Democracy, Elite Bias, and Redistribution in Latin America

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ARE DEMOCRACIES MORE REDISTRIBUTIVE than autocracies? That is, do they enact regulatory and fiscal policies that tend to equalize market incomes and transfer wealth from the rich to the poor? If so, are there certain conditions under which this pattern is amplified—or suffocated?

These questions are motivated by an influential literature on the distributive foundations of regime types that put class conflict waged between the rich and poor at the center of political life. Newer entries are centered on the median voter paradigm and are known collectively as social conflict theory.[1] They are inspired by a host of celebrated earlier contributions.[2]

Social conflict theory makes several predictions. First, relatively unequal countries will tend to transition to democracy. Second, under democracy, the poor will take to the polls and favor policies that tax the rich and transfer income and wealth to themselves. Third, elected officials will cater to the preferences of those less well-off because the logic of electoral

[1]See Allan H. Meltzer and Scott F. Richard, "A Rational Theory of the Size of Government," *Journal of Political Economy* 89 (October 1981): 914–927; Daron Acemoglu and James A. Robinson, *Economic Origins of Dictatorship and Democracy* (New York: Cambridge University Press, 2006); and Carles Boix, *Democracy and Redistribution* (New York: Cambridge University Press, 2003).

[2]Besides the writings of Aristotle, Karl Marx, and the American Founding Fathers, these include Alexis de Tocqueville, *Democracy in America* (New York: J. & H.G. Langley, 1841); and Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1966).

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competition drives them to converge on the preferences of the median voter. Fourth, democracies will be more redistributive than dictatorships.[3] Fifth, the magnitude of redistribution will reflect the level of inequality: a poorer median voter means greater redistribution.

The evidence supporting these claims is mixed, however. Several authors argue that democratic transitions are not driven by the redistributive demands of the poor.[4] While the distribution of income is right-skewed throughout the world, redistribution from the rich to the poor does not seem to be higher in democracies.[5] Even at the highest levels of inequality, democracy does not map onto redistribution.[6] This may be because politics is often about something other than pocketbook issues.[7]

On the other hand, several researchers have uncovered evidence that at least some democracies are quite redistributive. Policies that benefit the median voter and the poor under democracy have far from vanished,[8] even for democracies that are fully integrated into global trade and

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[3]This assumes, following Meltzer and Richard, "A Rational Theory," that the median voter prefers redistribution if his or her income is below the mean income. Of course, this is only an assumption, not an axiom. Although this article accepts this assumption for purposes of pinning down falsifiable predictions, it does not maintain that this is the only thing that the median voter wants, or even that it is his or her most important demand. For example, the median voter may also desire employment, access to economic opportunities, and upward mobility.

[4]Michael Albertus and Victor Menaldo, "Coercive Capacity and the Prospects for Democratization," *Comparative Politics* 44 (January 2012): 151–169; Ben Ansell and David Samuels, "Inequality and Democratization: A Contractarian Approach," *Comparative Political Studies* 43 (December 2010): 1543–1574; Stephan Haggard and Robert R. Kaufman, "Inequality and Regime Change: Democratic Transitions and the Stability of Democratic Rule," *American Political Science Review* 106 (August 2012): 495–516; and Christian Houle, "Inequality and Democracy: Why Inequality Harms Consolidation but Does Not Affect Democratization," *World Politics* 61 (October 2009): 589–622.

[5]Casey B. Mulligan, Ricard Gil, and Xavier Sala-i-Martin, "Do Democracies Have Different Public Policies than Nondemocracies?," *Journal of Economic Perspectives* 18 (Winter 2004): 51–74; Michael Ross, "Is Democracy Good for the Poor?," *American Journal of Political Science* 50 (October 2006): 860–874; Kenneth Scheve and David Stasavage, "Democracy, War, and Wealth: Evidence from Two Centuries of Inheritance Taxation," *American Political Science Review* 106 (February 2011): 81–102; and Jeffrey F. Timmons, "Does Democracy Reduce Economic Inequality?," *British Journal of Political Science* 40 (October 2010): 741–757.

[6]Roberto Perotti, "Growth, Income Distribution, and Democracy: What the Data Say," *Journal of Economic Growth* 1 (June 1996): 149–187.

[7]See Larry M. Bartels, "Homer Gets a Tax Cut: Inequality and Public Policy in the American Mind," *Perspectives on Politics* 3 (March 2005): 15–31; Ian Shapiro, "Why the Poor Don't Soak the Rich," *Daedalus* 131 (Winter 2002): 118–128; John E. Roemer, "Why the Poor Do Not Expropriate the Rich: An Old Argument in New Garb," *Journal of Public Economics* 70 (December 1998): 399–424; and Katherine Cramer Walsh, "Putting Inequality in Its Place: Rural Consciousness and the Power of Perspective," *American Political Science Review* 106 (August 2012): 517–532.

[8]See Michael Albertus and Victor Menaldo, "Gaming Democracy: Elite Dominance during Transition and the Prospects for Redistribution," *British Journal of Political Science* 44 (July 2014): 575–603. This article strongly draws on the argument and research strategy introduced in that work.

investment.[9] Public employment still serves as the backbone of the economy in democracies such as the Philippines and Indonesia. Elected leaders have successfully implemented effective pro-poor conditional cash transfers in developing countries such as Brazil and Mexico.[10] And robust welfare states in Western and Eastern Europe have weathered calls for austerity and continued to finance generous safety nets and publicly provided services.[11]

Moreover, and consistent with social conflict theory, pro-poor policies and redistribution in fledgling democracies seem to cut across ideological orientation centered on the typical left/right divide. This pattern is evident in Latin America. In Argentina, the Kirchners have peeled back neoliberal reforms to appease coalitions that include labor unions and the poor, groups that lost the most ground during the 1980s and 1990s. Venezuela's Hugo Chávez walked a similar line. He and other populists favored subsidies, wage increases for labor along with price controls, legislated profit sharing, and the expropriation of capital. Conversely, pro-poor policies in Brazil and Mexico were first enacted by centrist presidents and parties. In Chile, Sebastián Piñera, leader of the center-right Alianza coalition, who became president in 2010, refrained from reversing progressive social policies adopted since 1990 under Concertación governments.

If not ideology, then what motivates elected politicians to tax the wealthy and transfer resources to the majority of citizens through spending and regulatory policies? To answer this question, this article introduces and tests a theoretical framework that outlines the conditions under which politicians will be responsive to the median's preferred policies versus policies that benefit a narrow elite. It all depends on the legacy of the previous autocracy and whether economic elites are able to manipulate the rules of the game for their own advantage. To motivate the theory and test it empirically, this article focuses attention on Latin America (LATAM), a great laboratory for evaluating the relationship between regimes and redistribution.

I theorize that if outgoing elites are able to impose roadblocks to popular representation before democratic transition, it is more likely that a democracy will not usher in greater redistribution than autocracy. Specifically,

[9]See Mansoor Dailami, *Financial Openness, Democracy, and Redistributive Policy* (Washington, DC: World Bank, 2000); Paolo Epifani and Gino Garcia, "Openness, Government Size and the Terms of Trade," *Review of Economics Studies* 76 (April 2009): 629–668; and Dani Rodrik, "Why Do More Open Economies Have Bigger Governments?," *Journal of Political Economy* 106 (October 1998): 997–1032.
[10]Ana L. De La O, "Do Conditional Cash Transfers Affect Electoral Behavior? Evidence from a Randomized Experiment in Mexico," *American Journal of Political Science* 57 (August 2013): 1–14.
[11]See Dailami, *Financial Openness*.

democracies in which elites impose the rules of the game through a constitution inherited from the previous autocracy should eschew the taxation of income, profits, and capital; stifle taxation in general; engage in less social spending; have lower levels of government employment; and be less likely to expropriate fixed assets.[12] Elite-biased democracies should also have lower levels of social spending and higher unemployment rates.[13] The mechanism by which this occurs includes constitutional strictures and similar legal and political limits on the scope of government policy, as well as the political overrepresentation of elites through electoral rules and the politicized drawing of electoral districts.

Conversely, democracies in which the median voter has a strong hand in writing the rules of the game, which I proxy with the adoption of their own constitution after transition, should enact policies that potentially benefit the majority by taxing the wealthy and redistributing to the poor. Specifically, "popular democracies" should be more likely to levy direct, progressive taxation; exhibit higher taxes in general; indulge in greater social spending centered on education, health, housing, welfare, and social insurance; have higher rates of public employment; and be more likely to expropriate capital.

