asia and may therefore not
have the same effects. In South Africa, though growth has resumed since the political
transition to democracy in 1994, inequality has actually risen quite sharply. In Argentina, as
the study by Gasparini and Cruces (2009) in this volume shows, while inequality rose
dramatically under military governments in the 1970s it rose even more dramatically under
democratic governments in the 1990s. Moreover, the recent empirical work on the
relationship between economic growth and democracy (Acemoglu, Johnson, Robinson and
Yared, 2008) suggests that there is probably nothing inevitable about the development path
of democracy, falling inequality and growth experienced by Western European and North
American countries over the past century and there is no reason why it would be replicated
mechanically elsewhere.

If democratization does not have these effects and if there is no other natural tendency for
inequality to fall, then the great inequality of assets and incomes in many middle income
countries may present a significant barrier to growth and the achievement of the
Millennium Development Goals. This suggests that to reduce poverty and inequality in
poor and middle income countries and achieve development goals is going to involve
important changes in public policies in a direction towards greater redistribution to the
poor. Understanding what policies are effective and politically feasible requires an
understanding of the political economy of redistribution in these countries. It also
necessitates delving into the issues of why such policy changes have not already occurred
given that many of these countries have such high levels of inequality.

In this paper I therefore survey our current understanding of the political economy of
income redistribution (mostly) in democracies. I focus on a key set of questions: what
determines the extent of income redistribution in a society? Why has the Western European
pattern of income redistribution and falling inequality apparently not been so pronounced

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2 This would certainly seem to be the case in Latin America. For example, Reynolds (1971) showed that
though inequality may have fallen as a consequence of the Mexican Revolution, it then stayed persistently
high decade after decade despite quite strong economic growth (see Scott, 2008, on the impact of the
revolutionary land reforms on land distribution). Even more striking, Kelley and Klein (1981) found that the
reduction in inequality triggered by the reforms of the Bolivian Revolution in 1952 was unwound within 15
years.
elsewhere in the world? What could be done to promote redistribution in highly unequal countries?

I organize the material in the following way. It is convenient to distinguish between the supply of policies by politicians and the demand for policies by citizens. I break each of these categories into redistribution to whom, how much redistribution and in what form. After summarizing what we know about the forces that drive these different aspects of the supply and demand for redistribution I talk about the comparative statics and how socioeconomic structure or political institutions would tend to influence the answers we give to these questions. There are a lot of ideas and mechanisms at play here and so I then make a stab at putting together a stylized characterization of the political economy of redistribution in an unequal middle income country with a focus on what forces stop redistribution eradicating inequality. I then discuss policy interventions. I begin with the supply side of redistribution.

2 The Supply of Income Redistribution

Though simple median voter models of income redistribution in the spirit of Meltzer and Richard (1981) are powerful tools and generate some important comparative static results, we almost certainly need a richer model of the forces which determine the equilibrium amount of income redistribution in a society both on the demand and supply sides.

I start by considering the supply of policies by politicians and examine the circumstances when this will lead to the redistribution of income. An important issue is that politicians may not have the correct incentives to implement redistributive policies or if they do they are not interested in offering redistribution to the poor. There are two aspects to this, an ex ante one and an ex post one. In ex ante terms, equilibrium policies chosen by politicians favor individuals or groups with desirable political characteristics (which I elaborate on below). Even if the poor are enfranchised, if they do not have the right political characteristics then, ex ante, politicians will not have the right incentives to design policies that benefit them even in a democracy. In ex post terms, politicians may not find it optimal
to implement the policies they promised to introduce. This problem can only be solved by mechanisms of accountability. If the poor do not have access to such mechanisms then policy promises to them will not be honored.

Most of the academic literature tends to focus on general “redistribution.” Redistribution may be pure transfers with no implications for efficiency or they may take the form of public goods, either “general” ones such a defense, or perhaps a clean environment, or “local” public goods.

2.1 Ex Ante
What political characteristics are seen to drive ex ante policy?

2.1.1 To Whom?
One of the key issues is who benefits from redistribution. In simple models like Meltzer and Richard (1981) this issue does not arise because everyone benefits in the same way from redistribution. Moreover, politicians have no autonomy to propose different policies and have a chance of winning, so the only issue is how much redistribution the median voter demands. Supply is irrelevant. Nevertheless, richer models, such as those that feature probabilistic voting or uninformed voters, give politicians both greater leeway in making choices and far richer policy instruments. These models suggest that in a democracy it will not necessarily be the case that it is the poor who benefit from income redistribution. Indeed, the famous “Directors Law” of income redistribution claims that it is the middle class who benefit from income redistribution (Persson and Tabellini, 2000, Chapter 3).

The formal political economy literature finds that redistribution in democracies is targeted at groups,

- Which are relatively numerous
- Which are able to solve the collective action problem when others are not (Bates, 1981, Persson and Tabellini, 2000, Section 3.5, Grossman and Helpman, 2001)
Who manage to form political parties while others do not (Wittman, 1983, Acemoglu and Robinson, 2006)
Who are un-ideological “swing or floating” voters (Lindbeck and Weibull, 1987, Dixit and Londregan, 1996)
Who are relatively well informed (Strömberg, 2004, Besley and Burgess, 2002)
Who turn out to vote in high numbers
Who are relatively poor (Dixit and Londregan, 1996)

To the extent that the poor do not have these characteristics we would expect them to lose out in the determination of policy. Some of these factors cut in opposite directions for the poor. For example, we know that in general individual turnout in elections is positively related to education and income. The higher is the relative turnout of a group, the more attractive politically is it for politicians and the more likely it is that they will design policies to favor such a group. This seems to hurt the poor. In addition to turnout, the poor are likely to be less well informed than the non-poor. Strömberg (2004) and Besley and Burgess (2002) have shown how important the media is in redistributive politics. If the poor are relatively uninformed, they tend to get less. On the other hand the poor are relatively numerous and this pushes in the opposite direction.

Two other factors from the above list are almost certainly highly relevant - the ability of groups to solve the collective action problem, and the formation of political parties. With respect to the first factor, poor people are often relatively isolated and are less organized collectively. With respect to the second, in some countries, such as Colombia, political parties have managed to deter entry of new political parties in such a way as to massively control the types of preferences that are represented in the political system. This lack of entry has happened because of manipulation of electoral institutions and also because of fraud, violence and collusion. This makes it very hard for the voices of the poor to be heard.

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3 Interestingly however, Campbell (2005) finds that with respect to social security in the United States, the poor who benefit from the policies and who have larger stakes in making sure the policy continues than the rich beneficiaries, actually are more politically active.
The political situation in Bolivia after 2005 is another telling instance. The political system generated few benefits for indigenous people even after democracy arrived in 1982 until indigenous people, with the help of the trade union of the cocaine growers, managed to form a political party - Movimiento al Socialismo (MAS).

The social basis of the political parties may be very important. In their chapter in this volume Jaramillo and Saavedra (2009) note the large extent of urban bias in the provision of public services. This is a situation which is perhaps not surprising given that even APRA, the most pro-poor party, had a strong base in urban unions. In contrast MAS formed in rural areas, and in Brazil the PT has strong links with rural movements such as that for landless workers. These factors are important in determining where these parties look for support.

It is also worth noting, however, that most of the mechanisms I isolate above are derived from models where politics is quite “civilized” relative to what it is in many poor and middle income countries. These models don’t allow for violence, intimidation, or fraud. To give one example of how this might matter Robinson and Torvik (2009) show that in a standard probabilistic voting model an incumbent who can use violence to disenfranchise a group of voters may target the swing voters rather than the supports of his opponent as one might have naturally conjectures. This is because by disenfranchising these voters, the incumbent does not have to sacrifice a lot of rents engaging in a costly competition for votes.

The mechanisms discussed above are derived from formal political economy models of voting and political influence. In contrast to this approach about who gains from public policies and income redistribution the political science literature has focused on simple dichotomies to answer the “to whom” question. Scholars make a distinction between policy which is “clientelistic” and that which is “programmatic” and these are conceived of as two polar political strategies that parties or groups contesting power might adopt. On the one hand, political parties can compete for support by offering different types of public goods which affect the entire population. These policies might concern ideological issues, such as
human rights, or they may be more economic, such as law and order, trade and macroeconomic policy, or regulatory regimes. On the other hand, instead of focusing on such collective or public goods, parties can concentrate on offering particularistic benefits or private goods to groups of supporters. Shefter (1977, p. 403) provides a classic statement of this dichotomy:

“A Political party may employ two basic strategies in its efforts to induce voters to support its candidates ... It may distribute divisible benefits—patronage of various sorts—to the individuals who support the party. Alternatively, it may distribute collective benefits or appeal to a collective interest in an effort to elicit ... votes.”

A more recent statement, Kitschelt (2000, pp. 845-846) distinguishes between

“pursuit of policy programs that distribute benefits and costs to all citizens regardless of whether they voted for the government of the day or not (programmatic linkages). Alternatively, does accountability and responsiveness have to do with delivering specific material advantages to a politician’s electoral supporter (clientelistic linkage)?”

One of the problems facing the adoption of policies to eliminate poverty in middle income countries is precisely the fact that clientelism is very prevalent in these countries. The centrality of clientelism in perhaps most evident in the academic literature in African politics in which there is a huge consensus that African politics can be described as clientelistic or “neo-patrimonial” and subject to “personal rule.” Leonard and Strauss (2003, p. 4) characterize this as the “personal-rule paradigm” (stemming from Rosberg and Jackman, 1982) noting that the main implication is that,

“personal rule contributes to weak states. Procedures based on loyalty, informal agreements, and personal relationships tend to undermine a government’s ability to function effectively ... public resources tend to be
used for patronage or private purposes, resulting in a lack of public investment ... The state is not a tool for public development but for private “eating” and for rewarding support networks.”

