Capital in the Twenty-First Century—in the Rest of the World

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Annu. Rev. Polit. Sci. 2016. 19:4.1–4.18

The *Annual Review of Political Science* is online at polisci.annualreviews.org

This article's doi: 10.1146/annurev-polisci-042114-015008

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Keywords

inequality, redistribution, regime type, capitalism, developing countries, war

Abstract

Recent work has documented an upward trend in inequality since the 1970s that harks back to the Gilded Age: the inegalitarian pre–World War I world. Most prominently, Thomas Piketty argues in *Capital in the Twenty-First Century* that this is partially due to the fact that capitalism is hardwired to exacerbate the gap between the rich and poor. By critically evaluating recent literature on this topic, this article offers three big contributions. First, we advance an alternative explanation for the long-term U-shaped nature of inequality that Piketty examines. Political regime types and the social groups they empower, rather than war and globalization, can account for the sharp fall and then sharp rise in inequality over the long 20th century. Second, we demonstrate that this U-shaped pattern only really holds for a handful of industrialized economies and a subset of developing countries. Finally, we provide a unified framework centered on two unorthodox assumptions that can explain inequality patterns beyond the U-shaped one. Capitalists and landholders actually prefer democracy if they can first strike a deal that protects them after transition. This is because dictators are not the loyal servants of the economic elite they are portrayed to be—in fact, they are often responsible for soaking, if not destroying, the rich under autocracy.

INTRODUCTION

Inequality and redistribution are making headlines almost daily. Both public debate and academic research on these issues have been moving lightning fast. The global financial crisis bears part of the responsibility, having generated rallying calls to soak the rich and curb the outsized influence of bankers across the industrialized world in the wake of devastating credit crunches, mass unemployment, and economy-wide deleveraging. Numerous social movements and grassroots efforts to revive organized labor and revitalize social safety nets have sprung up, of which Occupy Wall Street is perhaps the most notable in the United States. Recent academic work has added wind to the sails of this public outcry by carefully documenting and underscoring that recent inequality is the accumulation of a spiraling upward trend that has been in motion since the 1970s. Indeed, several recent studies go so far as to argue that the United States behaves more like an oligarchy than a democracy (Bartels 2008, Gilens & Page 2014). It is not an exaggeration to say that these are the defining issues of our time.

Furthermore, recent trends raise a host of thorny questions. Why has inequality increased so drastically in recent decades? And, more vexing from both the normative and scholarly perspectives, why has this trend coincided with the unprecedented spread of political freedom in the world, and occurred even in long-established democracies? If democracy is supposed to be responsive to its citizens, why have the top earners in many societies pulled far, far ahead of the majority? This issue, in particular, has led many to lose faith in the egalitarian promise of democracy.

These questions and concerns have only been amplified by recent work that provides a longer-term perspective. Researchers now believe that inequality exhibits a U-shaped pattern over the course of the 20th century. Most prominently, Piketty (2014) argues in *Capital in the Twenty-First Century* that the starkly high levels of wealth and income inequality that characterized industrialized countries in the early 20th century were laid low by massive, global wars coupled with the Great Depression, only to rise again since the mid-1970s with the reconstitution of capital and the advent of financial globalization.

In seeking to critically evaluate recent literature on these topics, this article offers three big contributions while helping to make sense of existing findings. The first contribution is an alternative explanation for the long-term U-shaped nature of inequality that some—but not all—countries exhibit. Something other than war and globalization tends to explain the precipitous fall and subsequent dramatic rise in inequality outside of the developed world. For countries such as Indonesia, South Korea, and Taiwan, a better explanation for big declines in inequality is that long stretches of autocracy witnessed dictators strategically redistributing land, capital, and income in a bid to consolidate their rule. These regimes, however, were later replaced with democracies toward the end of the 20th century in which a new set of elites erected roadblocks to redistribution, thereby ushering in a new era of rising inequality.

Second, we argue that the U-shaped pattern of inequality is not a universal phenomenon; it applies only to the industrialized economies and a subset of countries in the developing world. Indeed, there are two other major patterns during the same time period. On the one hand, some countries exhibit a secular decline in inequality, such as Argentina and the Czech Republic. These countries experienced periods of autocracy in which dictators adopted policies that reduced inequality. Redistributive dictatorships were subsequently replaced by popular democracies that continued to indulge in similar policies after transition. On the other hand, some countries exhibit a relatively flat trajectory, such as Chile. For them, there was no palpable reduction in inequality during the so-called Golden Age in which the industrialized countries made the greatest strides in narrowing the gap between the rich and poor, and neither has there been a big explosion in inequality during the era of financial globalization.

Our final contribution is to provide a unified framework that subsumes both of these findings. Although we agree with social conflict theory that democracy can be a credible commitment to redistribution, this occurs only under certain conditions—namely, when capitalists and landholders are weak on the eve of democratic transition and fail to strike a deal that protects their assets under democracy. We also argue that dictators are hardly the loyal servants of aristocrats and industrialists they are frequently made out to be. Dictators can and do strike fear into the hearts of landowners and capitalists, making the latter push for democracy if they can rig the political game to suit their economic interests before transition.

The task for economic elites is to negotiate these shifting sands. Although both global wars and regime type matter in driving the distribution of income and wealth in certain times and places, the broader patterns of inequality are more robustly explained by the nature and strength of elite deals. Economic elites first and foremost seek loyal political allies under whatever regime type they find themselves in. If they are unsuccessful, their focus shifts to finding a way to transition to a friendlier form of government. Either autocracy or democracy can help them achieve their interests under the right circumstances.

In this article, we first review the literature on the two main explanations, regime type and war involvement, for the dynamics that define inequality and redistribution. Next, we critically evaluate Piketty's (2014) recent and influential contribution to this debate, which synthesizes both democracy and war as key drivers of change in the distribution of assets and income. We then propose an alternative mechanism for the U-shaped pattern of inequality in some important developing countries, while building a framework that can also explain the absence of this pattern in other countries, including in some developed ones. We follow this by fleshing out two alternative, non-U-shaped, patterns of inequality that correspond to this framework. We conclude with a call for greater efforts at high-quality data collection on inequality and redistribution that can enable the study of these issues to advance more fruitfully.