LATAM is a great laboratory for several reasons. While several of these countries have cycled back and forth between democracy and autocracy, many of them have experimented with public policies that should appeal to popular sectors at the central government level.[14] Despite experiments in pro-poor policymaking, the region's uniformly high levels of inequality mean the median voter is relatively poor across LATAM countries. Thus, this is a context in which we can conduct several before-and-after comparisons of the effects of democratization and we should not only expect greater redistribution after transition, but expect a lot of it.

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[12]An authoritarian constitution is not an unambiguous measure of the legacy of economic elites. Not all autocracies are identical in terms of the key interest groups embraced and the groups that can enshrine their preferences before democratization. Indeed, in Latin America, there have been military juntas that have had varied supporting coalitions (exporters, industrialists, labor groups, military actors, technocratic groups, and even nationalist left-wingers). In imputing an authoritarian constitution to economic elites, I am making a simplifying assumption that is purposely incomplete. While this is a coarse measure of the lingering impact of economic elites after a regime transition, it is the next-best strategy to perfectly capturing post-transition legacies.

[13]Although the data used in this article cannot really measure redistribution per se, they can capture the capacity of states to tax, grow, increase social spending, and expropriate assets such as natural resource wealth and land. These are all prerequisites for redistribution and suggest that governments are at least attempting to benefit poorer segments of the population.

[14]Direct, progressive taxation was adopted during the nineteenth century in Ecuador, Peru, and Chile—well before the United States adopted progressive income taxation at the federal level in 1913.

Therefore, to test this theory, I employ an original panel data set that identifies the constitutional legacy of the region's numerous democratic experiments and codes institutional arrangements that range from popular democracy to elite-biased democracy. The theory is corroborated by the evidence. In terms of the comparison between popular democracies and elite-biased democracies, the former have raised greater tax revenues, including increases in both direct, progressive taxation and value-added taxes (VATs). They have also undertaken greater amounts of social spending, exhibited greater public employment, and expropriated more fixed assets in the form of land and firms involved in mining and hydrocarbon extraction. In terms of the effect registered by a democratic transition, while a change from autocracy to popular democracy is a boon for these outcomes, a change from autocracy to elite-biased democracy seems to make no difference. The results are robust to a host of alternative explanations, country fixed effects, year fixed effects, and country-specific time trends.

REASSESSING THE RELATION BETWEEN DEMOCRACY AND REDISTRIBUTION

To put distribution and redistribution at the center of the study of democratization, social conflict theory leans on a few interconnected assumptions. The first is that the pretax and transfer distribution of income is right-skewed, as that guarantees that the median income is below the mean, and therefore the poor constitute a majority of the population. The second is that democracy is majoritarian: public policy reflects 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 while the poor should support democratization, the rich should generally oppose it because under autocracy it is their preferences, not the majority's, that are represented.

However, under certain conditions, the rich should accept democracy—especially if the alternative might be a revolution that culminates in a socialist or communist dictatorship. If the poor's power is fleeting—they cannot credibly threaten to mount a revolution in the future—they will accept the franchise and regular, competitive elections as a credible commitment to redistribution. In other words, the rich may concede democracy to the poor as a bribe against revolution. This is more likely to occur under conditions of high inequality. When assets and income are unevenly distributed, the poor have less to lose from revolutionary change because they have little to no stake in the assets and income flows destroyed by violence—for example, while fighting for political change, they are less likely to destroy their own capital stock.[15]

There is strong evidence supporting social conflict theory among the advanced democracies. Democratization in Western Europe was often driven by the fear of revolution.[16] Moreover, the steady widening of the franchise across Western Europe and the United States through the removal of income, wealth, and property restrictions on the right to vote for adult men, followed by suffrage for women, appears to have stimulated redistribution.[17]

Progressive taxation and high levels of social spending were the warp and woof of this equilibrium. At first, governments raised direct taxes with progressive marginal rates to provide basic public goods in urban areas undergoing rapid industrialization.[18] 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 twentieth 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.[19] The heyday of this equilibrium was the so-called embedded liberal international order under the Bretton Woods system of fixed exchange rates. During this era, all democratic governments in the developed world—and many developing countries—used capital controls to avail

[15]It is important to note that this view of the world is a departure from earlier work on the distributional foundations of regime type. Moore, in *Social Origins of Dictatorship and Democracy*, argues that democratization is not the result of a fear of revolution but a direct consequence of an actual revolution. I thank an anonymous reviewer for bringing this point to my attention.

[16]See Acemoglu and Robinson, "Economic Origins"; and Adam Przeworski, "Conquered or Granted? A History of Suffrage Extensions," *British Journal of Political Science* 39 (April 2009): 291–321.

[17]Thomas A. Husted and Lawrence W. Kenny, "The Effect of the Expansion of the Voting Franchise on the Size of Government," *Journal of Political Economy* 105 (February 1997): 54–82; Moshe Justman and Mark Gradstein, "The Industrial Revolution, Political Transition, and the Subsequent Decline in Inequality in 19th Century Britain," *Explorations in Economic History* (April 1999): 109–127; and John R. Lott, Jr., and Lawrence W. Kenny, "Did Women's Suffrage Change the Size and Scope of Government?," *Journal of Political Economy* 107 (December 1999): 1163–1198.

[18]See Acemoglu and Robinson, "Economic Origins"; Alessandro Lizzeri and Nicola Persico, "Why Did the Elites Extend the Suffrage? Democracy and the Scope of Government, with an Application to Britain's Age of Reform," *Quarterly Journal of Economics* (May 2004): 707–765; and Toke Aidt, Jayasri Dutta, and Elena Loukoianova, "Democracy Comes to Europe: Franchise Extension and Fiscal Outcomes 1830–1938," *European Economic Review* 50 (February 2006): 249–283.

[19]See Peter H. Lindert, "The Rise of Social Spending, 1880–1930," *Explorations in Economic History* 31 (January 1994): 1–37; Lindert, *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century* (Cambridge: Cambridge University Press, 2004); and Sven Steinmo, *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State* (New Haven, CT: Yale University Press, 1993).

both fiscal and monetary policy for redistribution, full employment, and social insurance.[20]

However, there are reasons to be cautious about the belief that democracy is always a credible commitment to redistribution. There may be strong barriers to redistribution under democracy, especially in today's globalized world, even among the most unequal countries. While framing effects and ignorance about the distribution of income and fiscal policies may blunt demands for redistribution,[21] regional, ethnic, or religious differences may be more salient than class-based redistributive appeals.[22] Moreover, if poorer citizens are relatively risk acceptant and anticipate upward mobility, they may eschew redistribution to avoid being taxed in the future.[23]

Even if the poor prefer redistribution, globalization may tie the hands of policymakers by enabling asset holders to move easily across borders to avoid redistribution.[24] Several policy tools that facilitate redistribution are made more difficult by capital mobility. These include a government's ability to regulate labor markets and levy progressive taxation.[25] Almost universally, countries have reduced marginal tax rates on high income earners, adopted flatter tax structures centered on VATs, and cut both corporate tax rates and rates on capital gains.[26]

Despite the aforementioned obstacles to redistribution under democracy, there are both theoretical and empirical reasons to believe that some democracies should engage in progressive policies, even in the face of important obstacles. On the one hand, so-called neoliberal policies have increasingly faced a backlash, especially after prolonged periods of austerity and unemployment.[27] On the other hand, several researchers

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[20]See Dailami, *Financial Openness*.

[21]See Shapiro, "Why the Poor Don't Soak the Rich"; and Bartels, "Homer Gets a Tax Cut."

[22]See Roemer, "Why the Poor do Not Expropriate the Rich"; and Walsh, "Putting Inequality in Its Place."

[23]Roland Benabou and Efi Ok, "Social Mobility and the Demand for Redistribution: the POUM Hypothesis," *Quarterly Journal of Economics* 116 (May 2001): 447–487.

[24]See Robert H. Bates, "The Economics of Transitions to Democracy," *PS: Political Science and Politics* 24 (March 1991): 24–27; Boix, *Democracy and Redistribution*; Dailami, *Financial Openness*; John R. Freeman and Dennis P. Quinn, "The Economic Origins of Democracy Reconsidered," *American Political Science Review* 106 (February 2012): 58–80; Robert R. Kaufman and Alex Segura-Ubiergo, "Globalization, Domestic Politics, and Social Spending in Latin America," *World Politics* 53 (July 2001): 553–587; Karen L. Remmer, "Democracy and Economic Crisis: The Latin American Experience," *World Politics* 42 (April 1990): 315–335; and Susan C. Stokes, *Mandates and Democracy: Neoliberalism by Surprise in Latin America* (Cambridge: Cambridge University Press, 2001).