From the point of view of this political science paradigm, if politics in highly unequal countries is clientelistic the pertinent question becomes under what circumstances might we expect the poor to be the clients of politicians? Clientelistic politics is worse than programmatic politics, but conditional on being in a clientelistic regime it is better to be a client than to be completely excluded from patronage.

Another particularly interesting related issue is whether or not the decision to adopt clientelism is influenced by the desire to control collective action. In many informal studies it is argued that clientelism is a type of “divide and rule” political strategy and is attractive precisely because it destroys the ability of groups to engage in collective action by selectively undermining their solidarity. For example, Waterbury (1977, p. 340) notes

“In the poorer societies patronage helps obscure and disorient class alignments and to perpetuate the power advantage of the dominant groups by the conscious cultivation of vulnerability and dependency.”

Unfortunately, there are few generalizations in the political science literature on who clients are and it is difficult to draw any conclusions about the circumstances under which such people are poor. The general idea is that there is some extra-political relationship, possibly economic, possibly social, that leads patrons to be matched with clients. One interesting way to link this literature to the political economy literature discussed above is to see the formal model as generating mechanisms that might help in identifying what sort of people or groups are likely to be clients, the recipients of personalized redistribution.

2.1.2 How Much?
Theoretically how much redistribution politicians offer depends on its costs and benefits. Benefits are in terms of the extra support that redistribution generates. If swing voters are
very sensitive to redistribution they may get a lot of transfers, while if they are not they may get little. It also depends on how costly it is to raise taxes and redistribute resources which may depend on the extent of tax evasion and the structure of the economy which will help determine the elasticity of the tax base.

Empirically the question of how much has been addressed in a large literature, recently reevaluated and extended by Persson and Tabellini (2003). They show using cross-sectional data that the size of government in society (government spending as a % of GDP) is greater when old people are a greater proportion of the population (a variable also emphasized by Perotti, 1996), the more democratic a country is, and the more open the economy is (a result initially emphasized by Rodrik, 1998). They find that federal nations have lower spending other things equal. Many other candidate covariates, such as ethno-linguistic fragmentation, per-capita income, and income inequality are not robustly significant though appear to be statistically significant in some specifications. They also consider a panel dataset thus exploiting time-series variation and here find that in addition to the above results per-capita income (Wagner’s Law) has a positive and significant coefficient.

It is worth noting however that what is equally important from the point of view of impact on inequality are things like the progressivity of spending, not just total spending, and there are few investigations of the cross-country determinants of this.

### 2.1.3 In What Form?

A key issue is not simply how much redistribution and who gets it, but the form that this redistribution takes. One of the key problems for generating redistributive policies to reduce inequality is that even in circumstances where the poor have the right political characteristics to make them attractive recipients of redistribution, political incentives may dictate that they get redistribution in something other than the optimal form when the social objective is reducing inequality.

The study of the form of redistribution dates to the work of Stigler (1971, 1972) and Becker (1976) in the 1970s. They asked why there are inefficiencies in the form of redistribution.
For example, why redistribute to farmers by subsidizing the price of agricultural output. This is socially inefficient since it keeps resources in agriculture that could be better used elsewhere. From a social point of view, if farmers have sufficient political power to get redistribution at all, the best thing to do would be to transfer income to them. Recent research on the form of redistribution has tried to elucidate political mechanisms which might lead inefficient forms of redistribution to be politically attractive. In the recent literature inefficiencies in the form of redistribution may be motivated by a desire

- By politicians to conceal that they are really redistributing (Coate and Morris, 1995).
- By politicians hoping to reduce the total amount of redistribution that they have to undertake (Rodrik, 1986, Wilson, 1990, Becker and Mulligan, 2003).
- By politicians because it allows them to take credit for policy and influence the beliefs of voters about their preferences.
- By interest groups benefitting from redistribution to maintain their political power (Acemoglu and Robinson, 2001a).
- By interest groups because it influences the type of game (and therefore the terms of trade) between them and politicians (Dixit, Grossman and Helpman, 1997).
- By interest groups because it can help them solve the collective action problem.

A key finding in this literature is that even when the poor get redistribution, the form of that redistribution is biased against public good provision or the things that the United Nations would wish politicians to be providing in order to achieve the Millennium Development Goals. This is again because of political incentives. The main reason for this was brilliantly illustrated by Robert Bates in his seminal study of the political economy of agricultural policy in Africa. In his analysis of why governments persistently and inefficiently refuse to pay market prices for agricultural goods, but instead choose to subsidize fertilizer and state farms he notes (Bates 1981, p. 114),
“Were the governments of Africa to confer a price rise on all rural producers, the political benefits would be low; for both supporters and dissidents would secure the benefits of such a measure, with the result that it would generate no incentives to support the government in power. The conferral of benefits in the form of public works projects, such as state farms, on the other hand, has the political advantage of allowing the benefits to be selectively apportioned. The schemes can be given to supporters and withheld from opponents.”

His analysis isolates a key force influencing the form of redistribution. When redistribution is clientelistic it is important to target it to specific people or groups. This idea has been elegantly formalized by Persson and Tabellini (1999) and Lizzeri and Persico (2001). It leads to a generic underprovision of public goods because, by their definition, these benefit all people.

Robinson and Verdier (2002) extend these ideas emphasizing that not only are public goods non-targetable, they are provide non-excludable benefits. This is not politically attractive when politicians want to reward their clients only and exclude others from the benefits. Moreover, if politicians are attempting to punish citizens who did not support them, then they will tend to underprovide such goods.

Apart from these issues the other one which is central for the United Nations Development Program is the connection between the form of redistribution and state capacity. Though this issue is imperfectly understood (see Robinson and Verdier, 2002), one of the most common inefficient instruments is employment in the public sector or bureaucracy. There is overwhelming evidence that this is an endemic source of lack of state capacity (see Alesina, Baqir and Easterly, 2000, and Alesina, Danninger and Rostagno, 2001). The reason for this is obvious, if employment is governed by political criteria then employees cannot be given incentives to work hard because they cannot be credibly threatened or sanctioned. Thus typical incentive contracts won’t work. The political science literature on clientelism and
neo-patrimonialism takes it as axiomatic that clientelism involves employment and that this destroys state capacity (a perspective consistent with the empirical work by Evans and Rauch, 1999, 2000, on the nature of bureaucratic recruitment and promotion, bureaucratic performance and economic growth).

It is political incentives that influence the form of redistribution that answer the questions posed in the World Banks´ World Development Report 2004 (p. 78) such as why are large public expenditures systematically misallocated- for example to large infrastructure projects and the wage bills of bulky state administrations, often at the expense of social services.. This arises because, for example, a job can be targeted to a person in exchange for support but social services cannot. Moreover, is it easier for a politician to get credit for a job.

All of these ideas about the form of redistribution are of course deeply related to the issue of clientelism which I discussed above. Probably the main problem with clientelism as a form of politics is that patrons have the incentive to redistribute to clients in socially undesirable forms. That this creates a lot of problems even when the government is to a large extent pro-poor can be seen from the recent Venezuelan experience.

In addition to the notion of clientelism, another style of redistributive politics has received a lot of attention in the political science literature - populism. Though Dornbusch and Edwards (1991) defined populism simply as bad economic policies, in fact populism is a political strategy (see the essays in Conniff, 1999). It´ s essence is that it involves redistribution using very inefficient, typically unsustainable instruments, usually macroeconomic and wage policy. It is however distinct from clientelism. Colombia, for example, never had populism in the 20th century, but it certainly had clientelism, though as Robinson (2007) points out, one can think of populism as clientelism with macro policy instruments.
2.2 Ex Post

There are endemic problems of moral hazard in politics. Whatever politicians may actually promise before an election ex post they may have incentives to renege. Given the nature of politics it is not possible to enforce promises using third parties, such as judges, since it is the government itself which is supposed to enforce contracts and which controls the judiciary. Politicians may deviate from promises because they themselves prefer other policies, or simply because they want to steal for themselves money that they promised to spend on providing public goods for citizens. The main issue here is what mechanisms of accountability do citizens have to make sure that politicians carry through with their promises and do not engage in venal activities.

Though this literature is much less developed than the ex ante literature there are some implications which are interesting for the current discussion. Barro (1973), Ferejohn (1986) and Persson, Tabellini and Roland (1997) examined the conditions under which voters could use punishment strategies to discipline politicians who renege on commitments or engage in corruption. To be effective in disciplining politicians citizens have to coordinate their voting strategies, so that again the ability of groups to solve the collective action problem is crucial for accountability. Groups who cannot do this will not be able to effectively sanction politicians.

Who controls the agendas of political parties is also likely to be important. Sanctions are only going to be effective in situations where there are real alternatives for voters. If one considers a case like Colombia then there are few options for voters who wish to discipline one of the main parties. This clearly happens: President Samper was widely believed to have taken bribes from drug mafias to help his election campaign and as a result the Liberal party was punished in the next election. Yet the only alternative is to punish by replacing the Liberals with the Conservatives who are possibly equally corrupt. Note also that if the poor controlled the agenda of a political party directly there would be no commitment problem here (barring massive agency problems) because the party itself would wish ex post to honor any promises it made to the poor.
Many of the mechanisms I isolated in the ex ante section also apply in this context. If people are poorly informed they may not understand that policies they had been promised have not been implemented properly, or at all, and again there will be a failure of accountability. Similarly, un-ideological “swing voters” will be effective at punishing miscreant incumbents because such voters are relatively willing to switch and support an alternative political party. The flip side of this, as pointed out by Padró-i-Miquel (2007) is that when citizens have strong ideological, in his model ethnic, allegiances to politicians, this may considerably loosed the bonds of accountability on politicians. This is because citizens from the same ethnic group as the politician in power will fear that if they try to replace him this will allow other ethnic groups to take over, a very bad outcome for them.

Recent empirical work from Brazil by Ferraz and Finan (2008) illustrates how important the media is in facilitating accountability and this is also the lesson from the study of McMillan and Zoido (2004). They found that it was cheaper for Vladimiro Montesinos to bribe a majority of the Supreme Court than to bribe a television station suggesting that it was the latter that was a greater constraint on the policy of President Fujimori.

