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DOES INEQUALITY HARM DEMOCRACY?
AN EMPIRICAL INVESTIGATION ON THE UK

Abstract

This paper presents an empirical investigation about the effect of increasing economic inequality on some aspects of the quality of a democracy. The main novelty of the paper lies in its methodology: it applies to a single country - the UK – in a long run perspective. Using Eurobarometer data for the period 1974-2009, we select three questions and check whether an increase in inequality alters the answers to these questions, subject to other control variables. In particular, as indicators of the quality of democracy, we select the degree of Democracy-Satisfaction, the frequency of Political Discussion and Participation in Election. Another novelty is the use of several measures of inequality: the Gini coefficient, the Foster-Wolfson polarization index, the interdecile ratios P90/P10 and P90/P50, the shares of top and bottom 1%, 5% and 10% income. Inequality indices have been computed using two British household budget/expenditure surveys, i.e. the Family Expenditure Survey and the Family Resources Survey. Using an array of indicators allows us to disentangle what happens in the different parts of the income distribution and to avoid the dependence of the results on the choice of the indicator. The estimation is carried out estimating probit and ordered probit models. The main finding is that higher level of income inequality, no matter how it is measured, impacts negatively on citizens' satisfaction with democracy and positively on their political discussion and intention to vote. This leads to the issue of limiting inequality as an engine of deterioration in the quality of democracy, and sustaining an active citizenship.

Keywords

Economic inequality, Factor analysis, Inequality indices, Quality of democracy, United Kingdom

1. Introduction

In western advanced economies the reduction in income inequality has been sharp and general since the 1st World War. Data for the period post WWII-1970s still support the Kuznet's vision of an inverse-U relationship between development and inequality, but after the 1970s a sharp reversal of that equalizing tendency started to be the rule. Income inequality increased both in boom and recession and widened in the two decades since the mid-1980s. In the late 2000s the majority of OECD countries were experiencing high Gini coefficients: the English speaking area – notably the US and the UK – and several European countries were ranging from the minimum of 0.30 for the Netherlands to the maximum of

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0.41 for the US in the 2000-2010 period, while Northern Europe (Scandinavian block first) and Japan positioned on average well below 0.30, which is considered a "very good Gini" (Stepan and Linz, 2011, p. 847 and 854). Moreover, English-speaking countries have been showing another peculiarity: in US, UK, Canada, Australia, New Zealand and Ireland the share of top 1% in total income before tax is U-shaped with the rising portion appearing after the 1970s (while the continental Europe - precisely France, Germany, Netherlands, and Switzerland - exhibits an L-shaped form). Both aspects - the fact that inequality in the majority of the western economies is increasing and that there is a huge disproportion between the top and the remaining of the distribution - started to be recognized as a social problem.

This seems particularly true when considering that social mobility shrank in some countries of the first group: the correlation between sons' and fathers' incomes in 2005 was sensibly higher in the US and the UK than in Germany and Scandinavian countries: "*broadly, social mobility in the UK seems to have fallen from North European to something close to US level*" (Glyn, 2006, p. 174); the probability for the son of being in the same earnings quintile as his father is substantially higher in both the 1st and 5th quintile in the US and in the UK than in the Scandinavian group where the probability is smaller and equally distributed (OCSE, 2008, p. 206); the correlation between this intergenerational income elasticity and income inequality – the so called "Great Gatsby Curve" (Krueger, 2012) – is high, and it is still the US and the UK to perform the worst; lastly, whilst a reliable measure of social disease - the index of health and social problems elaborated by Wilkinson and Pickett (2010) - barely shows any relationship with the per-capita national income in rich countries, it appears strongly related to inequality. Thus, there is a piece of evidence that where income differences are bigger, social distances are bigger and social stratification more remarkable. The social distance among population-groups can become enormous and it can lead to social exclusion through differences in consumption sphere, in health and housing conditions, in access to education and to labor market, and in the social-relation network. A harmful environment for the attractiveness of the democratic institutions to their citizens might easily develop.