[25]See Dailami, *Financial Openness*.

[26]Robert M. Bird and Eric M. Zolt, "Redistribution via Taxation: The Limited Role of the Personal Income Tax in Developing Countries," *UCLA Law Review* 52 (August 2005): 1627–1695.

[27]See Alexandre Debs and Gretchen Helmke, "Inequality under Democracy: Explaining the Left Decade in Latin America," *Quarterly Journal of Political Science* 5 (October 2010): 209–241.

argue that the presence of strong unions and left-wing parties can put pressure on elected governments to deliver redistributive policies.[28] Similarly, Haggard and Kaufman argue that the effect of regime type is conditioned by the distribution of stakeholders and how they are organized.[29] If public entitlements have historically been extended broadly, this bolsters electoral support for the welfare state; narrow coverage provides opportunities to court new constituencies and expand social programs yet limits stakeholders' ability to defend their entitlements in the face of shocks.

Similarly, there are both theoretical and empirical reasons to believe that some democracies should systematically engage in regressive policies. Several researchers suggest that when the democratic rules of the game have been rigged in favor of the elites, they disproportionally influence economic policy and block redistribution.[30] This echoes a host of anecdotal evidence. Consider Keefer's observation that "allowing a popular vote for one legislative chamber, but not another, the system prevailing in the United States in the nineteenth century, gave…elites a way to veto the efforts to redistribute their wealth."[31] Indeed, this might even be the case in the most "egalitarian" democracies. In Scandinavia, centralized bargaining by government-sanctioned peak associations has historically engendered collective wage restraint[32] and has had little, if any, causal effect on inequality.[33]

[28]See Walter Korpi, *The Democratic Class Struggle* (London: Routledge and Kegan Paul, 1983); John D. Stephens, *The Transition from Capitalism to Socialism* (London: Macmillan 1979); and Evelyne Huber, Thomas Mustillo, and John D. Stephens, "Politics and Social Spending in Latin America," *Journal of Politics* 70 (April 2008): 420–436. By the same token, Nancy Bermeo argues that the decline of labor unions and the rise of politicized religious groups have militated against democracies' willingness to address issues of inequality: "Does Electoral Democracy Boost Economic Equality?," *Journal of Democracy* 20 (October 2009): 21–35, at 27–28.
[29]Stephan Haggard and Robert R. Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe* (Princeton, NJ: Princeton University Press, 2008).
[30]See Daron Acemoglu and James A. Robinson, "Persistence of Power, Elites, and Institutions," *American Economic Review* 98 (March 2008): 267–293; Albertus and Menaldo, "Gaming Democracy"; Friedrich Breyer and Heinrich W. Ursprung, "Are the Rich Too Rich to Be Expropriated? Economic Power and the Feasibility of Constitutional Limits to Redistribution," *Public Choice* 94 (January 1998): 135–156; Francisco Rodriguez, "Inequality, Redistribution, and Rent-Seeking," *Economics & Politics* 16 (November 2004): 287–320; and Daniel Ziblatt, "Shaping Democratic Practice and the Causes of Electoral Fraud," *American Political Science Review* 103 (February 2009): 1–21.
[31]See Philip Keefer, "What Does Political Economy Tell Us about Economic Development—and Vice Versa?," *Annual Review of Political Science* 7 (2004): 247–272.
[32]Torben Iversen, "Power, Flexibility, and the Breakdown of Centralized Wage Bargaining: Denmark and Sweden in Comparative Perspective," *Comparative Politics* 28 (July 1996): 399–436.
[33]Kenneth Scheve and David Stasavage, "Institutions, Partisanship, and Inequality in the Long Run," *World Politics* 61 (April 2009): 215–253.

Finally, redistribution may be conditional on state capacity and the structure of the economy. Governments in the developing world may be unable to engage in the type of fiscal redistribution that was typical across Western Europe during the twentieth century. A more progressive tax structure and greater social spending were functions of the advent of lower tax collection costs borne by institutional reforms, the spread of elementary education, and modern record keeping.[34] Government agents tasked with monitoring tax compliance have an easier time securing compliance when the population is concentrated in urban areas and it is literate and numerate—because it is easier for citizens to complete self-assessed tax returns.[35] Conversely, shadow economies and hard-to-tax sectors raise fiscal transaction costs.[36]

In the next section of this article, I elucidate a theory that provides scope conditions to explain why some LATAM democracies indulge in redistribution while others do not, despite the fact that the levels of asset and income inequality are very high across the region. To do so, I consider the politics of autocracy, elite-led democratization, and popular democracy. I also integrate into the theory the idea that fiscal transaction costs may condition the ultimate level of redistribution as well as what form it takes; unorthodox measures may be undertaken when low state capacity and tax evasion make the taxation of income and assets next to impossible.

THEORETICAL FRAMEWORK

The key to making sense of the equilibrium set of economic policies observed under any regime is to identify the power that critical actors have in society and whether they are able to shape the rules of the game in ways that favor their interests. In democracies, the key issue is whether it is the median voter who is able to influence economic policy rather than a smaller subset of the population, the economic elites. In autocracies, the chief determinant of economic policy is the outcome of the competition between ruling political elites and economic elites, who may not always have the same interests.

[34]Toke S. Aidt and Peter S. Jensen, "Tax Structure, Size of Government, and the Extension of the Voting Franchise in Western Europe, 1860–1938," *International Tax and Public Finance* 16 (July 2009): 362–394.

[35]See Lawrence W. Kenny and Stanley L. Winer, "Tax Systems in the World: An Empirical Investigation into the Importance of Tax Bases, Administration Costs, Scale and Political Regime," *International Tax and Public Finance* 13 (April 2006): 181–215.

[36]James Alm, Jorge Martínez-Vazquez, and Sally Wallace, *Taxing the Hard-to-Tax* (Amsterdam: Elsevier, 2004).

There are three groups of critical actors who influence the economic policies that are adopted across regimes. The first are the economic elites. These individuals may enjoy selective property rights that grant them special privileges and flows of rents in exchange for generating revenues. Their property rights can be withdrawn by political elites if political calculations drive them to do so, however, making their privileged position inherently tenuous. This is particularly the case in an autocracy, in which the political elites can sometimes betray the economic elites and continue to hold power. These are not merely rare or passing threats; political elites sometimes have strong incentives to expropriate and harass economic elites.[37] This is not the case under democracy if economic elites have a strong hand in its design, however.

The political elites are the second group of critical actors. Composed of key civilian politicians under democracy, they can include state party cadres, important military players, and powerful civilians or ruling families under autocracy. While there may be conflicts within this group across any regime, they share the organizational and coercive capacity to control government. Their monopoly on violence and control of the legislative process allows them to grant and withdraw property rights.

What does this difference between economic and political elites imply about economic elites' preferences over regime types? While their incentives can sometimes be aligned to protect the rights and interests of the economic elite, the policy preferences of political and economic elites are not always shared.[38] And even if political elites choose to protect the property rights of economic elites, leading to an overlap in their policy preferences at a given time, this does not mean that these property rights cannot be rapidly withdrawn.

The third important actor is the mass of the population. The masses constitute the majority of society and therefore contain both the median voter (a poor agent when the distribution of income is right-skewed) as well as all members poorer than the median. What the median voter wants is redistribution and social insurance.[39] Therefore, in the case of fiscal

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[37]See Ansell and Samuels, "Inequality and Democratization"; Michael Albertus and Victor Menaldo, "If You're against Them You're with Us: The Effect of Expropriation on Autocratic Survival," *Comparative Political Studies* 45 (August 2012): 973–1003; and Douglass C. North and Barry R. Weingast, "Constitutions and Commitment," *Journal of Economic History* 49 (December 1989): 803–832.

[38]See Albertus and Menaldo, "Gaming Democracy."