REGIMES, INEQUALITY, AND REDISTRIBUTION

An influential literature on the distributive foundations of regime types puts class conflict between the rich and poor at the center of politics. Newer entries are centered on the median voter paradigm and are known collectively as social conflict theory (Acemoglu & Robinson 2006, Boix 2003, Meltzer & Richard 1981). They are inspired by a host of celebrated, earlier contributions by thinkers as diverse as Aristotle, Karl Marx, and the American founding fathers (other influential early contributions include Toqueville 1841 and Moore 1966).

Social Conflict Theory

To put distribution and redistribution at the heart of the study of democratization, social conflict theory leans on a few, interconnected assumptions. The first, for which there is abundant evidence, is that the distribution of income prior to taxes and transfers is right-skewed, which results in the median income being below the mean, therefore making the poor a majority of the population. The second is that democracy will be majoritarian: Public policy will reflect the preferences of the median voter. That means that assets, income, and rents will be extracted from the rich to level the playing field, and programs that protect against risk will be instituted. It follows that the poor should support democratization, whereas the rich should generally oppose it in favor of autocracy, which better represents their preferences.

Major contributions to social conflict theory make related but distinct predictions. Acemoglu & Robinson (2006) anticipate that countries at middling levels of inequality will tend to transition

to democracy. At low levels of inequality, there is little popular demand for democracy, and at high levels of inequality the rich simply have too much to lose by conceding the franchise. Yet at medium levels of inequality, the rich may concede democracy to the poor as a bribe against revolution—particularly when the poor cannot reliably mount a revolution in the future and therefore require a credible commitment to redistribution by winning institutions that represent their preferences. Rather than have their capital stock destroyed in pitched battles with the poor, the rich prefer to step aside and accede to the more limited redistribution they will face under a new democratic regime.[1] Boix (2003), while also focusing on the redistributive threat that the poor pose to the rich, theorizes that democratic transition is simply a linear function of inequality. Only when inequality is low, and the rich therefore have little to lose under democracy, will they concede the franchise.

Social conflict theory therefore predicts that democracies will be more redistributive than dictatorships.[2] Elected officials under democracy will cater to the preferences of the less-well-off because the logic of electoral competition drives them to converge on the preference of the median voter. The magnitude of redistribution will thus reflect the level of inequality: a poorer median voter engenders greater redistribution.

Evidence for Social Conflict Theory

There is evidence that at least some democracies are indeed quite redistributive. There is evidence for social conflict theory among the advanced democracies. The steady widening of the franchise across Western Europe and the United States via the removal of income, wealth, and property restrictions on the right to vote for men, followed by suffrage for women, appears to have stimulated redistribution (Husted & Kenny 1997, Justman & Gradstein 1999, Lott & Kenny 1999). Furthermore, there is evidence that at least some democratic transitions were driven by the threat of revolution (see Acemoglu & Robinson 2006, Przeworski 2009; for a dissenting view in the cases of Britain and Germany, see Ziblatt 2015).

Although mounting evidence indicates that the adoption of income taxes and social welfare programs often occurred under dictatorship (Esping-Andersen 1990, Mares & Queralt 2015), progressive taxation and high levels of social spending were later retooled and expanded under democracy to constitute the warp and woof of this equilibrium. At first, governments raised direct taxes at increasing marginal rates to provide basic public goods in urban areas undergoing rapid industrialization (Acemoglu & Robinson 2006, Lizzeri & Persico 2004, Aidt et al. 2006). Governments' fiscal role then evolved to encompass national programs devoted to welfare, pensions, health care, and housing.

The welfare state experienced a gradual, secular increase over the first half of the 20th century, followed by a veritable quantum leap during the postwar era. Across the developed world, and especially Western Europe, spending on education and social insurance programs skyrocketed (Lindert 1994, 2004; Steinmo 1993). The apex was reached under the so-called embedded liberal international order during the Bretton-Woods system of fixed exchange rates. During this era, all democratic governments in the developed world—and many developing countries—used capital

[1]This is a departure from earlier work on the distributional foundations of regime type. Moore (1966) argues that democratization is not the result of a fear of revolution, but a direct consequence of an actual revolution.

[2]This assumes, following Meltzer & Richard (1981), that the median voter prefers redistribution if her income is below the mean income. Of course, the median voter may alternatively desire employment, access to economic opportunities, or upward mobility.

controls to avail both fiscal and monetary policy for redistribution, full employment, and social insurance (Dailami 2000).

However, there are reasons to be cautious about the belief that democracy is always a credible commitment to redistribution. Democratic transitions are not simply driven by the redistributive demands of the poor (Albertus & Menaldo 2012a, Ansell & Samuels 2010, Haggard & Kaufman 2012, Houle 2009). And although the distribution of income is right-skewed throughout the world, redistribution from the rich to the poor does not seem to be systematically higher in democracies (Albertus & Menaldo 2014a, Mulligan et al. 2004, Ross 2006, Scheve & Stasavage 2012, Timmons 2010).

This may in part be because politics is often about something other than pocketbook issues. Voter choices are impacted by group consciousness, place-based identity, religion, relative well-being, and priming (Bartels 2005, Roemer 1998, Shapiro 2002, Walsh 2012)—all of which may possibly cut against economic self-interest. The lack of a strong association between democracy and redistribution may alternatively be due to the fact that the median voter requires specific political and economic tools to aggregate and express their interests—tools that are not guaranteed under democracy. Power resources theory, one of the dominant explanations for variation in the size and scope of the welfare state in OECD countries, holds that strong unions are needed to compress wage and salary distributions, and that social democratic parties will more effectively deliver redistributive social policy (Iversen & Soskice 2006, Korpi 1983, Stephens 1979).[3] These scope conditions, however, are largely consigned to Europe.