3 The Demand for Redistribution

I now turn to the demand side where we can ask very similar questions. Though we could ask the question here, from whom, I focus on only the two most important questions.

3.1 How Much?
How much redistribution that voters want is the basis of simple models of income redistribution a la Meltzer and Richard (1981). There the median voter rationally trades the costs and benefits of redistribution, with the costs coming from the deadweight losses caused by levying taxes on income and changing labor supply decisions.

Obviously, one could think of many factors which can influence these costs and benefits. I shall focus on a few on which there has been recent research and which are possibly of first-order importance for the issues at hand.
One key determinant of preferences for redistribution may be social mobility. An old idea about why income redistribution is relatively low in the United States is that this is because of high social mobility. If rates of taxation are inertial, those who are poor today may reduce their demand for redistribution because they anticipate that they may be rich tomorrow. This argument was formalized by Wright (1996) and Benabou and Ok (2001). However, the calibration undertaken in the latter paper shows quite convincingly that observed differences in rates of social mobility across countries are nowhere near large enough to account for the differences in the equilibrium amount of redistribution. Recent evidence presented in Alesina and La Ferrara (2005) about people’s beliefs about social mobility is more consistent with the idea that this has a first-order effect on preferences for redistribution in the United States. Moreover, Carter, (2007) and Carter and Morrow (2007) show using data from the Latinbarometer that expectations about upward social mobility do influence strongly people’s preferences for redistribution and they argue that it is in precisely those Latin American countries with very polarized views about upward social mobility that left parties have come to power.

In a related seminal paper Piketty (1995) argued that different beliefs about how distortionary taxation was could be self-fulfilling. Specifically he argued that Europeans could believe that effort was not rewarded and thus taxing incomes undistortionary, while citizens of the United States could believe the opposite. This work has been greatly extended by Benabou and Tirole (2006) and Benabou (2008) who also introduce behavioral components. This work suggests that the greater redistribution in Sweden, as compared to say Colombia, arises because these different societies are in different equilibria, both of which generate self-fulfilling expectations. Colombians do not demand high taxes because they think that effort pays in society and thus such taxation would be very costly, while Swedes have very different beliefs. Of course the introduction of behavioral elements is one approach to reconciling the divergence between the findings of Benabou and Ok (2001) based on observed rates of social mobility, and that of Alesina and La Ferrara (2005) or Carter (2007) based on beliefs about social mobility.
Another important set of ideas is that the demand for redistribution is related to the extent of heterogeneity of a community. Alesina, Baqir and Easterly (1999) showed that within the United States redistribution in cities was decreasing in the extent of ethno-linguistic fragmentation and Alesina and Glaeser (2004) argue that this can explain why relatively homogeneous European countries redistribute more than the United States.

Another important argument is that one of the problems with simple models of income redistribution is that they do not have a rich enough set of policy dimensions. When we allow for this there may be cross-cutting cleavages that reduce the demand for redistribution. A famous statement of this argument is in Frank (2005) where he claims that poor people in the United States vote against their economic interests because they have been fooled into voting on the basis of ideological or symbolic issues such as gay marriage (see Ansolabehere, Rodden and Snyder, 2006, Bartels, 2008, and Gelman, Park, Shor, Bafumi, Cortina, 2008, for discussion of whether the data supports this idea in the US). Roemer (1998) provided a formalization of this argument showing how if people had preferences over the religious affiliation of parties this could break the coalition in favor of redistribution.

3.2 In What Form?
Above we discussed the rationality of different forms of redistribution from the point of view of politicians. One of the issues with political strategies like clientelism and populism is that their appeal may be something to do with their appeal to citizens. It may well be that people demand clientelistic favors and do not have individual incentives to demand public goods. Indeed, though this issue has been little studied, there may be an obvious collective action problem amongst voters in demanding public goods. In particular no individual client would have an incentive to demand public goods from a politician instead of private goods unless they enormously valued the public good.
4 Determinants of Equilibrium Political Strategies

In this section I now focus on the comparative statics of the above mechanisms which I have already discussed to some extent. It is impossible to be exhaustive on this topic in the space available so I focus on some of the effects which seem to be more important and most policy relevant, such as the impact of political institutions. I am interested in such issues as what determines the extent of clientelism in a society, or the factors that lead politics to be clientelistic rather than programmatic. What factors might influence the intensity of clientelism? What do we know about the conditions under which some political characteristics dominate others? What determines the form of income redistribution or government policies? What makes populist political strategies likely and what could we do to make them less attractive?

Evidence on any of these questions is highly tentative. There are quite a few ideas in both the formal and qualitative literatures, but as yet few conclusive tests. For example, though the theoretical models which follow Lindbeck and Weibull (1987) emphasize the idea that swing voters are important, there is not much evidence that swing voters are important in determining actual redistributive outcomes. Recent work by Ansolabehere and Snyder (2002) using a panel of U.S. states finds no evidence that swing voters are important and rather government spending is concentrated on the districts that tend to support the incumbent party. Their empirical work is interesting because it tends to support a view of the world related to the “citizen-candidate” model of Besley and Coate (1997) and Osborne and Slivinski (1996). In this, politicians have preferences over the policies they adopt and are unable to commit to any other type of policy. Anticipating this, voters vote for politicians whose preferences are relatively like their own. This echoes a theme which I have already introduced, the importance of political party objectives, and suggests that the poor will only benefit from policies when they can organize their own political party and poor people themselves manage to run for office (such as the Worker’s Party in Brazil or MAS in Bolivia).
I now discuss some of the factors which models suggest are important and what evidence can be brought to bear to assess their importance.

4.1 Democracy versus Dictatorship
The first and most obvious thing is the nature of political institutions. I begin by considering the extent of democracy. To get at this we need to reflect a little more on what we would expect to happen in non-democracies. The factors I discussed above are derived from formal models nearly all of which place voting and elections at the heart of policy determination. What about non-democracies? There are few attempts to construct a theory of dictatorships at the same level of the theory of democracy so it is quite hard to draw out as many implications. Most (see Acemoglu and Robinson, 2006, Chapter 5) start from the idea that in a dictatorship some group chooses policy to maximize its own welfare subject to the constraint that it stays in power. To stay in power a dictatorship needs support and this support must be bought with policies, transfers, favors etc. The base of this support may be very narrow however, and certainly narrower than the basis of support needed to sustain a democratic regime. For example, many scholars argue that the regime of Jerry Rawlings in Ghana, West Africa, was able to stay in power almost without a social base, and therefore without the need to engage in patrimonialism. In this context Herbst (1993, p. 153) notes that a consensus is that all rulers depend on the support of some social group to stay in power. However,

“In Ghana, this simply was not true. The Rawlings regime was placed in power through the efforts of part of the military and managed to stay in power, in good part, because no influential social group had the willingness and/or the ability to try to affect who was in power.”

Though dictatorships clearly use repression much more than democracies to stay in power the analytics of support may be related to the analytics of democratic support. If this is right then there are some important lessons from the above results. For instance, groups that solve the collective action problem may be more of a threat to a dictator and therefore have to be bought off. They therefore benefit from redistribution. Similarly, better informed
groups may be more discontented with the dictator’s policy and again may need to be bought off (these ideas are certainly consistent with the study of agricultural policies under non-democratic regimes in Africa by Bates, 1981).

Nevertheless, despite the fact that some of the qualitative forces driving redistribution in dictatorship are quite similar to forces that one might think would apply in a democracy, it seems reasonable to expect that a shift from dictatorship to democracy would lead to a change in policies more favorable to the relatively poor. As I suggested in the introduction, such a conjecture is in fact consistent with quite a bit of evidence, particularly from Western Europe (see Aidt, Dutta, Loukoianova, 2006). Acemoglu and Robinson (2000) pointed out that the peak of the Kuznets curve for many European countries coincided with moves towards mass enfranchisement and they argued that the forces unleashed by this democratization were responsible for subsequent falls in inequality. This seems to have worked through many channels. For one, democratization led to changes in policies which were less favorable to elites. In Britain, one of the most famous instances of anti-elite policies followed the First Reform Act of 1832. Though this act did not enfranchise the working class, it did enfranchise many nascent capitalist interests (prior to 1832, for instance, the newly industrializing cities of Birmingham and Manchester had no representation in Parliament). Newly enfranchised, capitalist elites challenged the Corn Laws, a series of regulations which kept the price of wheat high. This increased the profits from land, which was good for traditional elites, but it also kept urban wages high, which was bad for capitalists. The repeal of these laws in 1846 marked a decisive shift in political power in Britain caused by the initiation of a democratization process which finally ended in 1928 with full adult suffrage. Redistributive measures were extended after 1867 when the franchise was extended to the wealthier parts of the working classes. This led to the expansion of public education and changes in labor market regulations which increased the abilities of trade unions to mobilize and workers to undertake industrial actions. It was after this period and through the trade union movement that the Labour Party began to form and when they finally emerged as a serious political force after 1900, they induced the start of fiscal redistribution with Asquith´s Liberal government of 1906.
That there are forces in democracy which may promote a more egalitarian distribution of assets is evident not only in the experience of Western Europe. In the experience of Latin America, these forces have been much less clear because they have often been so powerful as to lead to the overthrow of democracy (Acemoglu and Robinson, 2001b, 2006). The introduction of uncorrupt universal suffrage in many countries, such as Venezuela and Guatemala in 1945, Bolivia in 1952, or in Chile after the secret ballot reforms of 1958 (Baland and Robinson, 2008), led to radical demands for the redistribution of land which often quickly led to those threatened by it to sponsor coups (Lapp, 2004). Moreover, we have observed rapid increases in inequality in dictatorships, such as those in Chile after 1973 and Argentina after 1976, which very well with the ideas developed above. Acemoglu and Robinson (2006) point out that the dynamics of income distribution in Argentina over the entire 20th century are closely related to movements backwards and forwards between authoritarian and democratic regimes. There is also cross-national evidence, notably Rodrik (1999), which suggests that democracy leads to more egalitarian outcomes, at least in terms of the share of wages in national income (see also Foster and Rosenzweig, 2002).