The difficulties to a correct working of democracy when population is divided by income and wealth are widely dealt with in the political science (and also sociology) literature[4]. Since Aristotle, the scholars of politics have theorized that the proper functioning of a democracy depends on a relatively equal distribution of economic resources. For all, Tocqueville stated that the degree of equality is the best predictor of democracy stability, and of the quality itself of democracy. More recently, Dahl (1971, 2000) reminds that economic resources easily become political resources and that an unequal distribution can generate frustration and can reduce the sense of community and legitimacy leading to a subtle deterioration of democracy. For our mature western democracies an appreciable degree of income inequality is not as dangerous as in provoking dramatic outcomes. Movements of de-democratization rather occur within the democratic regime inducing a failure in the proper functioning of institutions that eventually leads to a deterioration of trust and to an estrangement from participation. The trend of de-participation leaves empty spaces that

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[4] See, for instance, Karl (2000); Bermeo (2009); Bartels (2008); Thorbecke and Charumilind (2002); Mueller (1988); Bollen and Jackman (1985); Boix (2003).

may well lead to an oligarchic power (in the specific case of a wealth-driven power, the *plutarchy*, in the Hacker-Pierson terminology, or *plutonomy* elsewhere), or to a power that is centered more and more on the interest of the few. The desire to keep privileges can favor the partial restriction of an open democracy (Winters, 2011).

The quantitative literature concerning the effects of inequality on democracy is very scant and it is not centered on the idea of testing *the quality* of democracy, with few exceptions (Sunde *et al.*, 2007; Solt, 2004, 2008; Anderson and Beramendi, 2008) considering an array of countries. Our paper joins these contributions in so far as it aims precisely at evaluating the quality of democracy. More specifically, we first test how inequality impacts on citizens' satisfaction, which is a suitable indicator for the concept of "responsiveness" (Diamond and Merlino, 2004, p. 27). Then, we inquire about the citizen's reaction towards two of the main characteristics of political life: participating in discussion and voting. In addition, we depart from the existing literature which performs cross-country analysis either on developing countries or on a mix of developing-developed ones.[5] We are not interested in a worldwide comparison because developing countries differ in fundamental ways from the developed ones, and democracies in transition have to be studied separately as well. Even within the universe of the developed countries with fully grounded democracy things are different: the kind and the reach of policies, their timing, the country-specific social norms and institutions, their position in the global economic context and so on. In fact, *".... our results suggest that inequality is determined by factors which differ substantially across countries"* (Li, Squire and Zou, 1998, p. 27). This statement – based on a wide empirical evidence – implies that income inequality depends on the country-specific socio-politico-economic framework, which is sluggish to change, and it reflects the fact that the drivers of income inequality (changes in demography and living arrangements, labor market trends and government re-distribution, *in primis*) have varied sensibly across OECD countries: no single story holds for all. How could the effect on democracy – intended as citizens' reaction *vis-à-vis* institutions – be the same?

Thus, this paper will concentrate on a well grounded democratic country only, with a rich advanced economy, performing a time-series analysis for the last thirty years through the pooling of cross-section survey-data for the period 1974-2009. The country chosen is the UK on the basis of the following criteria: i) both the US and the UK have recently experienced an exacerbation in inequality but the income composition at the very top is less earnings - than wealth-based in the UK, making the fashionable top-incomes problem less relevant; ii) UK is a country with higher taxation level and that redistributes more than the US; iii) UK is the country that invented the modern Welfare State and is a country with an historical level of inequality much lower than the U.S.

Last but not least, we do not limit ourselves to the Gini index only as "the" indicator of inequality and we use several additional indicators. Our purpose is twofold: disentangling what happens in different parts of the income distribution and avoiding the dependence of the results on the choice of the used indicator.

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[5] See Thorbecke and Charumilind (2002) and Atkinson and Brandolini (2006) for reviews.

The paper is organized as follows: the data and their sources, the variables and the model are illustrated; the results of the empirical investigation are provided and commented. Concluding remarks briefly summarize the findings.