Democracy does not necessarily yield redistribution even at the highest levels of inequality, where the demand for redistribution is ostensibly greatest (Perotti 1996). Although framing effects and ignorance about the distribution of income and fiscal policies may blunt demands for redistribution (see Bartels 2005, Shapiro 2002), regional, ethnic, or religious differences may be more salient than class-based redistributive appeals (Roemer 1998, Walsh 2012). Moreover, if poorer citizens are relatively risk acceptant and anticipate upward mobility, they may eschew redistribution to avoid being taxed in the future (Benabou & Ok 2001).

Even if the poor prefer redistribution, strong federal structures can undercut redistribution when the rich are distributed unevenly across subnational units (Beramendi 2012, Boix 2003, Inman & Rubenfeld 2005). The devolution of taxation and spending to the local level empowers elites in wealthier subnational units to oppose redistributive demands at the federal level. South Africa is one illustrative case. The 1994 transition bargain carved borders around the two wealthiest regions of the country and devolved key social service spending to the provinces, enabling economic elites to "hold hostage" members of the majority should the central government encroach on their privileges (Inman & Rubenfeld 2005).

Finally, globalization can tie the hands of policy makers by enabling asset holders to move easily across borders to avoid redistribution (Bates 1991, Boix 2003, Dailami 2000, Freeman & Quinn 2012, Kaufman & Segura-Ubiergo 2001, Remmer 1990, Stokes 2001). A government's ability to regulate labor markets and levy progressive taxation is limited by capital mobility (Dailami 2000). Almost universally, countries in recent decades have reduced marginal tax rates on high income earners, adopted flatter tax structures centered on value-added taxes, and cut both corporate tax rates and rates on capital gains (Bird & Zolt 2005). Indeed, capital mobility and its consequences appear to be key catalysts of the increased inequality that Piketty (2014) documents since the 1970s.

[3] Iversen & Soskice (2009) argue that these factors have deeper roots in economic coordination (especially in guilds and rural cooperatives) and limited proportional representation systems in the 19th and early 20th centuries.

WAR, INEQUALITY, AND REDISTRIBUTION

The more recent literature on war and redistribution provides further evidence both that there are alternative mechanisms for what are arguably the most redistributive episodes of the last century, and that democracy and redistribution do not go hand in hand. The theoretical logic behind the claim that war equals redistribution is quite rich.

Theory on War and Redistribution

The fiscal contract paradigm provides a compelling mechanism. It views both democracy and redistribution as carrots that are used by incumbents to coax citizens to enlist in their nation's armed forces and fight and die for their country. Tilly (1992) most famously posits that if tax revenues are exchanged for the right mix of concessions, this tends to make states more powerful and more likely to survive in a ruthlessly competitive international system. This helps to explain why strong social democracies evolved over the long run in the European continent, as it experienced the largest, deadliest, and most frequent wars in world history since 1500.

Focusing on the 20th century, Piketty (2014) similarly argues that the combination of World Wars I and II and the Great Depression leveled the rich to an unprecedented degree. Consistent with Levi (1997) and Scheve & Stasavage (2010, 2012), major war preparation and wide-ranging conscription spurred taxes on the rich not only to finance war (which they preferred over fighting on the front lines), but also as a concession to soldiers who fought and died. Scheve & Stasavage argue that this consequence should not be observed with wars of limited mobilization and conscription, even if they are expensive or long-lasting.

In this view, redistribution and lower inequality during the Golden Age are merely a blip that defies the structural inexorability of capitalism—a far cry from Kuznets' (1955) well-known hypothesis that inequality would decline on the coattails of industrialization as organized workers would demand greater government protection and regulation in their favor. Large-scale wars not only wrought concessions from the rich; they also destroyed stocks of capital and thus narrowed inequality. By weakening the rich, this empowered the poor to push for more progressive social policy.

Evidence for War and Redistribution

Like the literature on regimes and redistribution, the evidence on war and redistribution is mixed. Kiser & Linton (2001) provide quantitative evidence for the relationship between wars and tax revenues for both France and England between the 14th and 16th centuries. The example of Sweden, where debates about enfranchisement at the turn of the 20th century were centered on national defense, suggests that a link between war and redistribution may actually run through regime type, or at least enfranchisement. Political elites believed that conscription would be more palatable if it was accompanied by political rights. The slogan coined by the Social Democratic Party, "one man, one vote, one gun," embodied this sentiment. Similarly, "English soldiers returning from World War I won the right to vote and even welfare benefits in 'a land fit for heroes'" (Downing 1992, p. 253).

Scheve & Stasavage (2010, 2012) provide compelling recent evidence that war has engendered redistribution through inheritance taxes in the major participants in World Wars I and II. Unlike many of the scholars cited above, they do not adduce an intermediary role for democracy in which war runs through extending the franchise to produce greater redistribution. To the contrary, their statistical evidence shows that, once they control for war participation and intensity, regime type does not systematically affect wealth taxes.

Related to this point, Alesina & Glaeser (2004) argue that soldiers were often rewarded with public goods and transfers when they returned home from fighting. Governments found

themselves threatened by large groups of disgruntled soldiers returning to European capital cities following the great wars only to find long unemployment lines. These groups successfully agitated for a radical deepening of welfare states after militaries balked at the idea of turning their guns on their fellow soldiers.

Yet these findings are still relatively recent and far from generalizable. For every example of war spurring redistribution, there seems to be another of war failing to do the same. Russia, Iran, and Turkey fought dozens of wars, both against each other and against other polities. Several of these wars involved massive mobilization: Russia in both world wars, Iran against Iraq, and Turkey against the Allies in World War I. Yet they could hardly be considered bastions of fiscal progressivity in the wake of these conflicts.