[39]See, respectively, Meltzer and Richard, "A Rational Theory"; and Torben Iversen and Thomas R. Cusack, "The Causes of Welfare State Expansion: Deindustrialization or Globalization?," *World Politics* 52 (April 2000): 313–349, at 329.

policy, what the median voter wants is a progressive tax structure and redistributive social spending.[40]

Therefore, while the masses may temporarily support a populist dictatorship, their optimal outcome over the long run is full democracy. A suboptimal alternative is democracy biased by elites. As I argue later, they can obtain their preferred outcome if they successfully sweep out economic elites and erstwhile political elites and codify a new democratic constitution. This is not always possible, however, because economic elites are often able to control the terms of democratic transition and monopolize the rules of the game after democratization—usually by imposing their own constitution before the end of authoritarianism.

Elite-Biased Democracy

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 process. On the one hand, rotation in office through elections and checks and balances ensure that executives cannot grow powerful enough to threaten elites. On the other hand, restrictions on the franchise, populism, and rules that overrepresent economic elites across political institutions such as the legislature and constitutional court ensure that the median voter cannot impose his or her preferences on the policy agenda.

Elites prefer a democracy biased in their favor to an autocracy. This is because they can institutionalize their interests in ways that do not depend on the capriciousness of a dictator, military junta, or even a ruling party. Economic elites' uncertainty about their property rights, while not eliminated, can nonetheless be mitigated under democracy.

Therefore, the key variable that motivates economic elites' willingness to abandon dictatorship and accept democracy is their relative ability to bargain for institutions that can safeguard their rights and interests after

[40]This is a simplifying assumption and therefore, by construction, ignores the possibility that there are ideological or party divisions that create a wedge between different parts of the mass of the population. Of course, it does not always hold in practice. For example, in some highly polarized societies in which there are two cohesive parties that are riven by a high degree of ideological distance, the majority of the population might be splintered into factions that ally with elites and join them in repressing the other. This might create a zero-sum game in which redistribution is eschewed if relative gains are perceived to threaten the other camp. This possibility is illustrated in Yousseff Cohen's explanation for the demise of Brazil's democracy in the early 1960s. Yet this phenomenon might itself be endogenous to whether the democracy is manipulated by elites, thereby reflecting an explicit strategy by the latter to protect their interests. See Cohen, "Democracy from Above: the Political Origins of Military Dictatorship in Brazil," *World Politics* 40 (October 1987): 30–54. I thank an anonymous reviewer for pointing this out to me.

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.[41]

Elite-Biased Constitutions in LATAM

Throughout the region's history, economic elites have adopted rules that lead to the overrepresentation of their interests and that tie the hands of would-be populists who seek to win electoral support through redistribution. These measures have included de facto property qualifications for elected representatives, literacy requirements for voters,[42] and executive elections through indirect means, such as unelected electoral colleges or the legislature. LATAM democracies have also been burdened with rules that make it easier for conservative parties to gain power. Among the most pervasive measures to advance this end are malapportionment that overrepresents the owners of large landholdings, the appointment of senators opposed to redistributive policies, and the banning of left-wing parties. What these disparate measures share is that they make it more difficult for the median voter to have his or her preferences enacted.

Examples of these constitutions and their antiredistributive measures are scattered throughout LATAM. Argentina's democratic experiments have always included two chambers that are considerably malapportioned, especially the upper house—a pattern typified by the short-lived introduction of three senators for each region in 1972, one of whom represented wealthy constituents. Both Guatemala's 1956 constitution and Brazil's 1967 constitution banned socialist and communist parties. Similarly, military juntas aligned with conservative parties, for example, in El Salvador, supported permissive electoral rules during transitional constitutional conventions to bolster the representation of rightwing parties.[43]

Bolivia's 1967 constitution is an egregious example of constitutional engineering to limit populist policies. Colonel René Barrientos spearheaded a coup against a civilian government in 1964, and, three years later, under the aegis of a new constitution, he dismantled the mine workers' union, suppressed strikes, exiled union leaders, and granted

[41]See Albertus and Menaldo, "Gaming Democracy," for the conditions under which the economic elite can conscript other actors into helping them bring about a new regime that protects their interests.

[42]Stanley L. Engerman and Kenneth L. Sokoloff, "The Evolution of Suffrage Institutions in the New World," *Journal of Economic History* 65 (December 2005): 891–921.

[43]Gabriel L. Negretto, "Choosing How to Choose Presidents," *Journal of Politics* 68 (May 2006): 421–433.

private investors preferential treatment.[44] This constitution was then bequeathed to Bolivia's democratic government in 1979.

Perhaps the quintessential example of constitutional engineering that has served to prevent redistributive policies is Chile. Specifically, a bicameral chamber with malapportionment and restrictions on left-wing parties were bequeathed by the Augusto Pinochet dictatorship to an elected government in 1989. Chile's revived democracy also inherited a host of appointed senators in a bid to limit the power of ascendant leftist political parties. In that vein, the 1980 constitution also prescribed a binomial electoral system tilted in former elites' favor.

How Elite-Biased Institutions Can Be Locked In

Former autocratic elites can prevent constitutional safeguards from being eroded under democracy by steadfastly exploiting the power afforded by the constitution to further cement their political advantages. For example, elites can gerrymander electoral districts in a way that produces even more skewed malapportionment to their advantage. Also, former political elites can push early on for public policies that widen inequality, giving them an advantage in terms of collective action, resources, and de facto power over the less well-off. Former autocratic elites can then gain favorable policies, either through legal means, such as lobbying and financing campaigns, or illegally, through corruption.[45] For example, elites can embrace vote buying and clientelism in an effort to undercut populist economic policies.[46] Moreover, if former autocratic elites can finance and support political parties and social actors such as the media, they can mobilize coalitions around issues that benefit them economically and politically.

Consider Ecuador, where the 1946 and 1967 constitutions, both adopted by dictatorships, hobbled the executive branch's ability to use public policy to favor the poor majority. The Supreme Court and Congress repeatedly blocked legislation unfriendly to elites during the "populist" presidencies of Carlos Julio Arosemena Monroy (1961–1963) and José María Velasco Ibarra (1968–1972). These measures included higher corporate taxes, agrarian reform laws, and import tariffs that

[44]It is important to note, however, that the government that Barrientos overthrew was not particularly leftist any longer and that he was the vice presidential running mate of the president he overthrew. I thank an anonymous reviewer for pointing this out.
[45]See Breyer and Ursprung, "Are the Rich Too Rich to Be Expropriated."
[46]See Philip Keefer, "Clientelism, Credibility, and the Policy Choices of Young Democracies," *American Journal of Political Science* 51 (October 2007): 804–821; and Ziblatt, "Shaping Democratic Practice."

threatened business owners.[47] In describing this situation, Isaacs writes that

> [D]iscussion of either socio-economic reforms or even promised political reforms, such as the extension of suffrage to the illiterate population, were conspicuously absent from the *Velasquista* agenda. When asked by a journalist how he could have held power so often and with such broad popular support and yet never have promoted social reform, Velasco reportedly responded incredulously: "Sir, do you think that if I had introduced reform I would have lasted in power another five minutes?"[48]

Popular Democracy

Democracy biased in favor of elites clearly does not always hold, however. While an elite-friendly democracy may be better for economic elites in expectation than more uncertain autocratic rule, the elites cannot always manipulate the timing and circumstances of a democratic transition. Unexpected moments of elite weakness may elicit pressure for democratization, leading to a transition *despite* the inability of elites to guarantee a commitment to their rights under democracy. In cases in which elites are caught off balance, they are pressured to rush into a transition bargain more quickly than they would otherwise have done, decreasing their ability to manipulate the process to safeguard their interests after democratization.

Prominent examples of democratization amid elite weakness are those transitions that occur when an incoming democratic regime can overturn the old order by writing a new constitution that empowers the majority. This may also occur when consolidating democracies are able to rewrite the social contract years after transition in favor of the popular sectors. Under these circumstances, democracies will tend to adopt economic policies that favor the majority.

Main Hypotheses

The theory detailed here posits that there are scope conditions that explain why some democracies indulge in policies that have the potential for redistribution while others do not. I expect an increase in potentially redistributive policies after democratization *only* when a new democracy is biased by economic elites on the eve of a democratic transition. As a

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[47]Anita Isaacs, *Military Rule and Transition in Ecuador, 1972–92* (Pittsburgh, PA: University of Pittsburgh Press), 19–20.
[48]Ibid., 18–19.

proxy for the ability of elites to dominate the transition process in order to game the political system in their favor, I draw on four assumptions. First, economic elites can be either weak or strong on the eve of democratization. Second, this variation is correlated with elites' ability to manipulate the political system in their favor during regime change by imposing a constitution that is friendly to their interests on the eve of transition. Third, the legacy of the democracy's transition process influences the relative power of the elites versus the masses after democratization.