2. Data sources and variables

The Eurobarometer Survey was used for the "quality of democracy" variables since *it* is the only survey that covers the whole time period we are interested in. As for income inequality, we computed inequality of household equivalent disposable income for the period 1971-2009 using *Family Expenditure* Survey (FES) and *Family Resources Survey (FRS).*

2.1. Dependent variables

As possible indicators of the quality of democracy we selected the three following questions:

- *Democracy-Satisfaction*. It corresponds to Eurobarometer question *"on the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the way democracy works in your country?"*.
- *Political Discussion*. This is the answer to the question: *"when you get together with friends, would you say you discuss political matters frequently, occasionally or never?"*
- *Participation in Elections*. This variable is built from the question: *"if there were a general election tomorrow, which party would you support?"*

2.2. Inequality indices

Several inequality indices have been computed using the above mentioned British household budget/expenditure surveys. In theory, different indicators can tell a different story on inequality and should they show different trends findings might be entirely due to the index choice. This is why no choice has been made and ten distinct indicators were calculated and used.

In addition to the well-known *Gini coefficient*, we computed the *interdecile ratios P90/P10* and *P90/P50*, the *share of the top 1%, 5%* and *10%,* the s*hare of the bottom 1%, 5%* and *10%, and* the *Foster-Wolfson polarization index*, which is *"… a Gini-like index measure of bipolarization based on the curve*.....[that] *indicates how far each population percentile's income is from the median income"* (Lambert, 2010, p. 241).

The ten indices are highly correlated (results are available from the authors on request), all telling the same story about inequality in UK: income distribution has been relatively stable during the 1970s, then there was a sharp increase in inequality from late 1970s to the early 1990s followed by an up and down movement without any of the dramatic changes seen in the past.

This same high correlation suggests that they may be expression of the same *latent construct,* a concept used in factor analysis, that is reflected into *observable indicators*. The latent construct can thus be interpreted as the inequality imperfectly measured by different indicators that are rough and partial realizations of a higher level concept (Bollen and Lennox, 1991; Edwards and Bagozzi, 2000). Using factor analysis, we are able to find (and measure) the latent variable lying behind (results of the factor analysis are available from the authors on request). In the progress of the paper we will mainly focus on this variable - duly standardized - that we simply call *Inequality* - leaning on the other inequality indices for comparison only. As we expect, given the high correlation, results are largely similar for all indicators.

2.3. Control variables

Personal and household characteristics were considered as control variables: age, education (university and secondary degree vs. lower educational level), gender (male vs. female), marital status (married vs. other marital status such as being single, divorced or widow). Additionally, we included information on occupational status: self-employed or entrepreneur, manager, white collar, manual worker, retired from work, unemployed, each vs. the group of non-active people (including individuals in the military service, individuals who are responsible for house-caring or people who do not work but are not recorded as unemployed). A dummy variable captures differences between individuals living in an urban area vs. individuals living in a rural area. Also a time trend year and a dummy distinguishing between the two pieces of the UK where the person interviewed lives (Great Britain vs. Northern Ireland) have been included. At a later stage of the analysis, also household income deciles will be included in the analysis.

3. The model

We estimated three distinct equations, one for each dependent variable. Due to the nature of data, Democracy-Satisfaction and Political Discussion have been analyzed using ordered probit models, whilst Participation in Elections was treated with a probit. In particular, Democracy-Satisfaction is an ordinal variable, recoded from a descendant into an ascendant scale, taking value 1 if "Not at all satisfied", 2 if "Not very satisfied", 3 if "Fairly satisfied" and 4 if "Very satisfied". Political Discussion takes different values according to how often the interviewed discusses about politics. Recoded into a convenient way, it takes values: 1 if "Never"; 2 if "Occasionally"; 3 if "Frequently". Participation in Elections has been recoded to take value 1 if "Would vote" and 0 otherwise ("Would not vote/I would blank or spoil my vote/ I would definitely not vote"). The equations are the following:

$$satisfaction = \beta_1 inequality + \beta_2 age + \beta_3 male + \beta_4 married + \beta_5 university + \beta_6 secondary + \beta_7 selfemployed + \beta_8 manager + \beta_9 whitecollar + \beta_{10} manual + \beta_{11} retired + \beta_{12} unemployed + \beta_{13} urban + \beta_{14} year + \beta_{15} GB + u$$