Moreover, consider two cases from Latin America that lie considerably above the cut point of mass participation of 2% of the population used by Scheve & Stasavage (2010, 2012), and that they mention as exceptions themselves. The first is the War of the Triple Alliance that pitted Paraguay against Brazil, Argentina, and Uruguay during the late 19th century. This was a mass-mobilizing war like no other. Paraguay was severely outmatched and adopted universal conscription. By the end of the hostilities, more than 70% of its adult male population had died. However, this conflict did not really move the needle on the progressivity of the tax structure; to fund its activities, the Paraguayan state continued to rely primarily on the sale of public lands, custom duties, and state monopolies centered on inelastic goods.

The second is the Chaco War. It pitted Paraguay against Bolivia from 1932 to 1935. The best estimates for the conscription rate in Bolivia range from 6.5% to 12.5% of the entire population (Shesko 2015). In Paraguay's case, up to 17% of the population was recruited. The result was more of the same. Neither country's tax structure changed much in the wake of this mass-mobilizing war.

Finally, Przeworski (2009, p. 305) does not find systematic evidence that war participation is correlated with suffrage extensions per se, although a global wave of female enfranchisement did occur in the wake of World War I.

A PUZZLE CONCERNING THE U-SHAPED INEQUALITY DYNAMIC

Regardless of whether scholars are in the regime or the war camp, there is consensus across the board that inequality declined and redistribution increased in the developed world around the time of World Wars I and II. Furthermore, there is little dissent that inequality has skyrocketed since the 1970s. How can we reconcile the two most marked and consequential changes in the welfare state over the last century in light of the literatures discussed above?

Capital in the Twenty-First Century

Piketty's (2014) *Capital in the Twenty-First Century* has made a splash not only because of the new, individualized, tax return–based data he uses to meticulously document these trends, but also because of the parsimonious nature of his explanation. Piketty holds that because the rate of return to capital tends to exceed the rate of growth in an economy, and thus exceed the returns to labor income (itself tied to productivity), capitalism is basically hardwired to exacerbate inequality. The mid-20th-century decline in inequality under democratic European welfare states is thus a historical anomaly, driven in large part by the destruction of capital in the course of the world wars and the Great Depression.

Piketty is first and foremost concerned with outlining a theory of inequality under capitalism. His main argument and evidence are primarily concerned with explaining patterns regarding the market distribution of income and wealth. Yet he also generates a series of implicit and explicit prescriptions for redistribution based on his findings. The most prominent is the idea of a global

wealth tax, although he also suggests more plausible avenues such as increasing marginal tax rates on income, extending social benefits and social welfare, and creating more equal access to key public services such as education and health care through a more muscular public sector.

Piketty is, after all, explaining a process that creates winners and losers and implies that the winners tend to set the rules of the game in their favor. The winners can exacerbate the trends in pre–tax and transfer distribution by affecting redistribution. Indeed, Atkinson's (2015) most recent book, *Inequality: What Can be Done?* echoes several of the facts outlined by *Capital in the Twenty-First Century* and follows where Piketty left off. Although Atkinson agrees with Piketty about the main structural causes of increased inequality, he also fingers the capture of public policy by the wealthy as one of the fundamental reasons for increasing inequality since the late 1970s. This is attested to by a marked change in focus to promote low inflation and low taxes at the expense of employment and redistribution. One consequence of this focus is less spending on public goods and redistribution that could narrow the gap between the rich and poor.

The implications are twofold. First, politics matters. Second, redistribution is as important as the initial distribution of wealth and income for determining long-run patterns of inequality. For example, irrespective of any underlying laws of capitalism that would favor an increasing rate of return on investments that outpaces income growth, Atkinson (2015) documents a drastic reduction in the top marginal tax rate on income in industrialized countries, starting in the mid-1960s. In the United States and Britain, for example, the change in percentage points approaches 50. There is no country in this set for which there has been an increase in top marginal tax rates. The only country in which this rate has not changed is Switzerland. Atkinson also shows that, intuitively, the increased regressivity of the tax code has mapped onto a greater concentration of income at the very top of the distribution.

There is much to admire in these recent and influential entries in the literature on inequality and redistribution. Perhaps the biggest, albeit not entirely recognized, contribution is Piketty's (2014) synthesis of some of the most attractive elements of the regime type and war paradigms. The most obvious link to the war paradigm is the plummeting levels of inequality that account for the downward-sloping portion of the U due to the wanton destruction of capital and the need to finance the war effort through both inflationary debt issuances and the often hasty imposition of progressive taxation on income and capital. The regime type paradigm also plays a role in Piketty's argument, not through increasing or decreasing inequality, but rather by holding it constant for longer than it otherwise would have been stagnant. Specifically, there was a several-decade "lock-in" effect during which democratic politicians implemented redistributive policies that the newly empowered middle class preferred, thus imposing a ceiling on the rate of return to capital. These included high marginal tax rates coupled with capital controls, labor protections, and a host of social safety net innovations. More generally, politics plays an important role for Piketty in driving important trends in the accumulation of capital and its beneficiaries across different countries.

Capital in the Twenty-First Century suffers from several shortcomings as well. First, the scope of Piketty's major conclusions about inequality and redistribution over the long term may be limited to the handful of developed countries that were the principal belligerents in the world wars and for which Piketty has data with wide-ranging historical coverage: the United States, Great Britain, France, and Germany. Indeed, data coverage for many combatants, including Japan, only postdates World War II. It is therefore not clear whether his argument generalizes beyond a few industrialized, liberal democracies. Second, Piketty does not consider several possible alternative mechanisms that might account for the turning points in the U-shaped relationship he examines. In regard to the upward-sloping portion of the U, in particular, there are alternative reasons why inequality may have accelerated during the 1970s. This is best illustrated by considering the origins of the patterns of inequality in many developing countries.

Right for the Wrong Reasons?