From these three tenets, I deduce the prediction that this constitutional legacy should influence whether policies will favor the poor versus the elites. When a democracy inherits a constitution from the previous authoritarian regime—which therefore intimates that economic elites were strong on the eve of democratization and imposed their interests on the succeeding regime—I expect reduced reliance on income taxes, fewer taxes collected in general, lower social spending, reduced public employment, and lower rates of expropriation. Conversely, when democratization follows a transition process in which elites are relatively weak and cannot manipulate the process by imposing a constitution, I expect the opposite.

RESEARCH DESIGN AND MEASUREMENT STRATEGY

I evaluate these empirical implications by generating a time-series, cross-section data set of LATAM and Caribbean countries between 1965 and 2006. The countries included in the data set are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

Dependent Variables: Measuring Redistribution

Ideally, I would like to measure the reduction in income inequality effectuated by taxes and transfers to capture the degree of redistribution. Fiscal redistribution is the difference between pretax and transfer income derived from wages and salaries, self-employment, property, and pensions and post-tax and transfer disposable income. Indeed, this is the approach to measuring redistribution undertaken by canonical works on the OECD (Organisation for Economic Co-operation and Development) democracies.[49] Unfortunately, historical calculations of either market income

[49]See, for example, Torben Iversen and David Soskice, "Electoral Institutions, Parties, and the Politics of Class: Why Some Democracies Redistribute More than Others," *American Political Science Review* 100 (May 2006): 165–181.

inequality or disposable income inequality are impossible to come by for LATAM.

Therefore, given these data limitations, I attempt to capture redistribution by employing variables that suggest that redistribution is taking place. I measure several dimensions of the capacity of states to tax, grow, and increase social spending and expropriate wealth. These are the progressivity of taxation, the progressivity of public spending, public employment, and the expropriation of capital in the form of fixed assets.

To be sure, none of these dependent variables measures redistribution individually. Taxes do not really indicate whether revenues will be redistributed or whether they will be redistributed in a means-tested manner. Neither do high levels of state consumption tap into redistribution per se. Social spending is also questionable, as it is often diverted to clientelism, cronyism, and corruption, or, as in the case of university spending or some pensions, the spending is captured by segments of the population that are well-off. Finally, the expropriation of land, mines, and oil wells may not be followed by their redistribution to the poor. When taken together, however, these outcomes point to the possibility that redistribution is occurring.

To attempt to capture the progressivity of the tax structure, I take two steps. The first is to identify the taxes levied on income, profits, and capital gains (as a percentage of gross domestic product [GDP]). The second is to identify the VATs levied on goods and services, as well as other taxes on goods and services, such as excise taxes. To operationalize both variables, I follow the guidelines and coding rules set forth in the International Monetary Fund's (IMF) *Government Finance Statistics Yearbook*.[50] I use both this source and, when needed, complement it with several secondary sources. Coverage begins in 1972 for both variables.

The logic of this measurement strategy is that reductions in income inequality from before taxes and transfers to after taxes and transfers are engendered by more progressive taxes and thus are preferred by the median voter.[51] A more progressive tax incidence means that taxes are

[50]See International Monetary Fund, *A Manual on Government Finance Statistics* (Washington, D.C: International Monetary Fund, 2001).

[51]Several researchers have extended the median voter framework to the progressivity of the tax system itself. These include Alex Cukierman and Allen H. Meltzer, "A Political Theory of Progressive Income Taxation," in *Political Economy*, ed. Allen H. Melzer, Alex Cukierman, and S.F. Richard (New York: Oxford University Press, 1991), 77–108; Francisco Marhuenda and Ignacio Ortuño-Ortín, "Popular Support for Progressive Income Taxation," *Economic Letters* 48 (June 1995): 319–324; and Philippe DeDonder and Jean Hindriks, "Majority Support for Progressive Income Taxation with Corner Preferences," *Public Choice* 118 (March 2004): 437–449.

levied on income, profits, and capital at graduated rates. In LATAM, effective income tax rates have a progressive incidence.[52] Citizens who pay income taxes tend to be upper class, not wage earners in either the middle or lower classes. Moreover, property, estate, inheritance, and capital gains taxes levied at flat rates have tended to be progressive: relative to poorer citizens, wealthier citizens tend to own property, have estates, inherit wealth, and invest their savings. Indeed, even income taxation levied at flat rates is progressive in LATAM because of generous deductions and exemptions for the poor.[53]

However, it is also important to identify the level of taxes generated by VATs and other sales taxes with a regressive incidence and to evaluate whether increases in progressive taxes have been matched or superseded by increases in regressive taxes. Even if increases in the share of taxes on income, capital, and profits are registered, and even if we find that public spending is progressive, it could be the case that taxes with a regressive incidence nonetheless make up a greater share of total government revenues. In this scenario, the poor are paying a greater share of what they receive, and the overall fiscal structure is not necessarily progressive.

Indeed, the norm in both the developed and developing world has been one of more regressive taxation combined with more progressive social spending. On balance, there has been radically increased regressivity in the tax burden in Western democracies since the late 1970s. European countries have increasingly relied on consumption taxes, especially VATs, and have cut both corporate and individual (statutory) income tax rates substantially. This pattern contrasts drastically with the reliance on progressive taxation on personal income and corporate profits following World War II across the Western democracies.[54]

Yet, at the same time, social spending has continued to increase steadily across the Western democracies and many countries in the developing world—a pattern that has been visible in LATAM.[55] For example, over the past two decades, Brazil's centrist and social democratic governments have been able to implement progressive social policies because the prior

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[52]Parthasarathi Shome, "Taxation in Latin America: Structural Trends and Impact of Administration" (working paper, International Monetary Fund, 1999).

[53]Moreover, Anthony Atkinson, Thomas Piketty, and Eduardo Saez, in "Top Incomes in the Long Run of History" (working paper, National Bureau of Economic Research, 2009), argue that as top marginal tax rates on income increase, capital accumulation by the wealthy decreases, eventually reducing pretax income inequality.

[54]See, for example, Duane Swank, "Funding the Welfare State: Globalization and the Taxation of Business in Advanced Market Economies," *Political Studies* 46 (September 1998): 671–692.

[55]Bird and Zolt, "Redistribution via Taxation."

military dictatorship succeeded in raising taxes through various less than progressive means, including the VAT.[56] Later, I discuss why LATAM countries may be particularly susceptible to conducting redistribution through methods other than direct taxation.

The third dependent variable is social spending (as a percentage of GDP). This is government spending on education, health, housing, welfare, and social insurance, and it is constructed from the same sources used for the taxation variables (it is also available since 1972). Public spending on education, health, and housing tends to be progressive because it involves the transfer of social resources to alter inequality induced by market outcomes and the attempt to equalize the life chances of poorer individuals through investments in human capital that boost the income and life chances of the poor majority.[57] Direct transfers also tend to be progressive because they consist of government expenditures on unemployment and disability insurance, health insurance and pensions, and welfare transfers such as food stamps.

Key Independent Variable

To construct *Democracy with Autocratic Constitution* and *Democracy Amends Autocratic Constitution*, I had to first decide what counts as a regime transition. I use the binary electoral version of regime type provided by Cheibub, Gandhi, and Vreeland.[58] A country is coded as democratic if the chief executive and legislature are elected, there is more than one political party, and there is political alternation.

Democracy with Autocratic Constitution captures whether a democracy is elite biased. It is coded as 1 when a democracy operates according to a constitution inherited from the previous authoritarian period. It is coded as 0 if the constitution is a prior democratic constitution in place before the previous period of dictatorship or the democracy passes a new constitution sometime after democratization.[59] Because I seek to examine how the conditions under which countries democratized affect their subsequent public policies, elite weakness on the eve of transition is a legacy variable.

[56]I thank an anonymous referee for pointing this out.

[57]In general, see Lindert, "The Rise of Social Spending"; Benedict Clements, Christopher Faircloth, and Marijn Verhoeven, "Public Expenditure in LATAM: Trends and Key Policy Issues" (working paper, International Monetary Fund, 2007), for evidence of how effective this has been in LATAM.