$$discussion = \beta_1 inequality + \beta_2 age + \beta_3 male + \beta_4 married + \beta_5 university + \beta_6 secondary +$$
$$\beta_7 selfemployed + \beta_8 manager + \beta_9 whitecollar + \beta_{10} manual + \beta_{11} retired + \beta_{12} unemployed +$$
$$\beta_{13} urban + \beta_{14} year + \beta_{15} GB + u$$

$$vote = \beta_0 + \beta_1 inequality + \beta_2 age + \beta_3 male + \beta_4 married + \beta_5 university + \beta_6 secondary +$$
$$\beta_7 selfemployed + \beta_8 manager + \beta_9 whitecollar + \beta_{10} manual + \beta_{11} retired + \beta_{12} unemployed +$$
$$\beta_{13} urban + \beta_{14} year + \beta_{15} GB + u$$

4. Results

The three models were estimated for each inequality indicator, however, we show the entire estimated equation only where the main inequality indicator (table 1) is present. For the ten remaining inequality indices we present only the coefficient attached to the specified inequality indicator (table 2).

4.1. Democracy-Satisfaction

The first important result is that an increase in the level of Inequality depresses Democracy-Satisfaction (first column of table 1). The hypothesis that growing Inequality has a negative effect on the perception of democracy quality is, therefore, confirmed.

In addition, we find that Democracy-Satisfaction increases with age (ageing people become wiser, or more indulgent, or more tolerant); males are more satisfied with democracy than women and married people more than individuals in another marital status (do women and singles have a greater sense of moral justice? Do they have more complaints against institutions that take care of them less than of others?); satisfaction increases with education - having university or a secondary degree *vs.* having a lower than secondary degree - and it is greater for more educated people (education helps in evaluating democracy and its virtues?). Also living in Great Britain vs. living in Northern Ireland positively and significantly impacts on Democracy-Satisfaction, while living in an urban area negatively affects Democracy-Satisfaction (cities present more occasions to interact with institutions than the country side does?). There exists a positive time-trend in the probability of being satisfied with democracy. The coefficients relative to the various types of employment position tell us the different probability that self-employed, managers, white collars, manual workers, retired from work and unemployed are more satisfied by democracy with respect to the control group: the non-actives. In particular, we find that managers and white collars are more satisfied with democracy with respect to the non-actives, while the opposite is found for manual workers and unemployed (who represent less-protected categories). On the contrary, self-employed and retired from work do not statistically differ from the non-actives in their level of Democracy-Satisfaction.

	Democracy-Satisfaction	Political Discussion	Participation in Elections
Inequality	-0.078*	0.028*	0.092*
	(0.011)	(0.009)	(0.022)
Age	0.003*	0.008*	0.009*
	(0.000)	(0.000)	(0.001)
Male	0.036*	0.248*	0.025
	(0.012)	(0.010)	(0.023)
Married	0.052*	0.121*	0.139*
	(0.012)	(0.010)	(0.022)
University degree	0.149*	0.597*	0.254*
	(0.019)	(0.016)	(0.042)
Secondary degree	0.135*	0.172*	0.093*
	(0.013)	(0.011)	(0.025)
Self employed/entrepr.	0.007	0.317*	-0.025
	(0.025)	(0.021)	(0.047)
Manager	0.090*	0.365*	0.166*
	(0.024)	(0.020)	(0.051)
White collar	0.065*	0.232*	0.103*
	(0.018)	(0.016)	(0.035)
Manual worker	-0.042*	0.026	-0.005
	(0.018)	(0.016)	(0.032)
Retired	0.014	0.051*	0.050
	(0.022)	(0.018)	(0.042)
Unemployed	-0.247*	-0.003	-0.105*
	(0.028)	(0.023)	(0.044)
Urban	-0.067*	0.072*	-0.014
	(0.011)	(0.009)	(0.022)
Year	0.009*	-0.010*	-0.028*
	(0.001)	(0.001)	(0.002)
Great Britain	0.477*	0.122*	0.465*
	(0.011)	(0.011)	(0.020)
Threshold 1/Constant	17.564*	-18.931*	-55.898*
	(2.175)	(1.690)	(4.633)
Threshold 2	18.482*	-17.408*	
	(2.175)	(1.690)	
Threshold 3	20.040*		
	(2.176)		
Obs	60699	93631	52461