There are several examples of countries in the developing world that obey the U-shaped relationship documented by Piketty but clearly do not conform to the logic Piketty lays out. Indonesia is an illustrative example. Piketty's (2014) data indicate that the top percentile's share of total income was 20% on the eve of independence, a figure that reached a nadir of 7% in the mid-1980s and rose back to 13% in 2010, a decade after democratization. Although it is true that inequality began a sharp and steady decline around the end of World War II, the reasons had nothing to do with war or the politics of social democracy. Upon the Dutch leaving town in 1949, Sukarno, a self-styled "nationalist" strongman, expropriated their vast colonial holdings in land and minerals. Sukarno's successor Suharto subsequently ruled with the support of coalitions composed of the urban and rural poor, where the military and the state were "autonomous" from moneyed interests (Slater et al. 2014). Although the policies adopted by Suharto under the New Order were marred by clientelism and corruption, they were clearly characterized by a leftward, anti-elite orientation, in which land, credit, and transfers were offered to both wage laborers and peasants. These generous transfers and subsidies were paid for with heavy taxes levied on the wealthy, a policy made possible by the imposition of stringent capital controls (Haggard & Maxfield 1996). It was therefore a prolonged period of redistribution under autocracy that led to the downward-sloping portion of the U-shaped pattern of inequality.

This egalitarian pattern reversed, consistent with the upward-sloping portion of the U, at the tail end of Suharto's rule in the mid-1990s. Although there was a slight dip in the aftermath of democratization, due partially to the Asian financial crisis, the upward trend continued during much of the 2000s. This increase in inequality was driven by elite capture of the democratic process. Powerful regime elites that had enriched themselves under Suharto's rule crafted a deal for transition that favored a new economic order that had gradually emerged over time, displacing the populist coalition first assembled by the strongman (Haggard & Maxfield 1996). The "gaming of democracy" (Albertus & Menaldo 2014a) by these outgoing elites is what best explains the pattern of increasing inequality under democracy.

Taiwan also exhibits the U-shaped pattern of inequality for reasons that diverge from Piketty's argument. In Taiwan, the Kuomintang invaded from mainland China and immediately set about attacking indigenous Taiwanese elites (Albertus 2015a). Massive land reform and the saturation of the countryside with broad public goods such as education led the Gini coefficient to plummet from 0.56 in 1953 to 0.29 in 1978. The Kuomintang-led democratic transition from above in 1996 then cemented the power of elites attached to the party, who had gradually decoupled themselves from their popular base, ushering in a slow but steady increase in inequality over the last two decades.

Other, similar examples in which policies with a sharp "rural bias" at first helped to reduce inequality under dictatorship, by bolstering the purchasing power of the poor in the countryside, include South Korea, Malaysia, Thailand, and the Phillipines. Outcomes across these countries subsequently turned less egalitarian over time, however.

AN ELITE BARGAINING APPROACH TO EXPLAINING INEQUALITY AND REDISTRIBUTION

The above examples introduce two broad political patterns that are not anticipated under social conflict theory but that are the key to understanding the long-term drivers of the distribution of income and wealth in a society. Whereas social conflict theory posits that the median voter's preferences will be enacted under democracy and that wealthy elites will dominate policy making under autocracy, recent contributions demonstrate that autocracy can be as redistributive as

popular democracy, and that democracy captured by elites can be as inegalitarian as oligarchy (Albertus 2015a,b; Albertus & Menaldo 2012a,b, 2014a; Menaldo & Yoo 2015).

Consider redistributive dictatorship first. The key to understanding why dictatorship can be redistributive is that there are often splits between ruling political elites and economic elites (Albertus 2015a, Albertus & Menaldo 2012b, Menaldo 2016). Would-be autocrats need to appeal to a coup coalition to reach power in most dictatorships, and expropriating rival elite groups is a recurring way to credibly signal their sole reliance on their coalition. Redistribution to groups in society that could otherwise pose a threat to their rule from below, or raise the cost of ruling, is an attendant strategy used to allocate the expropriated assets and consolidate rule (Albertus 2015a,b, Menaldo 2016).

Now consider democracy that is captured by elites. Elite-biased democracy is a regime in which free and fair elections are paired with devices, both constitutional and de facto, that codify and enforce the rights and interests of economic elites during the democratic transition (Albertus & Menaldo 2014a). Some tools with a historic pedigree include unelected or indirectly elected upper chambers that overrepresent moneyed interests and strong forms of federalism. More recent examples include gerrymandering, de facto restrictions on the franchise such as voter ID laws, and malapportionment. Requiring supermajorities to reform institutions also continues to ensure that the median voter cannot impose her preferences on the policy agenda in many democracies (see Menaldo & Yoo 2015).

The key variable that motivates economic elites to capture a democracy instead of depend on a possibly unpredictable dictator is their relative ability to bargain for institutions that can safeguard their rights and interests after democratization. If such a bargain can be forged, and if elites can mobilize a critical mass of citizens or strike a deal with political dissidents to generate the coalition needed to support a transition, an elite-biased democracy is likely to obtain.[4]

This discussion suggests four ideal-type political arrangements that are centered on different political deals that create distinct winners and losers. The first is a redistributive dictatorship. In this arrangement, some regime insiders collude with a dictator to cut out rival factions of the pre-existing economic elite. The second is an oligarchic dictatorship. Rather than dissent dividing elites against each other, elites in this arrangement are united with the dictator against the masses. The third is a popular democracy. The median voter in a popular democracy is faithfully represented by elected officials, and elites are cut out of the deal. The fourth is an elite-biased democracy, in which economic elites team up with political incumbents to capture democracy and circumvent the masses.

The framework outlined above suggests not only that there can be a U-shaped pattern of inequality produced by reasons other than Piketty's, but also that there should be cases that never evidence a U-shaped pattern. Although in theory any number of patterns is possible depending on the particular historical combination of political arrangements, four have predominated over the course of the 20th century, which are displayed in **Figure 1**. There is no disagreement with the idea that countries (or their colonial predecessors) uniformly entered the last century with relatively high inequality, but their subsequent trajectories differed greatly. Besides the redistributive autocracy–elite-biased democracy sequence exhibited by Indonesia, Taiwan, and Russia (**Figure 1*a***), there is also the possibility that a redistributive autocracy precedes a popular democracy, yielding a secular decline in inequality (**Figure 1*b***). Furthermore, an oligarchic autocracy may be followed by a popular democracy, also yielding a secular decline in inequality—but,

[4]Albertus & Menaldo (2014a) discuss the conditions under which the economic elite can conscript other actors into helping them bring about a new regime that protects their interests.