The chapters in this volume speak directly to these issues. For example, Barros, de Carvalho, Franco and Mendonça (2009) show that the rapid fall in inequality seen in Brazil over the past decade is a consequence of a massive expansion of education and income redistribution targeted to the poor. The origins of these policy changes in Brazil are certainly related to the democratization which began in 1985. Significantly, redistribution targeted at the poor really comes after the Workers Party won the presidential election in 2002. Eberhard and Engel (2008) in their chapter also show that the advent of democracy in Chile in 1990 led to a change in the dynamics of wage inequality. By 2006 most of the large increase in wage inequality that took place during the dictatorship had been unwound. The authors attribute this to massive educational expansion, much of which occurred prior to 1990 and in fact their data suggests that even prior to the coup in 1973, there was a structural expansion of education taking place which the repression and terror of the military regime did not alter. The chapter by Bruni, Fuentes and Rosada (2008) on Guatemala is also revealing. They find little change in inequality over the last decade,
Despite the fact that peace and democracy arrived only after 1996, except for the brief window between 1945 and 1954. That there has been little impact on social policy or inequality is probably not surprising. Unlike in Brazil or Bolivia, the poor are not politically organized in Guatemala, and just how consolidated democracy is could be questioned. For instance, former dictator Efraín Ríos Montt responsible for massive human rights abuses estimated by some to have created as many as 200,000 fatalities was running for president in the last election. In the 19th century Guatemala was probably the Latin American country with the most repressive labor market institutions and it remains a society with a great deal of ingrained discrimination. Solving this problem will need a political revolution along the lines of Bolivia. The main issue is whether this can be achieved in such a way as to really reduce inequality or whether one type of inegalitarian society will be abolished only to create a new one (as for instance happened in Bolivia after 1952 - see Kelley and Klein, 1981). The situation in Peru, as revealed by Jaramillo and Saavedra (2008) may be similar. Though Peru returned to democracy in 1980, the experience has been very unstable and during the 1990s the Fujimori regime was able to essentially suspend the constitution and all checks and balances (McMillan and Zoido, 2004) suggesting that consolidated democracy may be still quite far off.

Despite these expectations and facts, there are some quite severe empirical puzzles surrounding the political economy of redistribution and uncertainly about whether some of the comparative statics which come from simple political economy models, actually fit reality. For instance, despite the evidence I have discussed, Gil, Mulligan and Sala-i-Martin (2004) have provocatively claimed that democracies and dictatorships have the same policies, at least in some dimensions (see also Cheibub, 1998). For example, they find that the ratio of government expenditure to GDP or spending on pensions relative to national income, does not vary between dictatorships and democracies. Nevertheless, there are quite a few problems with their research. First, they exploit only the cross-sectional variation in the data and they treat whether or not a country is democratic as exogenous. Thus there cannot be any real claim that they have identified the causal effect of democracy on these policy variables. Second, dictatorships certainly also redistribute income and raises taxes, but the burden of these tends to fall on those without political power. Most importantly, one
would expect democracies to raise different taxes, and spend the revenues thus gained differently. This implies that one might not expect government expenditures as a % of GDP to vary much between dictatorships and democracy, but one might anticipate that such things as whether or not taxation is progressive or regressive to differ (Lee, 2003). Finally, and as the above examples suggest, this empirical work may focus too much on income redistribution and after tax incomes. In reality, interventions in the labor market and other regulations which influence the wage structure and the market returns to different assets may be more important in determining the consequences of democracy and dictatorship for inequality.

The types of puzzles we discuss here also arise in the chapters of this volume. For instance, Jaramillo and Saavedra (2008) demonstrate that in Peru there was a quite large fall in inequality from the early 1971 to 1996 with the Gini coefficient falling from 0.55 to 0.38. One cause of this was the redistributive policies, such as radical land reform, introduced by the left-wing military government of General Juan Velasco which took power in 1968. Dictatorships are not invariably anti-poor and pro-elite. The study of Gasparini and Cruces (2008) also generates some puzzles since, as I noted, while inequality rose significantly during the military in the late 1970s, it rose even more under democracy in the 1990s.

Leaving these caveats aside, it is certainly surprising that there is no conditional correlation in the data between a measure of democracy, such as the Polity score for a country, and at least some readily available measures of social spending. Even if there are left-wing dictatorships, there are not many of them. One extreme interpretation of such a finding would be that political institutions are irrelevant for public policy (as argued by Mulligan and Tsui, 2006). Such a view would be hard to accept even if one believed that a political version of the Coase Theorem held so that public policy was Pareto efficient. This is because even is the equilibrium of a society was Pareto efficient different distributions of political power would have implications for where on the Pareto frontier a society would be

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4 A pioneering paper by Aidt and Jensen (2007) examines the forces which led to the introduction of income taxes in OECD countries. Somewhat counterintuitively they find that democracy reduces the probability that a country will introduce the income tax.
and hence observable policies. From a theoretical point of view, however, it is highly unlikely however that a political Coase theorem does in fact hold (Acemoglu, 2003).

The claim that in general there are no implications for public policy of transitions between dictatorship and democracy is consistent neither with the historical evidence discussed above, nor with a great deal of empirical work. For example, Besley and Kudamatsu (2006) have shown that life expectancy is systematically higher in democracies and Kudamatsu (2006) showed in the contexts of democratic transitions in Africa that health outcomes improved in countries which democratized compared to those that did not, at least if their as a change of leader. In their recent work on African economic growth since independence, Ndulu and O’Connell (2007) show that the transition to multi-party politics that took place in Africa in the 1990s was associated with significant changes in economic policies, particularly the reduction in the incidence of what they call control regimes. situations where the government intervened heavily in the economy. Returning to Latin America, the adoption and spread of such policies as Progresa in Mexico is clearly related to the democratization which took place under the PRI which switched political power away from corporatist groups like labor unions, towards rural voters (Scott, 2008). One can see the same forces in action in Brazil with the Bolsa Família program under the PT which was only galvanized by the election of President Lula.

In short, there are many pieces of evidence which are consistent with the view that democracy promotes equality and that a primary reason why OECD countries tend to be more equal than middle income countries is that they are more democratic. Nevertheless, it is also clear that the Western European experience may not be completely representative. To see why this is the case it is useful to delve into another apparent empirical puzzle in the literature on redistributive politics. This is the relationship between inequality and income redistribution. Meltzer and Richard (1981) proposed a simple positive model of income redistribution which suggested that, other things equal, in a democracy greater inequality would be associated with greater income redistribution. The particular fact they were attempting to explain was the increase in the size of the government relative to national income in the United States over the 20th century, and they argued that this was caused by
the enfranchisement or relatively poor people which gradually lowered the ratio between the income of the median enfranchised person and mean income. This model, which subsequently formed the basis of theories about the adverse effects of inequality on economic growth by Persson and Tabellini (1994) and Alesina and Rodrik (1994) suffers from some empirical problems. As Perotti (1996) pointed out, there is no simple correlation across countries between inequality and income redistribution. Indeed, if anything, more unequal countries redistribute less than more equal ones. Though the lack of such a simple correlation has been seen by many as a damning fact for this model, one should be careful is jumping to such a conclusion. Obviously the model does not predict a simple positive relationship between inequality and redistribution across countries since there are many differences between countries which may be correlated with either the demand or supply of redistribution at a particular level of inequality. For example, it could be countries with bad institutions which tend to have high inequality, but in such countries any income which is taxed away is likely to be wasted in corruption or diverted by elites and this will reduce the demand for redistribution by poor people at any level of inequality. Without properly being able to control for omitted variables, it is difficult to infer from cross-national data that there is no partial relationship between inequality and redistribution.

Nevertheless, both the empirical findings of Mulligan et al. (2004) and the failure of a simple cross-country correlation between inequality and redistribution can be given a different interpretation. In particular, it is likely that simple models of democratic politics, such as the median voter model used by Meltzer and Richard (1981) and Acemoglu and Robinson (2006), do not adequately capture the political forces which generate redistribution in reality. Acemoglu and Robinson (2006) note this and develop a more general model of redistributive politics where the “political power” of different groups is parameterized by the weight their preferences get in the determination of the equilibrium level of redistribution. In Meltzer and Richard (1981) it is only the preferences of the median voter that matter, in a more general model of democracy, however, the preferences of other groups will also matter. This means that non-democratic elites may influence the policy in democracy in such a way to reduce the difference between democratic and non-democratic outcomes. Indeed, Acemoglu and Robinson (2008) construct a model where the
elite can solve the collective action problem to influence the equilibrium policy and show that a transition from dictatorship, a situation where the elite controls policy, to democracy, where the citizens have more power, may have zero impact on the expected policies chosen. This is because the elite are able to use lobbying to completely offset the implications of the change in political institutions. Though this is an extreme and somewhat special result, it drives home that the elite has the incentive, and may have the ability, to capture democracy. Acemoglu and Robinson (2007) further argue that the reason that inequality has risen in South Africa since 1994 is that the existing white economic elites have managed to co-opt the new black political elite in such a way as to give them a vested interest in the current distribution of assets and income. They argue that this situation is unlikely to change unless greater political competition emerges or a new political party enters.