[58]See José Antonio Cheibub, Jennifer Gandhi, and James Raymond Vreeland, "Democracy and Dictatorship Revisited," *Public Choice* 143 (April 2010): 67–101.

[59]The coding switches to "democratic constitution" starting in the year of annulment.

Conversely, popular democracy is the obverse of elite-biased democracy. A democracy is considered to be operating under a democratic constitution—and is thus a popular one—if several following conditions hold. It either creates a new constitution upon democratization, operates according to a prior democratic constitution that was in place before the previous period of dictatorship, passes a new constitution sometime after democratization, or amends an autocratic constitution adopted on the eve of democratization. This means that I must also operationalize a variable called *Democracy Amends Autocratic Constitution*. It is coded as 1 if a democracy amends an autocratic constitution that it previously inherited and 0 otherwise.

Table 1 identifies all of the episodes of LATAM democracy since 1950, whether the democracy inherited a constitution from the previous

TABLE 1
Constitutional Engineering under Latin American Autocracies, 1950–2006

Country	*Democratic Transition Year*	*Autocratic Constitution (Annul)**	*Elite-biased Measures*
Argentina	1958	YES	Bicameralism, indirect elections
Argentina	1963	YES	Bicameralism, indirect elections
Argentina	1973	YES	Bicameralism, indirect elections
Argentina	1983	NO	
Bolivia	1979	YES	
Bolivia	1982	YES	
Brazil	1979	YES (1988)	Bicameralism, indirect elections, left parties banned
Chile	1990	YES	Bicameralism, appointed senators, left parties banned
Colombia	1958	YES (1991)	Bicameralism, left parties banned
Dominican Republic	1966	NO	
Ecuador	1979	YES (1984)	Bicameralism
Ecuador	2002	NO	
El Salvador	1984	YES	Left parties banned
Guatemala	1958	YES	Left parties banned
Guatemala	1966	YES	Left parties banned
Guatemala	1986	NO	
Honduras	1957	NO	
Honduras	1971	YES	Indirect elections
Honduras	1982	NO	
Jamaica	1962	NO	
Mexico	2000	YES	Bicameralism
Nicaragua	1984	NO	
Panama	1952	YES	
Panama	1989	YES	
Paraguay	1989	YES (1992)	Bicameralism, appointed senators
Peru	1956	YES	Bicameralism
Peru	1963	YES	Bicameralism
Peru	1980	YES	Bicameralism, appointed senators
Peru	2001	YES	Bicameralism
Uruguay	1985	NO	
Venezuela	1959	YES (1961)	Bicameralism, indirect elections

Includes all cases of democratic transitions in Latin America from 1950-2008 as coded by Cheibub, Gandhi, and Vreeland 2009. *A: Autocratic constitution adopted prior to democratic transition. Year of annulment following transition, if any, in parentheses. Peruvian senate eliminated in 1993; Venezuelan senate eliminated in 1999.

autocracy, and the most important constitutional impediments to majoritarianism associated with these elite-biased charters.[60] Specifically, it outlines which constitutions prescribed executive elections through indirect means, such as unelected electoral colleges or the legislature, bicameralism, the appointment of senators opposed to populist policies, and the banning of left-wing parties.[61]

Table 1 reports the relevant patterns. There have been more than 30 transitions to democracy in Latin America since 1950. Seventy-one percent of democracies that transitioned during this time (22 out of 31) were elite biased. Several of these regimes annulled their autocratic constitutions at some subsequent point.[62]

Avoiding Omitted Variable Bias

To make sure that the regressions reported and discussed are not confounded by omitted variables, I take several steps. First, I adjust the data through a within transformation across the models to control for country-specific heterogeneity that is constant over time (country fixed effects). This includes religion, culture, and history. I therefore focus on variation over time, examining how the transition between different regimes within countries, rather than the variation in regimes between countries, impacts the dependent variables. Additionally, I include a series of time-varying factors that influence both the demand for and supply of fiscal redistribution in the statistical analyses. Because the results may be confounded by the omission of time-varying variables, I also include country-specific time trends across each regression.

Finally, I also add a host of time-varying determinants of redistribution. I control for log(*Per Capita Income*) because increases in wealth are

[60]Several primary and secondary sources were used to identify these parameters. Chief among them is Elkins, Ginsburg, and Melton, who code the formal characteristics of written constitutions for independent states since 1789. See Zachary Elkins, Tom Ginsburgm and James Melton, "The Comparative Constitutions Project," accessed at https://comparativeconstitutionsproject.org, 12 June 2012.

[61]I decided not to code whether there was malapportionment or restrictions on suffrage. This was a practical decision. Although I was able to identify a few episodes in which malapportionment was woven into constitutions inherited by democracies from previous autocracies, this binary measure was too crude and relied too heavily on potentially unreliable secondary sources. Unfortunately, I was not able to locate reliable primary source data on malapportionment with any time-series variation. Meanwhile, the decision to not try to code episodes of restrictions on the franchise in elite-biased constitutions was a theoretical one. Although it is true that literacy requirements in Brazil were only technically rescinded in 1985, in Peru in 1980, and in Ecuador in 1980, it is not clear whether these restrictions were actually enforced before that point, and, moreover, elites have been progressively less likely to pursue strategies that flagrantly discriminate against citizens on the basis of class, ethnicity, or education in Latin America since the end of World War II.

[62]Brazil, Colombia, Ecuador, Paraguay, and Venezuela annulled their autocratic constitutions several years after their democratizations.

expected to boost demand for public spending. I also include log-(*Population*) because the scope of government regulation and spending may be characterized by economies of scale. The log of *Total Resources Income Per Capita* is included because corporate taxes on the profits earned by oil, gas, and mining firms may boost social spending and/or inflate the total income tax receipts collected by the government.[63] *Trade Openness*, measured as exports plus imports (as a percentage of GDP) from the Penn World Tables 6.2, is included because it may influence both the demand and supply of redistributive transfers. The *Old Age Ratio*, from the World Bank Development Indicators (WBDI), is the percentage of the population above 65 years of age; it captures the extent of demand for intergenerational transfers.[64] I lag all of these controls by one period.

EMPIRICAL RESULTS

Table 2, Columns 1–10 present the results of ordinary least squares models for the five dependent variables: taxes on income, profits, and capital gains; VATs and similar taxes; social spending; government consumption; and the expropriation of land and assets in extractive sectors. I address heteroscedasticity, contemporaneous correlation, and serial correlation using Driscoll-Kraay standard errors with a Newey-West adjustment whose lag length is decided by Arellano-Bond tests of serial correlation.

Let us begin by reporting and discussing the results of the regressions in which we evaluate the determinants of taxes on income, profits, and capital gains, as well as the regression in which social spending is the dependent variable. To assess the overall progressivity of the fiscal system, we can then compare these results to those associated with VATs. To preview the findings: on the one hand, there is evidence that popular democracy increases the yield from taxes on income, profits, and capital gains; on the other hand, this increase is not enough to finance a concomitant increase in social spending. However, an increase in VATs seems to make up the difference, suggesting that the poor are getting what they pay for.

Columns 1 and 2 serve as benchmark models that can be used as a basis of comparison to assess the remaining regressions.[65] There, the dependent

[63]Each of these three variables is from Stephen Haber and Victor Menaldo, "Does Oil Fuel Authoritarianism?," *American Political Science Review* 105 (February 2011): 1–26.

[64]The results are also robust to controlling for several additional covariates: the level of industrialization, the size of the agricultural sector; the degree of female participation in the labor force, ongoing international wars, ongoing civil wars, the number of cumulative coups since independence, and executives' tenure length.

[65]Column 1 excludes the main control variables. I note that although the results that I report across the rest of the models include the full gamut of control variables, the main results are not materially affected by removing any of these variables, either individually or in combination.