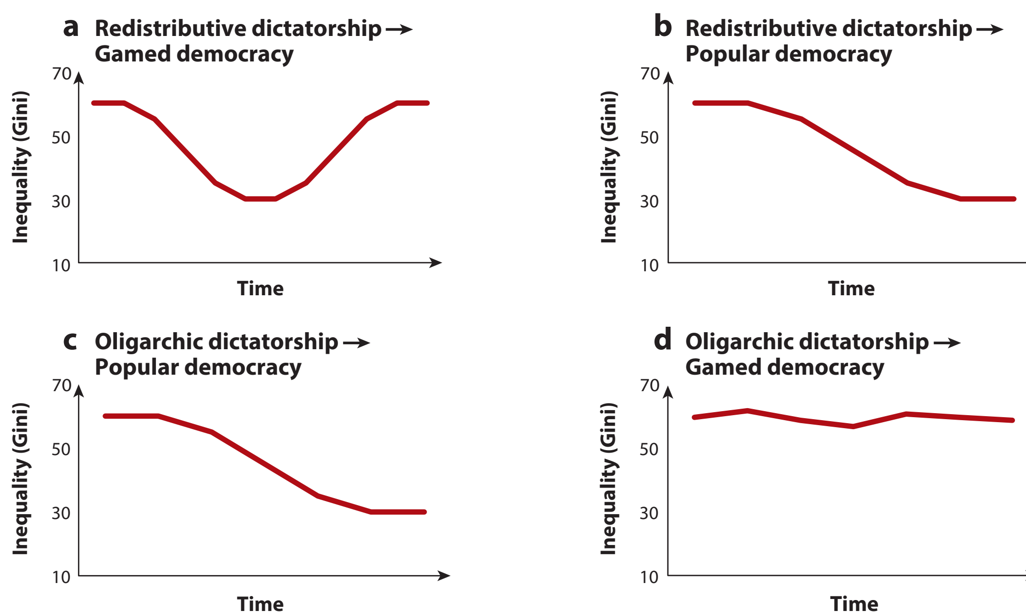

Figure 1.

Historical patterns of inequality across regimes. In each case, the first regime listed is assumed to inherit high inequality at time $t = 0$. "Gini" refers to a hypothetical Gini coefficient that measures the distribution of assets or income, with 0 denoting perfect equality and 100 denoting total inequality—the concentration of wealth or income in the hands of just one individual/family.

critically, the decline in this case (**Figure 1*c***) is delayed relative to the prior scenario (**Figure 1*b***), and occurs solely under democracy rather beginning under autocracy. Finally, an oligarchic autocracy may precede an elite-biased democracy, resulting in consistently high inequality (**Figure 1*d***).

Redistributive Autocracy Followed by Popular Democracy

We anticipate a monotonic decline in inequality when a popular democracy follows a redistributive autocracy. Argentina embodies this pattern. Piketty's (2014) data show that the richest 1% held 26% of total income in the mid-1940s, a figure that declined to 12% by the late 1990s. Although there was an increase in the early 2000s with Argentina's sovereign debt default, inequality again declined significantly under the Kirchners.

Juan Perón came to power in 1946 against a backdrop of steep inequality that dated back to the colonial period. Perón reoriented the terms of political contestation in Argentina to pit agricultural capitalists and foreign investors against nationalized industry and labor. Though democratically elected, Perón consolidated power by revamping the constitution in an illiberal fashion, packing the Supreme Court with his political lackeys, and pursuing a scorched-earth policy against the opposition.

Perón then embarked on aggressive redistribution. Perón raised taxes on export agriculture and capped profit margins on capital while imposing sizable wage increases for labor unions, annual year-end bonuses, vacation pay, sick pay, and severance pay. Perón's prolabor policies managed to boost real wages for both skilled and unskilled workers by about 35% in just a few years. This aggressive redistribution occurred despite Argentina's limited participation in World War II.

After several short-lived regimes following Perón's rule, elected rule was ultimately established in 1983 in the form of a popular democracy. This regime replaced a military junta that had allied with aggrieved oligarchs debilitated by Perón and his successors up until that point. Argentina's generals presided over an uptick in inequality starting in the late 1970s. Inequality vacillated during prolonged economic chaos but was ultimately upended by the rise of the Kirchners beginning in 2003. Cristina Kirchner, like her husband Néstor before her, relies on the political support of national labor unions. Among the redistributive policies she has introduced are a profit-sharing bill and access to subsidized credit for the lower classes. Losers from these policies have included investors who suffered large losses in the aftermath of the raiding of pension funds to finance these transfers, and agro-exporters who suffered in the face of export tariffs and overvalued exchange rates.

Peru and the Czech Republic also exhibit the monotonically declining pattern of inequality adduced by Argentina. In Peru, a narrow military regime that ruled from 1968 to 1980 attacked the oligarchy head-on. It redistributed half of all agricultural land from large landowners to middle-class laborers, nationalized utilities and foreign mining companies, created manufacturing laws that specified worker participation in profit distributions, and created state enterprises that hobbled private businesses in major export sectors (Albertus 2015b). Inequality plummeted while the middle class expanded significantly. The democratic regime that followed then catered to the newly emboldened left, and Alán García even attempted to nationalize the entire banking sector in the late 1980s. A similar dynamic played out in the Czech Republic. The Communist governments propped up by the Soviet Union during the Cold War drastically flattened the distribution of assets and income. After the transition to democracy in the early 1990s, this pattern continued despite the introduction of market reforms and the privatization of state property.