Such a “conservation result” may hold with respect to the comparative statics of democracy. For instance, in Meltzer and Richard (1981) greater inequality increases the demand for redistribution by the median voter. But it simultaneously makes redistribution worse for the elite. If the elite had instruments to try to offset the power of the median voter, as the desire of the median voter to redistribute when up with inequality, the desire of the rich to avoid it would increase at the same time and the net effect may well be ambiguous. This latter type of model was proposed in an important paper by Barenboîm and Karabarbounis (2007) (anticipated in many ways by Benabou, 1996) who test its’ implications by regressing income redistribution of two measures on inequality. The first is the ratio of the median to mean income. The second is the ratio of the proportion of income which accrues to the top decile relative to that which goes to the bottom decline. The first ratio is meant to capture the incentive of the median voter to demand more redistribution, the second the incentive of the rich to avoid it. They find, other things equal, that the lower is median income relative to mean income, the greater is redistribution. However, they also find that the greater is the ratio of the top to the bottom decile, the lower is redistribution.5

5 Moene and Wallerstein (2001) take as a fact that there is no relationship between inequality and the size of government or tax revenues and argue that this is because most government spending programs are about social insurance, not redistribution. They develop a model where the demand for social insurance can reduce
Nevertheless, it is natural to believe that democracy tends to change the identity of who receives redistribution and it also tends to increase the extent of redistribution. Democracy may also influence the form of redistribution. This happens because those newly enfranchised by democracy, such as the poor, naturally have different preferences over things like public goods. They will demand different policies. Will politicians supply them? Lizzeri and Persico (2004) argue yes because when politicians have to win a larger number of votes to win power offering voters public goods will become a more attractive political strategy, similarly vote buying will be less feasible and indeed Cox (1987) also argued that democratization in Britain in the 19th century led to a switch from clientelism to programmatic appeals because clientelism is simply infeasible in large electorates. In this case we might expect other things equal, less clientelism in democracy compared to dictatorship. There is not much relevant evidence on this question. Treisman (2000) for example finds no evidence that, other things equal; democracies tend to be more corrupt than non-democracies, although he does find that a sufficiently long history of democracy reduces corruption.

Also relevant is the literature on the connection between democracy and educational expenditures. Though examples such as India are often used to suggest that democracy does not help to promote education there is both cross-country (Baum and Lake, 2003) and historical work suggesting that, others things equal, democracy does promote education. Acemoglu and Robinson (2000b) first pointed out that historically within Western Europe educational expansion followed democratization and this point has been firmly supported by Lindert (2001, 2004). Engerman and Sokoloff (2005) show that a similar relationship holds within the Americas. Though this is only correlation, not causation, case studies suggest that the relationship is indeed causal with greater democracy leading to public demands for education to actually become policy.

as inequality increases. They do not explain however why the poor would not still prefer to introduce redistributive policies.
In conclusion, the evidence from the OECD suggests that democratization had a large effect on labor market institutions and redistributive policies and played a key role in reducing inequality over the last 150 years. Theoretically, it is very easy to understand these facts. For the rest of the world, the relationship is less evident. Though there are instances where it is clear democracy induced the same mechanisms, there also seems to be less redistribution in highly unequal middle income countries than one might expect and democracy also seems to have had a much less radical impact on the distribution of power in society. This generates the possibility that unlike Western Europe, current middle income countries will be able to democratize without setting in motion of a virtuous dynamic of falling inequality and rapid growth. Instead, they may say unequal and relatively poor.

4.2 The Constitution and Electoral System

An obvious source of variation in equilibrium political strategies stems from differences in political institutions. Though taxonomies of different types of authoritarian regimes have been proposed I focus on institutional variation within democratic regimes.

The most important work linking democratic institutions to redistribution is that on the effects of constitutions by Persson, Roland and Tabellini (2000). In their work these authors examine the different incentives with respect to public policy which stem from different forms of constitutions. For example, they argue that presidential systems tend to provide fewer public goods than parliamentary institutions, but that more of government revenues are extracted by politicians in parliamentary regimes. Persson and Tabellini (2000) also developed some simple models of how the form of electoral system influences the form and extent of redistribution arguing that systems of proportional representation were more likely to induce politicians to appeal to broad electorates and thus offer more public goods than politicians operating in majoritarian systems. They also argue, however, that majoritarian systems may promote accountability since there is a clear connection between voters and their representative who can be disciplined.

Leaving aside the specifics of particular models, one over-riding fact seems to be that clientelism is associated with presidentialism and the personal style of politics that goes
along with it. Though in the US, presidentialism is associated with checks and balances and separation of powers, presidentialism in the rest of the world is a rather different animal (see Huntington, 1968, on the uniqueness of US presidentialism). For instance in Argentina, Chile and Taiwan, only the president can introduce a budget and congress cannot increase expenditures (Haggard and Shugart, 2001, p. 79) and it is quite general for presidents to have the agenda setting powers with respect to budgets (Carey and Shugart, 1992, Table 8.2, p. 155). In Argentina, Brazil, Colombia and Russia presidents can decree new legislation without getting any authority from the legislature (see Carey, Neto and Shugart, 1997, for a comprehensive discussion of the powers of Latin American presidents). In Africa the situation is even clearer and more extreme with scholars referring to the “imperial presidency” (Carlson, 1999, p. 39, Nwabueze, 1975). Moreover, as Robinson and Torvik (2008) point out, with the exception of Botswana, Mauritius and South Africa, every African country which started at independence as a parliamentary regime switched to presidentialism. Though this experience makes it difficult to establish the causal effect of presidentialism as an institution, this form of constitution obviously facilitates clientelism and probably also reduces, rather than increases checks and balances.

An important political science literature has examined the impact of electoral institutions on political strategies, particularly the incentive of politicians to engage in clientelism. In an important paper, Carey and Shugart (1995) provided an analysis of the types of features of electoral systems which lend themselves to clientelism (or what they called “personalism”). They argue that clientelism tends to arise when political parties are weak, exert little influence over candidate selection and where votes are cast for individuals, rather than parties. Also important is whether or not votes pool across lists and whether lists are open or closed. Also important is the size of electoral districts and the number of votes a politician needs to win. This literature qualifies the claims of Cox (1987) about Britain. It stresses that the infeasibility of clientelism in Britain after the 1870s may have been due to the form of electoral institutions. In other countries, such as Italy or Colombia, clientelism seems to be consistent with large electorates. It also qualifies the claims of Persson and Tabellini (2000) that proportional representation leads to greater provision of public goods. This may depend a lot on the form that PR takes.
The more recent empirical work of Persson and Tabellini (2003), Milesi-Ferretti, Perotti and Rostagno (2002) has examined the effect of institutional variation on the level of spending. Persson, Tabellini and Trebbi (2003) examine the implications of institutional variation for corruption. They find that larger voting districts - and thus lower barriers to entry - are associated with less corruption, whereas larger shares of candidates elected from party lists .and thus less individual accountability .are associated with more corruption. Individual accountability appears to be most strongly tied to personal ballots in plurality-rule elections, even though open party lists also seem to have some effect. Because different aspects roughly offset each other, a switch from strictly proportional to strictly majoritarian elections only has a small negative effect on corruption.

Unfortunately, it is quite hard to draw strong conclusions from this literature on the form of the constitution and electoral systems as it stands. Firstly, many of the empirical implications seem quite unrobust to small changes in the model and many aspects of these models can be questioned as not capturing well the basic structure of different constitutional arrangements. For example, Robinson and Torvik (2008) point out that if politicians extract less rents under presidentialism than under parliamentarism, as the model of Persson, Roland, and Tabellini predicts, it is rather hard to understand the desire of politicians in most Sub-Saharan African countries to switch to presidentialism after independence. Secondly, this work undoubtedly places too much emphasis on formal political institutions. As is well known, actual political outcomes represent an interaction between formal and informal institutions and the whole point of the .personal rule paradigm.is that the political reality in Africa, and probably in many middle-income countries, is very uninstitutionalized in a formal sense. Personalism is the antithesis of a world governed by formal institutions. Thus the applicability of any of these results in developing countries must be in severe doubt.

Finally, it is not clear what causes what. For example, following Carey and Shugart (1995), to describe situations where political parties are weak, exert little influence over candidate selection and where votes are cast for individuals, rather than parties, as an institutional
environment which leads to clientelism seems to confuse a description of a phenomena with its explanation.

Moreover, the notion that electoral institutions have large independent effects on the level and composition of government expenditure takes as axiomatic the exogeneity of the electoral institutions, something which is clearly problematic. Consider the contribution of Milesi-Ferretti, Perotti and Rostagno (2002). They argue that Scandinavian countries redistribute more because they have proportional representation (PR) electoral systems. Where did these systems come from? Rokkan (1970) showed that in the nineteenth century nearly all European countries had majoritarian electoral institutions. Some switched to PR as mass democracy arrived in the early twentieth century. Why did some (Sweden) but not others (Britain) do so? Rokkan argued that this depended on how strong the socialist party was. When the socialist party was strong (Sweden) incumbent conservative parties feared being eliminated in majoritarian competition and thus switched to PR to preserve some portion of their power. When socialist parties were less powerful (Britain) conservatives felt able to compete under the old institutions and there was no change. Imagine then that the socialist parties favored more redistribution. In this case what Rokkan argued was that the move to PR in Scandinavia was motivated by a desire to reduce redistribution. Why do Milesi-Ferretti, Perotti and Rostagno (2002) find that PR increases redistribution? This is because there is an omitted variable, the strength of socialism which presumably rests on other uncontrolled for socioeconomic variables. Interestingly then, thinking through some of the implications of endogenizing institutions, suggests that the actual impact of PR may be the opposite of the existing conventional wisdom.

Further reason to be skeptical about the causal claims made by scholars about electoral institutions comes from the history of Latin America. In the case of Colombia and Uruguay, for example, the phenomena which the electoral institutions are supposed to have caused (in Carey and Shugart, 1995) actually preceded the introduction of the electoral institutions. In Colombia, parties were weak and politics clientelistic throughout the nineteenth century and endemically so in the period prior to 1929 when PR was introduced. The electoral institutions did not cause weak parties and personalism. If anything it was the other way
The research of Crisp and Ingal (2002) into the impact of the changes in electoral systems in Colombia after the new constitution of 1991, such as the move to elect the senate from a single national district, further strengthens the argument that one should not over-emphasize formal rules. They show that the changes had little impact on the political strategy of senators or voting of citizens.