Note: robust standard errors in parentheses. * p < 0.05

Table 1: *Estimation results of ordered probit and probit models on Democracy-Satisfaction, Political Discussion and Participation in Elections (elaborations on Eurobarometer data)*

4.2. Political Discussion

The second column of table 1 presents the results of the model for Political Discussion, showing that it is significantly augmented by an increase in Inequality. Relying on the precedent result on Democracy-Satisfaction, the discontent about the quality of democracy induced by an increase in Inequality does not turn into any reduction in political participation. On the contrary, it appears to nourish a more lively Political Discussion.

Significant coefficients are also found for almost all regressors: age, being male, being married, having a university or secondary degree, living in an urban area, living in Great Britain, all increase the frequency of talking about politics. It seems again that experience and social status helps being more involved with the surrounding world, while the gender-result reaffirms that it is not in women habits to talk about politics. The time trend has a negative coefficient, implying that Political Discussion today is not as frequent as in the past. The occupational status variables suggest that people in all occupational categories but unemployed are significantly more likely than non-actives to talk more frequently about politics. Contrarily to the previous question where the Democracy-Satisfaction was dependent on the working conditions, here the results are uniform: does having a job let everybody feel part of a community? Does it suggest that Political Discussion might be useful in one's own job-space? Does having a job just simply provide more opportunities for Political Discussion?

	Democracy-Satisfaction	Political Discussion	Participation in Elections
Inequality	-0.078*	0.028*	0.092*
	(0.011)	(0.009)	(0.022)
Gini coefficient	-1.925*	0.689*	2.384*
	(0.265)	(0.222)	(0.556)
Foster-Wolfson index	-2.918*	0.981*	2.169*
	(0.285)	(0.234)	(0.606)
Interdecile ratio P90/P10	-0.147*	0.047*	0.106*
	(0.015)	(0.013)	(0.032)
Interdecile ratio P90/P50	-0.595*	0.278*	0.615*
	(0.075)	(0.063)	(0.156)
Share top 1%	0.045	0.028	2.864*
	(0.565)	(0.484)	(1.123)
Share top 5%	-1.776*	0.666	3.383*
	(0.455)	(0.392)	(0.932)
Share top 10%	-2.073*	0.827*	3.257*
	(0.407)	(0.349)	(0.844)
Share bottom 1%	349.047*	-66.771*	-97.847
	(33.642)	(30.259)	(67.628)
Share bottom 5%	37.248*	-12.823*	-33.853*
	(4.025)	(3.496)	(8.110)
Share bottom 10%	15.063*	-4.998*	-13.198*
	(1.656)	(1.399)	(3.368)

Note: robust standard errors in parentheses. * $p < 0.05$

Table 2: Estimated coefficients of the 11 inequality indices (elaborations on Eurobarometer data)

4.3. Participation in Elections

The third column of table 1 shows the results of the probit model on the probability of voting if there were a general election tomorrow. Again, a positive effect of Inequality on political participation is confirmed here: an increase in Inequality significantly increases the probability of voting.

In addition, we find that increasing age, being married, having a higher educational level, and living in Great Britain increases significantly the probability of electoral participation (results are on average highly consistent with the previous ones). The time trend has a

negative coefficient, suggesting that, other things being equal, Participation in Elections in UK is decreasing with time (as it was the Political Discussion attitude).

No statistically significant effect is found for being male and living in an urban area. On the contrary, occupational status impacts electoral participation: managers and white collars are more likely to vote than non-actives, whilst the opposite is true for the unemployed (here again the results are consistent with the previous ones). No significant coefficient in found for the other occupational categories.