Oligarchic Autocracy Followed by Popular Democracy

Sweden embodies a pattern in which the distribution of assets and income was extremely right-skewed before the 20th century under a monarchical regime that overrepresented landowners and the nobility, but then was radically compressed under social democracy during the 20th and 21st centuries. According to Piketty's (2014) data, the wealthiest percentile held 27% of total income in 1903. This figure plummeted below 20% between democratization and World War I, then to 10% on the eve of World War II, and now sits around 7%.

Conservatives dominated the Swedish Parliament under Oscar II's reign, and the monarchy promoted policies that enshrined their interests into law. This endemic inegalitarianism radically changed after democratization. The beginning of the era of Swedish egalitarianism came in 1903 with the advent of universal suffrage for adult males. This change was cemented by the social pressures imposed by the nascent workers' movement in the early phases of democratization. A left-of-center coalition then ruled this paragon of social democracy during most of the 20th century. Today, Sweden boasts one of the most generous welfare states and egalitarian distributions of wealth and income on the planet.

Brazil displays a pattern similar to Sweden's. A rightwing dictatorship came to power in 1964 after ousting the standing elected executive João Goulart. The regime ruled with an iron fist, albeit under the guise of "representative institutions" dominated by the military. During a two-decade run, the generals were allied with industrialists and repressed the labor movement. Profits for businesses skyrocketed while wages for workers stagnated, leading to a spiraling of income inequality—despite, if not because of, a strategy of rural clientelism in which a large landowning class persisted. Several social movements spearheaded a democratic transition in the early 1980s. Although it took several decades for democracy to consolidate, and there was a slight uptick in

inequality during the 1990s due to neoliberal reforms adopted by Fernando Henrique Cardoso—though nothing like the increase under military rule—pronouncedly left-of-center regimes have presided over the democracy since 2003, when Ignacio Lula de Silva was elected in a landslide. Inequality has declined to historically low levels under the auspices of redistributive policies such as conditional cash transfers and affirmative action.

Oligarchic Autocracy Followed by Elite-Biased Democracy

Chile is perhaps the quintessential example of an oligarchic autocracy followed by an elite-biased democracy that adopts similar policies after transition. Although Piketty lacks inequality data on Chile, the Standardized World Income Inequality Database (Solt 2009) reveals that the net Gini coefficient under President Augusto Pinochet was relatively constant, hovering around 0.48–0.50. More than a decade after democratization, the Gini was stuck at 0.50, and only by 2010 did it approach 0.47.

General Pinochet displaced the first freely elected communist in the Western Hemisphere, Salvador Allende. He then presided over a rightwing military dictatorship that pursued neoliberal economic principles based on strict monetarism and fiscal austerity under the guidance of the Chicago Boys. He reversed many of the redistributive policies adopted by his predecessor, privatizing many nationalized sectors such as banking and returning roughly a third of lands expropriated under Allende to their former owners. Pinochet also diminished the progressivity of the Chilean tax structure. The outgoing Pinochet regime imposed a range of institutional constraints that hamstrung the capacity of subsequent democratic administrations to engage in redistribution. The 1980 constitution created a congress populated by a host of unelected senators. It also gave rise to a binomial electoral system militating in favor of left–right parity despite a numerical disadvantage for the conservatives and favoring the creation of umbrella coalitions that incentivized the left to partner with centrist political parties, leading to the adulteration of their egalitarian political agenda. Twenty-five years after the democratic transition, the Chilean left is only now starting to make headway on undoing this elite-biased institutional legacy. The result is that Chile remains one of the most unequal countries in Latin America and beyond.

Spain is another example of this phenomenon. Francisco Franco rose to power after vanquishing his liberal foes during the Spanish Civil War. He proceeded to impose an oligarchic regime in which the beneficiaries of his policies were large landholders and a few privileged industrialists. The social bases of the left were undermined by changes in Spain's social structure under the Franco regime. This emboldened conservative elites to initiate moves toward democracy in the aftermath of Franco's death in 1975. The result is that Adolfo Suárez, a holdover from the previous regime, became Spain's first democratically elected prime minister after surfacing as the key player in the transition process. He proceeded to govern as a centrist and helped to create a political landscape that subsequently favored centrist policies. It is therefore not surprising that Spain's asset and income inequality has been, for all intents and purposes, static since the Franco regime.

THE WAY FORWARD

In examining broad trends in inequality and redistribution, this article offers an alternative explanation for the long-term U-shaped nature of inequality documented most recently by Piketty (2014). His explanation for this phenomenon, which dovetails in part with key strands of the literature linking regime types and war to inequality, is that the natural state of affairs is high inequality punctuated under unique conditions by wars or policies that put a lid on the rate of return on capital. Inequality exploded beginning in the 1970s because that lid was lifted. There is no doubt the steep rise was exacerbated by the massive tidal wave of globalization. Before *Capital*

in the Twenty-First Century came along, it was widely noted not only that most of the economic gains since the 1970s have been concentrated among the top 10%—and especially the top 1%—of the income distribution, but also that the factors driving this trend include increasing returns to technology, education, and capital arbitrage, alongside the decline of labor unions, increased capital mobility, and the stagnation of the minimum wage in real terms.

The virtue of the regime type literature on inequality, unlike explanations rooted in intrinsic laws of capitalism, globalization, or war, is that scholars writing in this tradition acknowledge that countries are not victims of outside forces but instead make political decisions about what the ultimate distribution of assets and income should be. We build from the regime type approach to argue that something other than the confluence of war and the return of globalization tends to explain the precipitous fall and dramatic rise in inequality outside of the developed world. For countries such as Indonesia, Russia, South Korea, and Taiwan, a better explanation for the decline in inequality is that during long stretches of autocracy dictators strategically redistributed land, capital, and income in a bid to consolidate their rule. Toward the end of the 20th century, these regimes were replaced with democracies in which a new set of elites set up roadblocks to redistribution, thereby ushering in a new era of rising inequality.