While I am skeptical therefore about the notion that clientelism is caused by the intricate features of political institutions such as electoral rules, one clear institution that does seem to be connected to clientelism in the form of the ballot. Though clientelism and political exchange may rely on trust, in reality it seems to work much better when voting can be observed or inferred. For example, Baland and Robinson (2008) show that before the introduction of the Australian ballot in Chile in 1958, there was a strong relationship between the presence of inquilinos, dependent laborers on agricultural estates, and the vote share of right-wing parties. After 1958 this relationship vanished. Their evidence strongly suggests that before 1958 the absence of an effective secret ballot (political parties themselves issued the ballots and if a voter wished to vote for say the Radical party, they had to request a Radical ballot, which made it easy to tell how they were voting) allowed landowners to control the way their workers voted.

When relationships exist which allow votes to be controlled, it is the preferences of those who do the controlling that are relevant for political parties. In trying to design policy platforms to win power, parties will aim to please those with the votes. Scott (1972) makes exactly this argument in his discussion of electoral corruption. He refers to individuals whose votes are controlled by others as “locked-in electorates” were (p. 99) “the voter was connected to the larger political system through his agent-patron whose control over his political will was a function of his control over his means of subsistence.” In such a system (1972, p. 98),

“There was no sense in parties or candidates appealing directly to “locked-in electorates.” By definition, these were voters who could be
mustered most easily by coming to terms with their landlord, their employer, or their master who could deliver their votes in the election.”

This immediately implies that public goods will be undersupplied because the benefit that these have on the utilities of those whose votes are controlled is discounted. Instead, parties will want to target their policies to those controlling votes (Baland and Robinson, 2006).

In addition, vote buying, even in the absence of vote controlling, can lead to inefficiency in the provision of public goods when citizens have unequal political power. In this case, rational politicians attempt to target their policies at the most powerful citizens and since public goods cannot be targeted, they are undersupplied so as to make more resources available for buying the votes of these pivotal individuals (this type of inefficiency is closely related to that discussed by Persson and Tabellini, 1999, and Lizzeri and Persico, 2001).

Though one might think this is of historical interest only it is not. Colombia only moved to a similar voting procedure in the 1990s and Brazil switched to electronic voting in 1993 in an attempt to control vote buying and electoral corruption. No other Latin American country currently uses electronic voting.

4.3 State Capacity
Apart from the extent of democracy or the form of the constitution, the “strength” of state institutions is clearly an important determinant of the equilibrium amount and form of redistribution. Above I emphasized that the cost of redistribution influenced both the demand and supply of redistribution and this surely depends on the development of state institutions such as the tax system and bureaucracy. One of the major problems with redistributing income in middle income countries is probably that the state does not have effective ways of monitoring people’s incomes, stopping tax avoidance, a horrendous problem in countries like Argentina, and then redistributing to people. Indeed Menaldo (2007) shows that democratization in Latin American countries only led historically to increases in taxation in countries with sufficiently developed banking industries. His
argument is that once a banking system is in place sufficient information is generated that taxation is feasible. His paper however treats both the development of banking and state capacity as exogenous, and so is far from identifying the casual relationships of interest. It is quite likely, however, that strategies such as populism owe at least part of their attractiveness to the fact that state incapacity means that other instruments of redistribution are not available.

There are many sweeping theories of the origins of state capacity, though most of them are quite far removed from any likely policy conclusions. The academic literature, for instance that due to Tilly (1990), Ertman (1997), Herbst (2000) and Bates (2001), Centeno (2002), and Mazzuca (2007) (though see Robinson, 2002, for some caveats about the empirical applicability of much of this work outside of Europe). This work tends to emphasize deep historical causes for the failure of some parts of the world to develop effective states. For example, intensive inter-state warfare is argued to be a potent source of fiscal capacity in Western Europe. Even if this is true, we are unlikely to advocate that middle income countries engage in more wars to create an incentive to develop state capacity!

Herbst and Bates attempt to explain why African states have so little “capacity” and why the continent is plagued by state failure. A state is meant to provide certain public goods in society, such as law and order, defense, contract enforcement, and infrastructure. Yet most Africa states provide very few of these. They are unable to exercise control over much of their territory, they do not provide order or public goods. What then is different about African states that leads them to diverge so radically from our ideal?

The Herbst-Bates thesis builds on a rich tradition of work on the origins of European Nation States initiated by Max Weber. This literature attempted to explain the origins of modern institutions such as nation states with well-de ned territories. Nation states are characterized not just by borders and citizens with national identities, but also by bureaucracies, fiscal systems, and representative institutions such as parliaments. Especially influential has been the work of Tilly (1990). The central idea of this literature is that the high population density of Europe made land relatively scarce and valuable to control,
particularly from the late middle-ages onwards. This and technological change in the methods of warfare (e.g. more sophisticated battle tactics and rearms) drew states into continual conflict. But warfare is costly and early modern states required resources to attack and defend. Kings were therefore in a continual battle with Lords and Commoners over taxes. To get money for wars, Kings had to build bureaucracies, they had to gather information and map their territory and people. They also had to make concessions - such as creating regular parliaments where citizens could have a voice. An alternative to concessions was to crush domestic opponents who resisted the demands of Kings. All these things were necessary to survive. If a state did not become “stronger” then typically it became extinct, as was the case with Poland.

This process created the modern system of nation states with their familiar institutional infrastructures that consolidated in Europe in the nineteenth century. The Herbst-Bates thesis is that this process has not taken place in Africa. It did not take place historically in the pre-colonial era, it did not take place during the colonial epoch, and it is not taking place since or now. Why?

Africa is different because the structural conditions that led to the path of state formation and institution building in Europe were absent in Africa. Firstly, unlike in Europe, land was and is not scarce in Africa. Rather labor was scarce. Thus in the pre-colonial period states did not fight over land, but rather people. This explains why property rights in people (slavery) are well defined, but those in land were not (to this day most land in Africa is held communally). This meant that pre-colonial states had vague borders and were often very weak. Without the constant necessity of defending a well defined territory states did not need to invest in bureaucracies, censuses of their population, tax collectors, permanent militaries. Herbst also argues that this explains the absence of pre-colonial mapping in Africa.

This absence of external threats coupled with low population densities persisted. During the colonial period there was little fighting over borders between the colonial powers. The conference of Berlin in 1885 largely determined which European power would have which
bit of Africa. This meant that like the pre-colonial polities, European colonial powers had little incentive to develop state institutions. Instead they focused on commercial exploitation and outright plunder of the mineral and natural wealth. The exceptions to this are the settler-colonies of South Africa, Rhodesia, and to a lesser extent Kenya. Following independence, the situation could have changed but it did not because the International state system and United Nations decided to enforce the colonial boundaries that had largely determined the form that the new nations took. This trend was reinforced by Cold-War politics. Thus African states were still able to survive without having to engage in the type of institution building that occurred historically in Europe. When the borders were threatened, such as when rebels from the Sudan recently invaded Chad, they could reply on the United Nations or European powers, specifically the French, sending troops to the rescue.

Herbst and Bates argue that the lack of development of African state institutions helps explain many aspects of modern Africa. Since states never had to fight to survive they never had to build effective fiscal institutions. Therefore they have no tax bases and instead have to engage in highly distortionary methods of raising taxes (such as taxing trade) or redistributing income (for example via employment in parastatals). Since states never had to fight to survive, rulers never had to consolidate their rule and crush domestic opposition. Hence the incidence of warlordism so evident in countries such as Angola, Liberia, and Sierra Leone. Since states never had to fight to survive, they never had to make political concessions to their citizens. Hence the lack of functioning domestic political institutions such as parliaments and the completely unconsolidated nature of democracy in Africa. Moreover, the lack of these institutions can help explain the extent of venality and state corruption in Africa since these institutions provide key checks on abuses like this. Finally, this set of institutions has been further encouraged in the last fifty years by foreign aid and development assistance. These transfers give states valuable resources that allows them to stay in power without having to develop indigenous state institutions to raise taxes. Thus the incapacity of African states has been reinforced not just by Cold-War politics but also by less cynical attempts to help.
Leaving deep history aside, the more relevant question is probably why governments do not have incentives to create state capacity. This is a political issue. Bolivia does not have an income tax yet when President Sanchez de Losada tried to introduce one, poor people rioted in La Paz and he withdrew the proposal. But poor people are exactly the ones who ought to benefit from the introduction of the income tax?

Acemoglu, Robinson and Santos (2008) use Colombian evidence to propose a more political theory of the persistence of state incapacity. They study the specific instance of the paramilitaries who controlled large areas of the country as a consequence of the weakness of the central state. A basic thing that the state is supposed to possess is a monopoly of the means of violence. This is something that the Colombian state clearly does not have and as a result it cannot impose a uniform set of rules on large parts of the nation. Why doesn’t the central state move to eliminate these competitors? A simple argument would be that it just cannot, but Acemoglu, Robinson and Santos (2008) identify two mechanisms through which it might not want to. First, they show that paramilitaries, by heavily influencing the outcomes of congressional and senatorial elections get to vote on the very laws which are meant to eliminate them, with the obvious consequences. So the state doesn’t want to eliminate these non-state armed actors because they themselves become part of the state. Second, the authors show that paramilitary controlled areas voted heavily for President Uribe, the man in charge of the demobilization of the paramilitaries. Thus national politicians may not have an incentive to eliminate such actors because they deliver votes in a relatively cheap way. This is not to argue that President Uribe formed an explicit coalition with the paramilitaries, but only that his policies are closer to those that the paramilitaries prefer.

Though it is difficult to disentangle cause from effect, the poor state capacity of middle income countries seems to play a potentially important role in explaining the lack of redistribution. This is because state capacity influences the cost of redistribution but also because it determines how level the playing field is and whether or not the interests of poor people get represented in the political system. Perhaps one should not over-emphasize this argument.
It was not a sudden development of state capacity which led to a huge fall in inequality and poverty in Brazil after 2002. It was the election of the Worker’s Party and a radical change in policy. It turned out that to give cash transfers to poor people required an amount of capacity that even the Brazilian state had. Still, the state had enough capacity to make sure the candidates of the PT were not murdered. Something which the Colombian state could not guarantee to the candidates of the left-wing Unión Patriótica in the 1980s.