As anticipated, we run the three models with the ten alternative indicators, starting with the traditional Gini coefficient, in order to check whether the results were robust along the entire distribution and its main parts as well (table 2). Our main Inequality indicator is presented again in the first row for the sake of comparison. No statistically significant result clashes with our first evidence: where significant, all indicators tell us the same story: an increase in inequality, no matter how it is measured, reduces the level of Democracy-Satisfaction, while increasing Political Discussion and Participation in Elections.

5. Does income matter?

Though moral aversion to inequality may, in theory, be distributed roughly uniformly across income levels, it may reasonably be argued that, with growing inequality, the riches are better off than the poor and, therefore, the actual attitude is likely to differ for persons lying in different points of income distribution. In order to investigate this feature - in line with Solt - we estimated the three models (for Democracy-Satisfaction, Political Discussion and Participation in Elections) running separate regression models separately by income quintile. Table 3 reports the estimated coefficients related to Inequality for the different quintiles and the different equations. Only in the case of Democracy-Satisfaction there is a clear pattern. The effect of inequality on Democracy-Satisfaction is negative at all levels of income, though not statistically significant for the richest group, and it decreases in absolute value from the poorest to the richest group. This suggests that the frustrating effect of income inequality is particularly felt by the poorest individuals. As regards Political Discussion, we find a positive and significant effect of Inequality for every level of income, and this effect is higher for the poorest and the richest quintile, suggesting that these two groups are the ones more concerned about their interests. The effect of Inequality on Participation in Election appears to be much weaker. Indeed, it is positive and significant only for the third and fifth income quintile.

	First quintile	Second quintile	Third quintile	Fourth quintile	Fifth quintile
Democracy-Satisfaction	-0.218*	-0.191*	-0.157*	-0.110*	-0.038
	(0.043)	(0.044)	(0.043)	(0.041)	(0.043)
Political Discussion	0.187*	0.119*	0.094*	0.104*	0.153*
	(0.036)	(0.039)	(0.037)	(0.036)	(0.037)
Electoral participation	0.072	0.030	0.157*	-0.010	0.186*
	(0.072)	(0.074)	(0.077)	(0.077)	(0.075)

Note: robust standard errors in parentheses. * $p < 0.05$

Table 3: Estimated coefficients of Inequality on the three variables by income quintile (elaborations on Eurobarometer data)

The results are fairly poor. We think that this is due to several drawbacks in the Eurobarometer income-variable. The first problem is that data source does not collect all the information needed for calculating household equivalized income. The second concerns the number of available survey rounds: income has been collected only until 2004, shortening the time span of our analysis. Thirdly, household income has many missing observations: whether the non-response is not purely random, as it is often the case, a problem of selection bias arises. Fourthly, income is not reported as such but it is collected in classes that differ in size and number from year to year. In order to create an ordinal income class variable, we have to assume that it is uniformly distributed within classes. Lastly, the concept of income used here is not disposable income, but *gross* income, which includes benefits though being before taxes and social contributions.

6. Conslusion

As far as we know, this paper is the first one which relates income inequality – measured through a wide array of indicators – to some aspects of the quality of a democracy in an advanced-economy-and-rooted-democracy country, in a long-run perspective.

We tested the impact of inequality on three indicators of the quality of democracy: citizens' satisfaction and citizens' attitude to participation in the two aspects of political discussion and intention to voting.

Our findings reveal that Inequality decreases citizens' satisfaction and stimulates participation. This result seems quite interesting since the second and third indicator of quality move in opposite directions with respect to the first. However, this is not an inconsistent outcome in so far as it tells us that when a discontent occurs a positive reaction originates, which is debated in the political theory as one of the two possible outcomes (Solt, 2008, pp. 48-49). Contrarily to elsewhere found (Solt 2008) this may be due to the fact that we focus on a single country only with a fully rooted democracy rather than a pool of countries. Thus, the problem we are facing in such an environment might be the persistence of dissatisfaction – the degree of Inequality – and the efficacy of citizens' reaction rather than the reaction to the dissatisfaction as such. This leads to the issue of limiting inequality as an engine of deterioration in the quality of democracy, and sustaining an active citizenship.

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