TABLE 2

Panel Regressions on LATAM Fiscal Redistribution, 1965–2006

Autocorrelation and Heteroskedasticity Consistent Standard Errors in Brackets

	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
Estimation Strategy	*OLS (DKSE)*	*OLS (DKSE)*	*OLS (DKSE)*	*OLS (DKSE)*	*OLS (DKSE)*	*OLS (DKSE)*	*OLS (DKSE)*	*PROBIT (RSE)*
Dependent Variable	*Income Taxes*	*Income Taxes*	*Income Taxes*	*Social Spending*	*VAT Taxes*	*Govt. Consumption*	*Expropriation*	*Expropriation*
Δ from Autocracy to Democracy	0.831***	0.661***						
	[0.266]	[0.191]						
Difference btwn. Elite Biased			−0.906*	−1.372*	−2.571**	−3.215**	−0.286***	−2.684***
Democracy and Popular Democ.			[0.468]	[0.744]	[1.046]	[1.257]	[0.0608]	[0.847]
Δ from Autocracy to Popular			1.64***	2.823**	2.615**	3.214**	0.218***	2.062**
Democracy			[0.493]	[1.291]	[1.241]	[1.492]	[0.061]	[1.027]
Δ from Autocracy to Elite Biased			0.734***	1.451	0.044	0.001	−0.068*	−0.622
Democracy			[0.262]	[0.938]	[0.538]	[0.629]	[0.038]	[1.54]
log(Per Capita Income)		3.789***	3.807***	1.372	−4.715***	−5.470***	−0.034	−5.469***
t-1		[0.813]	[0.799]	[1.927]	[0.967]	[1.611]	[0.043]	[1.479]
Real Growth Rate		−1.434	−1.477	1.356	2.624*	−4.625	0.062	2.523
t-1		[1.172]	[1.220]	[2.492]	[1.482]	[3.214]	[0.132]	[2.540]
log(Natural Resources Per Capita)		1.753***	1.719***	−0.484	−0.579	−0.006	−0.029	0.992***
t-1		[0.406]	[0.410]	[0.386]	[0.399]	[0.486]	[0.024]	[0.323]
log(Population)		−55.97***	−57.90***	18.15*	87.01***	7.577	0.103	15.052***
t-1		[18.16]	[17.88]	[9.334]	[11.25]	[9.568]	[0.120]	[4.477]
Population sixty-five yrs./older		1.533	1.486	3.910***	2.775**	0.145	0.046*	1.926**
t-1		[1.916]	[1.937]	[1.316]	[1.255]	[0.781]	[0.023]	[0.866]
Trade Openness		−0.018**	−0.017**	−0.03***	0.011	−0.041**	−0.001**	−0.067***
t-1		[0.007]	[0.007]	[0.01]	[0.009]	[0.016]	[0.000]	[0.018]
Country Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Country Specific Time Trends	YES	YES	YES	YES	YES	YES	NO	NO
Observations	684	674	674	418	662	907	907	907
Number of countries	22	22	22	20	22	22	22	22

***$p < 0.01$, **$p < 0.05$, *$p < 0.1$

Intercept, country dummies, year dummies and country specific trends estimated, but not reported. Driscoll Kraay Standard Errors (DKSE) estimated with a Newey West adjustment. RSE = Robust Standard Errors (White).

variable is progressive taxation and regime type is measured in a naive fashion: a country year is considered democratic if it satisfies the minimum requirements of electoral democracy.[66] Although democracies have more progressive taxation at a high level of statistical significance, the substantive effect of regime type is quite small. Once I hold other determinants of redistribution constant (Column 2), taxes from income, profits, and capital gains are only 0.66 percentage point greater (as a percentage of GDP) in LATAM democracies than in autocracies.[67]

In Columns 3 and 4 (the dependent variables are taxes on income, profits, and capital gains and social spending, respectively), I decompose democracy along the lines suggested by the theory outlined earlier. Namely, I specify whether democracy is popular, because it operates according to its own constitution, or elite biased, because it inherits a constitution from its autocratic predecessor. In those models, there are three parameters of interest. The first is the difference in redistribution between elite-biased democracies and popular democracies. The second is the difference made from switching from autocracy to popular democracy. The third is the difference made from switching from autocracy to elite-biased democracy.

The results in Columns 3 and 4 conform to theoretical expectations. Elite-biased democracies are less reliant on taxation from income, profits, and capital gains (Column 2; $p = .07$) and register lower levels of social spending than democracies with their own constitutions (Column 3; $p = .08$). A regime transition from autocracy to popular democracy induces greater revenues from taxes on income, profits, and capital gains ($p = .003$) and increases social spending ($p = .04$). Conversely, a transition from autocracy to elite-biased democracy tends to not make much of a difference to these variables. Moreover, these effects are substantial. For example, while taxes on income, profits, and capital gains increase nearly 2 percentage points after the transition to popular democracy, social spending registers an increase of almost 3 percentage points.

Do these results demonstrate that fiscal systems become more progressive after transition to popular democracy, however? In order to find out, we now consider these results in conjunction with those in which the dependent variable is revenues from VATs and similar regressive taxes (Column 4). While the change in revenues from income taxes as a share of GDP yielded by a transition from autocracy to popular democracy is only

[66]See Cheibub, Gandhi, and Vreeland, "Democracy and Dictatorship Revisited."
[67]Similarly, in a set of regressions that are not shown, I find there is no systematic difference between democracy and autocracy in this region in terms of the other dependent variables of interest: the size of their governments, social spending, and the expropriation of capital.

1.6, the change in social spending as a share of GDP after a transition from autocracy to popular democracy is 2.8. The discrepancy between these two figures is 1.2 percentage points. That implies that social spending is being financed by something other than redistributive taxation; one possibility is the VAT. The results in Column 4 appear to bear out this possibility: the magnitude of the coefficient associated with a change from autocracy to popular democracy is 2.6 as a percentage of GDP (significant at the 95 percent level). If one adds this coefficient to income taxes, the revenues obtained total 4.2 percentage points, which can more than account for increased social spending (2.8).

Moreover, these results seem to agree with work that shows that the LATAM governments that collect the most taxes rely on VATs, whereas the governments that levy the most progressive taxes potentially collect fewer taxes because the wealthy evade them. For example, consider Bergman's survey evidence from Argentina during the late 1990s: over 80 percent of the country's taxpayers reported that they were willing to evade taxes.[68] In short, although government spending appears to be more progressive in LATAM's popular democracies, it is not necessarily the case that the net fiscal impact is progressive.

Why might this be the case in LATAM? There are several interconnected reasons. First, greater reliance on VATs and a reduction in marginal tax rates have been increasingly common across the developing world, in part because the IMF has pushed countries that have received its financial assistance to shift their attention toward more efficient and less distortive taxes in an effort to broaden the fiscal base and promote growth. At the same time, the IMF has also encouraged recipients to sustain their social safety nets and abstain from cutting public spending on social programs. Second, LATAM countries may lack the administrative competence to collect direct taxes, including a professional and ethical staff that is well paid and has the resources at its disposal to audit self-assessed tax returns. Third, because of the increasing globalization and sophistication of capital, the wealthy have been better able to evade income taxes: they can shelter their money offshore or engage in transfer pricing, for example.

Nonfiscal Redistribution

In their attempt to tax citizens' income, profits, and capital, governments may face numerous transaction costs. These influence whether democratization translates into increased fiscal redistribution. One set of fiscal

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[68]Marcelo S. Bergman, "Tax Reforms and Tax Compliance: The Divergent Paths of Chile and Argentina," *Journal of Latin American Studies* 35 (August 2003): 601.

transaction costs are forensic and include the costs of identifying taxpayers' wealth, income, and salaries; verifying tax obligations; and conducting audits on tax returns, especially when those returns are self-assessed. Others are related to the tax bureaucracy's ability to project a credible threat of sanctions in retaliation for tax evasion and the administering of tax laws and its ability to gain citizens' compliance.

Usually, high fiscal transaction costs to direct, progressive taxation imply that there is a large group of hard-to-tax individuals in the population.[69] This category includes white-collar professionals who generate capital income and are self-employed, such as lawyers, doctors, and architects. This group also includes another notorious set of tax evaders: businesses, trusts, and partnerships, which may keep the bulk of their income and capital earnings in foreign currencies and sometimes hold these assets offshore. The hard-to-tax category also includes street vendors and others groups who occupy the lower rungs of the socioeconomic ladder and generate labor income (for example, street vendors).

Conversely, individuals and businesses participating in the formal economy are easier to tax. The income, profits, and capital gains they produce generate a paper trail recorded through transactions at domestic banks. Modern firms operating in the formal sector produce salaried jobs, regular payrolls, and tax withholding. They regularly process accounts receivables and accounts payable. All of these features make individuals' and firms' taxable obligations much easier to monitor, making it much less likely that they will fail to submit self-assessed tax returns. Similarly, they should be less likely to claim fraudulent exemptions and deductions.