We introduce a framework that accounts for this alternative mechanism behind the U-shaped pattern of inequality. This framework also explains the other inequality patterns documented here. The first is a long-term secular decline that is driven by redistributive autocracies followed by popular democracies. Such a pattern can also be driven by oligarchic dictatorships followed by popular democracies, but in this second case the decline occurs solely under popular democracy rather than under both dictatorship and democracy. Finally, there is a relatively static trend of high inequality across time in which oligarchic dictatorships are followed by elite-biased democracies.

Although our new framework appears to explain much more of the variation in inequality and redistribution than extant approaches, to more confidently understand these patterns the literature must tackle major current shortcomings in measuring both inequality and redistribution. The most sophisticated current way of measuring inequality and redistribution is through identifying the difference between pre–tax and transfer income derived from wages and salaries, self-employment, property, and pensions, and post–tax and transfer disposable income. The Luxembourg Income Study (LIS) exemplifies this approach, and the canonical works on the OECD democracies employ these data (e.g., Iversen & Soskice 2006). Yet the LIS data are largely restricted to the OECD and are unavailable prior to 1970. This simply leaves too many countries and too long a time period in the data wilderness.

One of Piketty's (2014) greatest contributions is the use of historical individualized tax return–based data on assets and income to generate a much longer time-series on inequality. Unfortunately, even this type of data is going to be hard, if not impossible, to come by for most developing countries, and even many of the developed ones. Certainly, the impressive historical coverage that Piketty provides for a handful of developed countries will remain out of reach.

Historical calculations of either market income inequality or disposable income inequality are impossible to come by for most countries. The data are murky even for most developed countries prior to the 1970s. Even more problematic is the fact that due to the limited fiscal capacity of many developing countries, taxes historically were not a particularly effective way to implement redistribution or effectuate changes in inequality. Other policies such as land reform, public employment, and clientelistic transfers have been much more central to the economic lives of individuals in these countries.

To gain a better grasp on the dynamics in developing countries, researchers have attempted to capture redistribution by turning to variables that suggest that redistribution is taking place. These include several dimensions of the capacity of states to tax, grow, increase social spending,

and expropriate wealth. The first two, the progressivity of taxation and the progressivity of public spending, are proxies for fiscal redistribution but suffer shortcomings associated with time-series coverage as well as relevance, given the still agricultural and informal nature of many developing economies. Other measures include public employment and the expropriation of capital in the form of fixed assets.

In much of our previous work (Albertus & Menaldo 2012b, 2014a; Albertus 2015a,b; Menaldo 2016), we have employed all or some of these measurements to capture both inequality and redistribution as part of an "all of the above" strategy. Although these measures are currently better than anything else available, there are several pitfalls to this indirect approach. None of these variables measure redistribution on their own. Taxes do not indicate whether revenues will be redistributed, either in a means-tested manner or at all. Social spending may deviate from progressivity or be diverted to clientelism, cronyism, and corruption. Neither do high levels of state consumption tap into redistribution per se. Finally, the expropriation of fixed assets does not alone provide information on the beneficiaries of those assets.

The standard should be to measure simultaneously both how much is being extracted (and from whom) and how much is being distributed (and to whom).[5] Such a standard suggests that much empirical work remains to be done to gain a better understanding of the patterns of inequality and redistribution—especially outside of the contemporary developed world. Below, we discuss some strategies that would ideally be attempted.

On the tax side of the ledger, especially in the recording of income and the taking of income, scholars might emulate Piketty or the LIS dataset for the set of countries that have available records. Treasury departments' archives would be a good place to start.

To get a better grasp of asset takings, one would want to reliably measure the origin and market value of expropriated stocks of capital across the important sectors of the economy. In the developing world, this capital usually includes land, natural resources, industry, financial firms, utilities, and transportation. In the case of land, data from land registries, cadastres, and expropriation decrees can be used to determine who is expropriated. Much of this information is housed in national archives, ministries of agriculture, and land reform agencies (see, e.g., Albertus 2015a). One way to gauge the information for the other capital stocks outlined above is to find a way to gain access to the balance sheets of the firms that are expropriated. Many of these balance sheets are housed in the archives of financial institutions and investor services firms such as Moody's, especially—but not exclusively—when the firms are foreign owned (see Albertus & Menaldo 2012b).

The transfer side of the ledger can be somewhat more complicated. For land assets, title transfers and lists of beneficiaries are often available through land reform agencies, cadastral agencies, ministries of agriculture, and archives (see, e.g., Albertus 2015c). Many non-land transfers executed under the auspices of programmatic policies can be measured through lists of beneficiaries and the transfers they are entitled to. Such information, for instance, has been made public in some of Venezuela's current "social mission" programs. Regarding the clientelistic transfers that the developing world is famous for, the sources of information are somewhat different. Figuring out who benefits from these transfers and to what degree would mean gaining access to the lists of party loyalists that are curated and archived by political parties—and finding and accessing of these lists is perhaps the tallest order. One might start by exploring the party archives in the developing world (see Diaz-Cayeros et al. 2016 for an attempt to do this for Mexico).

Regardless of the research strategy, the time to dig for hard empirical evidence on these issues is now. There is no debate that inequality has indeed risen substantially in major economies such

[5] See, for example, the analysis of both spending and taxation by Albertus & Menaldo (2014a).

as the United States, the United Kingdom, and France, generating political polarization in these countries and shining a harsher light on countries that have long been plagued by relatively high inequality. The problem is the tendency to extrapolate trends, causes, and prescriptions from the experiences of only a handful of industrialized countries to both other developed economies and the developing world. Witness the massive street protests, culminating in violence, organized by populists railing against the "worsening" inequality in the streets of Latin American capitals such as Caracas, La Paz, and Buenos Aires. Getting the facts right is the first and most important step to avoid misdiagnosing the problems and to alleviating the plight of those who actually suffer from worsening inequality and its repercussions.

DISCLOSURE STATEMENT

The authors are not aware of any affiliations, memberships, funding, or financial holdings that might be perceived as affecting the objectivity of this review.

ACKNOWLEDGMENTS

The authors thank Margaret Levi and David Stasavage for their helpful comments on the manuscript.

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