4.4 Modernization
Could development and the structural changes it brings itself change the equilibrium amount of redistribution? At some general level there are many potential mechanisms. For example, rising education may make voters more sensitive to economic policies and less prone to vote on the basis of ascriptive characteristics such as ethnicity. This will tend to lead to more redistribution. Several of the studies in this volume, for instance Barros, de Carvalho, Franco and Mendonça (2009), Eberhard and Engel (2009) and Jaramillo and Saavedra (2009), all emphasize the key role of the distribution of education in driving the dynamics of inequality.

Modernization has featured heavily in the political science literature which has discussed the conditions under which a society tends to have clientelistic politics. The basic idea in political science is that clientelism characterizes “unmodernized” polities (e.g. Lemarchand and Legg, 1972). Indeed, clientelism is seen as an extension of pre-modern politics. In some models the attractiveness of clientelism may depend on the level of per-capita income. For example, in Robinson and Verdier (2002) the higher is per-capita income, other things equal, the greater the opportunity cost of inefficient clientelistic redistribution and the less attractive it is. In their model, income growth can lead to the abandonment of clientelism, and this certainly formalizes some of the ideas in the political science literature.

A central aspect of modernization, as conceptualized by Lipset (1959) was the emergence of a strong middle class. A large group of theories in political science connect the middle class to institutional change (e.g. Moore, 1966, on democracy) and the rise of the middle
class has also been seen as a driving force behind the Progressive Era in the US which significantly reduced corruption and clientelism. Thus the development of a strong middle class ought to promote better policy outcomes.

What cross-country evidence there is, is roughly consistent with this. Apart from the evidence cited above on the cross-country determinants of transfer income, there is very little work on how to measure or account for clientelism. I know of no good work trying to explain the composition of government expenditures across countries in order to test some of the ideas I have discussed. One idea is to look at corruption. Empirical studies which use cross-sectional variation find that the level of per-capita income has a robust negative effect, other things equal, on corruption (e.g. Treisman, 2000, Persson, Tabellini, and Trebbi 2003, Persson and Tabellini, 2003). Nevertheless, examples such as the persistence of endemic clientelism in Italy at least into the 1990s and the widespread clientelism currently argued to exist in middle income countries such as Argentina and Colombia does not suggest that simply waiting for growth to end clientelism is a very attractive option.

Finally, the evidence of Acemoglu, Johnson, Robinson and Yared (2008) strongly suggests that one ought to be careful in assigning strong properties to modernization. Once one examines the “within variation”, many institutional developments are much less connected to economic growth they appear to be from the “between variation.”

4.5 Factor Endowments and Natural Resources
Natural resource endowments may also be an important source of policy variation. Countries with economies centered on the extraction of natural resources such as oil or precious minerals like gold or diamonds are seen to be particularly prone to clientelism, for example. This is because such endowments give the government a solid resource base which they can use for patronage. Even if the rest of the economy collapses due to state incapacity or failure to provide necessary public goods the income from the resources keeps owing. In addition, since natural resource rents can so easily be taxed in poor countries with inadequate fiscal systems, the greater the share of such resources in income, the greater the benefits from holding power. Since clientelism is a strategy aimed at staying in
power, the greater the benefits of being in power the more endemic will be clientelism (see Robinson, Torvik and Verdier, 2006, for a formalization of this argument).

Nations that depend on the extraction of natural resource enclaves are thus thought to be highly prone to clientelistic strategies. To quote Leonard and Strauss (2003, p. 13)

“Enclave economies, we argue, are a foundation for personal rule. In such regimes, rather than developing infrastructure or institutional capacities for broad-based markets, states collect and distribute “rents” (taxes and bribes) as patronage. An enclave economic base allows personal rule to sustain itself over the long run both because enclaves themselves are susceptible to state predation and because enclaves do not depend on widespread productivity for their sustenance. Thus the state’s primary function can be private patronage distribution because wealth generation does not depend on development.”

The relevant empirical evidence on this, due to Treisman (2000), looks at the connection between natural resource exports and corruption. His findings suggest some evidence that countries where natural resources are a high fraction of income tend to be more corrupt, other things equal. Persson and Tabellini (2003) also show that the size of government is larger in such economies.

There are also many arguments in the literature linking resources to political institutions, such as democracy (Dunning, 2008) or the development of state capacity.

4.6 Other Socio-Economic Variables
One interesting factor here is globalization. Many empirical studies have found that greater trade openness or globalization reduces corruption (e.g. Treisman, 2000). Since much corruption relates to the political system, greater corruption is almost certainly with less political accountability and thus relevant for the political economy of redistribution. This finding is also consistent with more detailed country work such as that of Diaz-Cayeros,
Magaloni and Weingast (2000) on the collapse of PRI hegemony in Mexico, and that by Golden (2001) on the collapse of Christian Democratic hegemony in Italy. In both cases political parties which had sustained their power for decades using highly clientelistic strategies, collapsed in the face of changed international environments. The most likely explanation of this seems to be that globalization changes the socioeconomic structure and undermines the political base of clientelism. For example in Mexico, globalization led to a large expansion of maquiladores in the northern states. These firms had non-unionized workforces whose political activities were not controlled by the unions associated with the PRI. This provided a political base for other parties such as the PRD.

What about inequality and poverty? The notion that relative poverty may be an attractive political characteristic (first discussed by Dixit and Londregan, 1996) seems overly optimistic. When voters have strictly diminishing marginal utility of income, poor people have higher marginal utility. This means that they are willing to change their voting behavior for smaller amounts of money than richer people and hence are cheaper for politicians to “buy.” The problem with this story can be illustrated with the following idea from Robinson and Verdier (2002). Imagine that incumbents governments have to choose some action before an election, such as how much public good to provide and this public good increases individual incomes. When poor individuals are cheaper to buy, this gives politicians an incentive to under-provide public goods in order to keep them poor and make them cheaper to buy.

4.7 Political Competition
The extent to which any of these mechanisms come into play plausibly depends on the amount of political competition. For example, even if a group cannot solve the collective action problem this may not matter if they are numerous enough that politicians need their support. An interesting example of this comes from the work of Bates (1997). In his work on Ghana, Bates (1981) showed that because cocoa farmers were smallholders they had been unable to solve the collective action problem. Cocoa farmers were also politically disadvantage because they were primarily Ashanti, and the early post-independence governments in Ghana, particularly under Nkrumah, were based on a non-Ashanti coalition
of ethnic groups as I noted above. As a result, cocoa farmers were heavily penalized. Compare this to Colombia where the majority of coffee growers are also smallholders. Bates (1997) showed that coffee growers had been favored by policy because of the intense political competition between the Liberal and Conservative parties. Thus Bates provided a very interesting example of a situation where political entrepreneurs had solved the collective action problem for producers because they had seen it was in their direct electoral interests.

The question of the impact of political competition on pro-poor policy is particularly interesting because despite the Chicago-style intuition that political competition, just like market competition, must be good, many of the recent theoretical models suggest that in fact it is bad. Highly relevant for this paper, this is true in Persico and Lizzeri´s model (2005). These authors allow the number of political parties to vary exogenously in a model where parties can compete by offering broad public goods which benefit all citizens or transfers that can be individually targeted. They show that when there are more parties, a situation they call more competitive, the smaller the expected vote share of any particular political party. The smaller is this vote share the less attractive is the provision of the public good (since this benefits all agents even those not expect to support you) and the less efficient in expectation in the equilibrium.

One might complain about the definition of political competition here. Moreover, it seems somewhat unrealistic to imagine that political competition is always and everywhere bad.

There is as yet very little hard empirical evidence about the impact of political competition. Besley and Preston (2007) find that increased political competition within Britain leads to more political accountability. In their analysis and interpretation of the evidence, greater competition means that politicians have to work harder to improve their reputations and this is socially efficient. Besley, Persson and Sturm (2006) use the enfranchisement of blacks in the US South after the 1965 Voting Rights Act as a natural experiment in political competition and argue that this played an important role in the economic catch-up of the South. Unfortunately, there are issues of identification here, since the voting rights act went
along with many other social and political changes and indeed non-southern states had poll taxes which were abolished at the same time. Moreover, the mechanisms seem quite surprising. For instance the authors find that enfranchisement led to lower corporate taxes, not at all what one would have expected from giving voting rights to relatively poor people.

While political competition seems potentially important, it is also hard not to see it as the consequence of deeper cleavages and forces in society, on which it may be more enlightening to focus.

4.8 Political Identity
One of the factors listed above which I argued influenced the direction and quantity of redistribution was the ability of the poor to form a political party or perhaps equivalently to capture the agenda of an existing party. The case study literature from political science, following the seminal work of Shefter (1977), suggests the overwhelming importance of this factor. Shefter (see also his 1994 paper) made a distinction between political parties that were “externally mobilized” and those that were .internally mobilized.. Parties that were internally mobilized formed within the current political system and were able to have access to government employment, contracts and all the other usual levers of patronage. Parties that were externally mobilized however did not have these advantages. They could not compete for power by offering clientelism and instead had to adopt programmatic, non-clientelistic methods of competing. Shefter initially used this model to explain the collapse of clientelism in Britain, Germany and Italy.