Historically, LATAM countries have tended to lack the sophisticated and formal economic activities that help to reduce fiscal transaction costs, and its tax bureaucracies have been less than effective and honest. Moreover, these costs tend to be higher when populations are poorly educated, rural, and work in the informal economy—all problems endemic to LATAM. The region's governments have therefore tended to refrain from undertaking the invasive, costly procedures required to successfully conduct progressive direct taxation.

What do the high fiscal transaction costs that are prevalent throughout LATAM imply for the theoretical framework outlined here? If they are responsible for the lack of fiscal redistribution under popular democracy, and not a lack of demand by poor citizens or a lack of electoral incentives, then a clear empirical implication follows. Namely, redistribution through

[69]See Alm, Martínez-Vazquez, and Wallace, *Taxing the Hard-to-Tax.*

unorthodox measures that can circumvent these fiscal transaction costs should be more likely under popular democracy than autocracy or elite-biased democracy. Indeed, if such measures are available, then it is likely that politicians may even eschew reforms capable of reducing these costs to avoid sucking up dear resources and incurring high opportunity costs.

The Fourth Dependent Variable: Government Consumption

One of these unorthodox redistributive tools is public employment.[70] As a way of transferring wealth to favored constituents, politicians can spin government posts out of whole cloth or even erect entirely new bureaucracies. This may involve the creation of a large public workforce that commands higher than market salaries and ties the state to future unfunded liabilities, which means that regimes that indulge in this strategy tend to end up with much larger governments. Therefore, I proxy public employment with *Government Consumption* (as a percentage of GDP) from the Penn World Tables; because this measure excludes income transfers and public investment and is weighted by the relative prices that prevail in the world economy, it closely approximates outlays associated with government salaries and similar benefits for public employees.

The results of a regression in which *Government Consumption* is the dependent variable are reported in Table 2, Column 6. Consistent with the hypothesis, transitions in which new democracies adopt their own constitution unleash larger governments ($p = .04$). This result is substantively large. While in comparison to elite-biased democracies the public sectors of popular democracies are, on average, 3 percentage points smaller (as a percentage of GDP), a transition to a popular democracy yields a 3 percentage point increase in the public sector versus the autocratic periods. Meanwhile, transitions to elite-biased democracy do not stimulate larger governments.

The Fifth Dependent Variable: Expropriation of Fixed Assets

The relatively liquid assets represented by modern, formal sectors composed of investors, salaried white-collar workers, and wage laborers constitute a relatively elastic tax base. When capital is mobile in this way, it is considerably harder to tax: it can exit high-tax jurisdictions for those with lower tax burdens.[71] And in some political and economic contexts, it is difficult for the state to either impose restrictions on outbound capital flows—perhaps because policymakers want to retain monetary sovereignty

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[70]Alberto Alesina, Reza Baqir, and William Easterly, "Redistributive Public Employment," *Journal of Urban Economics* 48 (September 2000): 219–241.
[71]See Boix, *Democracy and Redistribution*.

and cannot maintain fixed exchange rates—or entice investors and firms to stay put in exchange for concessions, such as public goods or an educated workforce. Historically, most LATAM countries have fit this description.

Therefore, LATAM policymakers who are intent on redistribution may focus their attention elsewhere: on economic sectors with assets that are less mobile and therefore constitute a more inelastic revenue base. On these grounds, there are two types of fixed assets, in particular, that may be attractive targets. The first is the extractive sector, including the mining of industrial and precious minerals and the extraction of hydrocarbons—oil and natural gas. Similarly, land is fixed and impossible to hide—and, in the case of LATAM, has typically been concentrated in a few hands.

Nonetheless, the orthodox taxation of these assets and their associated revenues has remained difficult for LATAM countries that lack professional and reliable tax bureaucracies—even if, ultimately, they are immobilized. For example, while extractive firms may engage in transfer pricing to reduce their taxable income, large landholders may bribe public officials to evade their fiscal obligations. Thus, I predict that popular democracies in LATAM will be more likely than autocracies or elite-biased democracies to expropriate firms operating in extractive sectors and large landholdings and then redistribute these to poorer population segments.[72]

To test this hypothesis, I code a dummy variable called *Fixed Asset Expropriation*. It identifies the expropriation of either firms operating in extractive industries (mines and hydrocarbons) or large-scale landholdings. The bulk of these data are from Albertus and Menaldo, who produce an exhaustive set of these expropriations until 2002; in order to extend these data to 2006, I follow their coding rules and rely on a host of primary and secondary sources.[73] In regard to firms operation in extractive industries, they record all expropriations of oil, gas, and mining firms. In regard to land, they only code expropriations of private landholdings when these

[72]I hasten to emphasize that any correlation uncovered between popular democracy and the expropriation of firms in these sectors will not constitute dispositive proof that the theory introduced in this article is the only explanation for this finding. While a greater frequency of expropriation among popular democracies might merely reflect the fact that the executive branch has more power and discretion than in an elite-biased democracy instead of a preference for redistribution per se, it might also be the case that popular democracies are more likely to promote and exhibit ideologies that favor expropriation for nationalistic reasons. Indeed, this rationale might favor the expropriation of these sectors over and above increased taxation in cases in which taxation is indeed feasible.

[73]Following Albertus and Menaldo, "If You're Against Them," I code expropriation as the forced divestment of private actors' assets and their associated income flows. I therefore exclude quasi-expropriations that disallow investors from recovering their capital plus a market return. Furthermore, I only code expropriations based on the transfer of property and income, not on the final ownership status of the property and right to capture its income flows; and, like the authors, I do not discriminate between expropriations that compensate original claimants versus those that do not.

exceed 3 percent of cultivable land, and argue that this threshold best captures the cases accepted as major takings in the land reform literature. Between 1965 and 2006, there were 77 separate expropriation episodes registered in the 22 LATAM countries that make up this sample, which translates to 8.3 percent of country years.

The evidence confirms this hypothesis. In Table 2, Column 7, I report the results of a linear probability model estimated by ordinary least squares that is identical to the models reported in Columns 2–6, save for the fact that the dependent variable is *Fixed Asset Expropriation*.[74] Democracies with elite-biased constitutions are 29 percent less likely to expropriate firms operating in the extractive sector or large landholdings ($p < .001$). And while a transition to a popular democracy induces a 22 percent increase in the probability of expropriation ($p = .002$), a transition to an elite-biased democracy reduces the probability of expropriation by 7 percent ($p = .09$). Considering that *Fixed Asset Expropriation* is a binary variable and the relationship between the covariates and the probability of expropriation may be nonlinear, Column 8 re-estimates this regression using a probit framework with maximum likelihood. The results are materially unchanged. Finally, I note that the results are robust to estimating a Cox proportional hazards model—and treating expropriations as "failures"—with random effects (results not shown but available upon request).

CONCLUSION

Social conflict theory predicts that because democracy is a credible commitment to redistribution, a transition to democracy ushers in greater redistribution. Building on this literature, I introduce a theoretical framework that ties the constitutional origins of democratization to the divergent fiscal and spending policies adopted under democracy. I argue that democracies with legacies that incentivize policymakers to appeal to the median voter, which I proxy with the adoption of their own constitution after transition, adopt policies that benefit the majority by taxing the wealthy and spending on the poor. Conversely, elite-biased democracies, in which economic elites are able to impose a constitution that overrepresents their interests before democratization, block redistribution.

I corroborate these predictions empirically in LATAM, an ideal laboratory to test the theory. I exploit the sizable variation over time there in

[74]Because the country-specific time trends are highly collinear with this dependent variable, I remove them from this regression and the following one. The coefficient of variance-covariance between *Fixed Asset Expropriation* and a linear time trend is −0.92.

political institutions, and, most particularly, changes from autocracy to different types of democracy, as well as the fact that, historically, the distribution of market income has been highly right-skewed there. Democracies that adopt their own constitutions impose higher taxation on income, profits, and capital gains; collect more taxes in general; engage in greater spending on education, health, housing, welfare, and social insurance; exhibit higher rates of public employment; and expropriate fixed assets.

The theory and evidence introduced in this article reconciles the impressive democratic gains made in LATAM with the fact that in many of the region's democracies, assets, income, and human capital remain unequally distributed, and the elite continue to dominate public policy. The reason is that democracy in LATAM has often been commandeered by the rich, despite veritable regime changes. This article thus supports the basic intuition advanced by social conflict theory, although it also qualifies it. It is indeed the case that institutions and, most particularly, regime types, matter for social welfare—but not all democracies are created equal.