Shefter`s model certainly has theoretical problems, for example if patronage is so useful why can’t externally organized parties use it when they attain power? Nevertheless, it appears to have very widespread empirical applicability. Indeed, most of the case studies of the collapse of clientelism t very well into his simple dichotomy. One example of this includes Chubb`s (1982) superb study of the Christian Democratic machine in Palermo and Naples. Chubb describes in great detail how the control of patronage, particularly public sector employment, allowed the Christian Democratic party to be continually re-elected despite completely failing to deliver socially beneficial policies. In 1975 the Christian
Democrats lost control of Naples to the Communists and clientelism ended because the Communists were committed to a non-clientelistic public sector employment policy. Chubb also explains why the Communists won in Naples but not in Palermo. This was because the central government in Rome followed a regional development policy which entailed building large industrial plants in Naples, but not Palermo. The employment practices of these plants were constrained by the fact that the workers were organized by labor unions who were closely connected to the Communists and who opposed the clientelistic practices of the Christian Democrats. This provided an electoral base for the Communists and broke the electoral dominance previously provided by the control of public sector appointments.

This analysis is consistent with that of Tarrow (1967, p. 44) who suggests that,

“faced by the well organized interest groups of Milan, Turin and Genoa, southern clienteles are unable to bargain effectively since they can only trade in personal favors. The lack of political integration between the regions ... is a structural factor; the clientelistic system is actually congruent with the south’s fragmented social structure and resists or modifies the forms and techniques of a modern party system.”

Another important example just as well documented is the fall of clientelism in Porto Allegre in Brazil (Abers, 2000). Other examples of the collapse of clientelism fit into Shefter’s scheme. An interesting example comes from the evidence on the effects of political and scalar decentralization in Colombia. Angell, Lowden and Thorp (2001) studied the impact of political decentralization in four Colombian cities, Pasto, Manizales, Ibagué and Valledupar. An important force breaking clientelism in Pasto was the election of Antonio Navarro Wolf in 1994, one of the leaders of the M-19 party. M-19 was originally a guerilla movement which laid down its arms in the 1980s and became a political party, another example of an externally mobilized party. We have already discussed the strategies of the PT in Brazil and MAS in Bolivia, both of which also seem to fit comfortably within these ideas.
In all these cases it was the rise of an externally mobilized party which was committed to non-clientelistic strategies which marked a dramatic change in the political equilibrium. This led to much more pro-poor policy and a greater provision of public goods. Note however that what is important about this evidence is that a clientelism of the rich was not simply replaced by a clientelism of the poor, there was a qualitative change in the nature of politics and a switch away from clientelism to a socially much more efficient form of political competition.

5 The Political Equilibrium in Unequal Middle-Income Countries

Let me now try to pull the threads of this discussion together. So far we have seen many different mechanisms at work which drive the direction, quantity and form of redistribution and determine how unequal society is. I have also discussed many ideas about the circumstances which bring these forces into play. I now give a stylized characterization of a political equilibrium which is relevant for the types of countries which the UNDP is focusing on in this project.

The typical highly unequal middle income country will be one which has only quite recently become a democracy. Chile, for example, only returned to democracy in 1990, Brazil did so in 1985 and even then in an initially restricted form with a constitution crafted by the military. Bolivia redemocratized in 1982, Argentina in 1983, though for Colombia and Venezuela this was earlier in 1958, albeit of a very uncompetitive and oligarchic form. Democratization in South Africa and Mexico is even more recent and neither Egypt nor Tunisia are democracies. The British and Western European evidence suggests that even after democracy is created, it takes quite some time, probably at least 20 years, for the change in political power to be manifested in different parties and different policies which favor the poorer segments of society. This means that it may be too early to expect a lot of redistribution in newly democratized Latin American countries. Seen from this angle the signs are good in Brazil and Chile, for instance, and the signs in Guatemala or Peru are not very surprising.
Nevertheless, one should not take it for granted that the historical experience of Latin American or other middle-income countries will follow those of Western Europe with socialist or other parties in favor of reducing inequality naturally emerging after some lag. Many Latin American countries did experience quite long spells of democracy in the 20th century and this did not seem to generate the same forces that came into play in Western Europe. As Coatsworth (2008) has so persuasively argued, the political equilibrium in Latin America has been path dependent for 200 years. I don’t see any reason for this to stop now. More common than the socialist parties which are highly associated with mobilizing resistance to inequality in Europe have been populist parties. The return to democracy in Latin America has also led to the resurgence of populism, particularly in Argentina and Venezuela. Even if this is left-wing populism, it seems highly clientelistic in form (see Hsieh, Miguel, Ortega and Rodriguez, 2007, on Venezuela). It is also likely that elites who disfavor redistribution will continue to wield far more power in democracy in these countries. It is not a coincidence that these countries democratized much later than Western Europe and have grown much slower in the last 150 years. This was the outcome of policies favored by the elite. They had a large incentive to avoid mass democracy and when it came they had a large incentive to capture it (Acemoglu and Robinson, 2008).

The typical country under consideration will have a presidential system and a proportional representation electoral system. It will probably experience quite volatile fiscal policy with a pronounced electoral cycle. Indeed, Drazen and Brender (2005) find that among developing countries it is only are new democracies that an electoral cycle exists. They explain this as stemming from a desire by politicians to convince skeptical citizens that democracy “works.” Such a country probably does not have a very effective state apparatus and it has a long history of politically driven appointments in the bureaucracy, though some institutions, maybe the central bank, do have a history of greater meritocracy. Finally, such a country will probably have very clientelistic policies with an endemic under-supply of public goods.

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6 The political science literature emphasizes that just because many Latin American countries adopted “Washington Consensus” style reforms in the 1990s does not imply that populism vanished. It survived using different instruments, see Gibson (1997), Roberts (1995, 2008), Roberts and Arce (1998), and Weyland (2002).
6 Policy Implications

What are the policy implications of this analysis? If high levels of inequality in middle income countries are an obstacle to their growth and if neither natural market nor political dynamics will remove this inequality, what policies can the international community propose that will help?

The view of political economy, of course, is that policy advice as such is irrelevant. Policy and institutional outcomes in a particular country are the result of political actors and groups acting rationally given the constraints and incentives they face. They know they could have done different things, but this was not optimal for them. Indeed, it was not policy advice from those concerned about inequality which led to changes in social policies in Brazil and Bolivia, it was the rise of the PT and MAS. Poor people got organized and they influenced the political equilibria in a direction which was favorable to their interests and probably conducive to the interests of society in some more general sense. These are probably hopeful examples, though as the Venezuelan experience emphasizes, there is a distinct concern that what is required is not simply mobilization of the poor and the emergence of pro-poor clientelism, but a phase transition from clientelistic to non-clientelistic politics. Brazil has possibly managed this and maybe Chile to.\(^7\) It is much less clear that this is the case in Bolivia.

Though policy advice may not be powerful, incentives and constraints are. The international community can provide both of these. How should it attempt to promote equity in middle income countries? It should not do this by stressing the impact of such policies as Bolsa Família. If this played an important role in getting President Lula re-elected, Latin American politicians will have understood this much faster than the UNDP. Rather, international institutions should focus on influencing the institutional environment in which particular policies get chosen in order to nudge the political equilibrium in the direction of greater equity. I have emphasized that even if democracy in Bolivia or Guatemala may not be qualitatively similar to democracy in Sweden or Belgium, it is

\(^7\) Personal correspondence with Susan Stokes about her ongoing research in Chile.
nevertheless a movement in the right direction. It is crucial for international institutions to support the institutions of democracy and their consolidation. But democracy is not enough. Institutional reform is required to make democracy work well and to really make it representative of most people’s preferences. The most powerful examples of this paper illustrate how important political parties are here. Income redistribution did not begin in earnest in Britain until the Labour Party became an important political force, and these examples are powerfully echoed in the Brazilian and Bolivian cases. The most powerful ideas in political science about the demise of clientelism also link it to the rise of new political parties. Probably we can’t expect the arrival of parties with non-clientelistic redistributive agendas to be a natural outcome of democracy so international institutions have an important role to play in helping civil society to mobilize and act collectively. We need much more research on this and a deeper understanding of when collective action is successfull and why it fails.

Another factor which appears critical in deepening democracy is the independence of the media, something vividly shown by the Peruvian experience.

Formal political institutions are crucial as well. An obvious one is the nature of the executive. Presidents in Latin America and Africa have too much power. In the past this has been a potent source of political instability and democratic collapse (Linz and Valenzuela, 1994) and it is almost certainly also connected to clientelism and populism. Both styles of politics have a personalist flavor which is complementary with clientelism and patronage driven politics. Presidentialism is also often connected to weakness of political parties, which again seems to mitigate against equality promoting reforms. An important agenda for institutional reforms in Latin America would emphasize the strengthening of legislatures and the restriction of presidential powers.

Unfortunately, the countries that need institutional reform are precisely the ones where improving institutions will be difficult. Acemoglu, Robinson and Torvik (2008) ask why it is that while the normative political economy literature emphasizes the desirability of checks and balances to executive power, voters in Venezuela, Peru, Colombia and
Argentina are prepared to vote to strengthen the powers of presidents and remove checks and balances. They argue that this is precisely because institutions that generate check and balances reduce the rents to politicians they also reduce the probability that policies directly in the interests of the median onto the political agenda. This may be the case because when politicians extract few rents, they are easy for elites to co-opt. In societies with great inequalities, the median voter may be prepared to concede rents to politicians, and even risk being saddled with politicians whose preferences are not aligned with the national interest, in order to increase the chance they can get their preferred policy.

7 Conclusion

In this paper I have provided a survey of the political economy of income redistribution. My main argument was that it is impossible to think about the distribution and redistribution of assets and income without thinking about politics and I tried to summarize some of the factors that seem to be important in determining the distribution of political power in society, and this inequality.

I put these ideas together to provide a stylized picture of the political economy of middle income countries and the likely barriers they face to moving towards greater equality. Political economy emphasizes that you can’t improve equality or growth just by suggesting good policies unless political actors have the right incentives to adopt them and people have the incentive to demand them. Even if foreign aid might potentially be used to create incentives, middle income countries are not going to be big recipients of such aid. This means that international institutions, such as the UNDP, have to use their influence and clout to promote reform of political institutions, such as democracy and the constitution, which are likely to move the political equilibria of these countries in a direction more likely to trigger the virtuous circle of falling inequality and increasing growth that OECD countries experienced for much of the 20th century.
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