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**The Impact of Democracy in Inequality, Poverty  
and Development**

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## **Abstract**

Development and Democracy are two of the most famous and defended values in the International Relations. However, none of those concepts is easy to define and comprehend. Even more difficult is understand the impact that one has over the other. This work aim to understand and describe the impact that democracy has over development. Here we understand that the main objective of development is to reduce poverty. In order to compare democracy and development, we make a differentiation between Formal Democracy, based on civil liberties and political rights and mostly restricted to elections and representation in the decision making process; to Participatory Democracy, based on active Civic activism and focused in direct participation in the decision making process.

## **Relevance to Development Studies**

Most of the defenders of development see poverty as a problem to be solved. Nonetheless, poverty is a very complex phenomena and even the way it is measured can make the task to solve this social problem very hard and ungrateful. Income Inequality in itself is easier to measure and despite of not being necessarily the same or a complete concept keeps a straight relationship with poverty. What we argue in this work is that Formal Democracy is incapable of solving the problem of inequality. But by promoting Participatory Democracy and its elements, mainly Interpersonal Dialogue, a development practitioner can foster equality in between safety parameters and by doing this it will be able to reduce poverty and promote development. However, this Interpersonal Dialogue must have some characteristics.

## **Keywords**

Development, Poverty, Inequality, Democracy, Political Science, Welfare Economics

## Chapter 1 - Introduction

In order to defend the war in Iraq, George W. Bush said:

“America is a Nation with a mission - and that mission comes from our most basic beliefs. We have no desire to dominate, no ambitions of empire. Our aim is a democratic peace - a peace founded upon the dignity and rights of every man and woman.”(George W. Bush)

About the same Iraq war, Bashar Assad, president of Syria, said:

“For two years, the Iraqi people have suffered from the aftermath of a horrific war and occupation by America. The world is beginning to speak with one voice. We want that democracy in Iraq to succeed, and we know it cannot succeed so long as she is occupied by a foreign power and that power is America.” (Bashar Assad)

When talking about Syria, Shimon Peres, president of Israel, argued:

“My heart goes out to the brave citizens of Syria, who each day risk and even sacrifice their lives to achieve freedom from a murderous regime. We in Israel welcome the historic struggle to forge democratic, peace-loving governments in our region.” (Shimon Peres)

When talking about Israel, Ismail Haniyeh, prime minister of the Palestinian National Authority, states:

“In addition to removing our democratically elected government, Israel wants to sow dissent among Palestinians by claiming that there is a serious leadership rivalry among us. I am compelled to dispel this notion definitively.” (Ismail Haniyeh)

As the aforementioned quotes demonstrate democracy is a very ambiguous term and this ambiguity generates a scenario in which the expression is used to define any kind of action.

How is it possible that a concept accept so contradictory perspectives? What kind of concept accept that opponents defend the “same thing” even when acting in very diverse and some times contradictory way? Schmitter and Karl explain it:

“Politicians with a wide range of convictions and practices strove to appropriate the label and attach it to their actions.”(Schmitter and Karl 1991:75)

If in the political arena it would be possible to suspect that politicians appropriate the term democracy with secondary intentions, this should not happen in the academic arena, where the definition of the concept should be precise.

However, it is possible to see some hesitation in the use of the concept in the literature. The reason for such hesitation is that many scholars believe democracy is a too ambiguous concept. In order to do a proper examination of the effects of democracy in poverty alleviation, it is very important to understand precisely what we mean by “democracy”. Are we talking about elections, about popular participation in direct terms, in representative democracy, in Marxist Democracy? It is important to understand what those democracies have in common and in which points they differ.

“Considered as an actually existing or real-world entity, democracy has been variously conceived of as a distinctive set of political institutions and practices, a particular body of rights, a social and economic order, a system that ensures certain desirable results, or a unique process of making collective and binding decisions.”(Dahl 1989:5)

Dahl summarizes in this passage many concepts of democracy that are very often used in separated ways. Within this context, Dahl definition is useful to give us a broad idea about the issues that democracy encompass, but not enough to our wish to settle its relationship with poverty and inequality. The problem with the concept is that it cannot precisely define what is the distinctive set of political institutions and practices, what is the particular body of rights, what is the social and economic order, what is the system that ensures certain desirable results, what are those results and what is the unique process of making collective and binding decisions. In other words it is necessary to go deeper. The subjective of its part make the whole concept subjective and this subjective interferes in our ability to compare the influence of democracy in inequality.

In this work, I will try to understand the concepts of democracy and its mechanisms. I will try to understand the mechanisms through which democracy can impact inequality. Neither developing a better concept of Democracy nor developing a better concept of inequality is part of this work's objectives. The data and methodology we will use are insufficient to fulfill this mission. Because I am dealing in multiple complex social environments, the data can indicate directions, but are incapable to determine all the possible mechanisms through which democracy impact inequality.

This work is divided in six chapters. The first chapter is the introduction where I illustrate the ambiguity generated by the lack of specification in the concepts of democracy, I present the boundaries of this study and I describe the parts of study.

In the second chapter, I will present the methodology, indicators and database used in this study.

In the third chapter, I will explore the concept of democracy, showing the differences between Formal Democracy and Participatory Democracy. I will also explore the mechanisms behind elections and how they can fail to properly interpret social demands, in the end of this chapter we will evolve to a concept of democracy that is less representative and more participatory and I will debate the importance of intergroup dialogue to a proper Participatory Democracy.

Once we have gain more familiarity with the concepts of democracy that will be used in this work, I will explore, in the fourth chapter, the concept of inequality and its relationship with poverty and development.

In chapter five, I will use regression analysis to investigate the relationship between democracy (the different kinds) and inequality.

Finally, the last chapter will summarize all the conclusions of this work.



## Chapter 2 – Methodology, Indicators and databases

The methodology of this study can be divided in two parts. The first part is qualitative analysis in which I will explore the concepts of democracy, inequality, poverty, development, intergroup dialogue, among others. I will also use qualitative analysis to identify social dynamics, mainly when speaking about psychological perception of social environment and when understanding the impacts of different characteristics of electoral systems.

The second part of the methodology is regression analysis. I will use the ordinary least square (OLS) technique to estimate the relationship between the variables I will present above. Simple Linear Regression and Multiple Linear Regression are widespread econometric techniques. Multiple Linear Regression has the advantage of controlling the change of one variable keeping the other variables constant. This characteristic gives us important elements for analysis, for example relative sizes of the coefficients, biggest drivers of the differences that occur in the dependent variable. It is important to notice that I am not intending to find a casual relationship, my intention is only to create a great descriptive model with great predictions. Therefore, this method will be used to explore the correlation between democracy, its elements and inequality. This work will use the following indicators in the analysis:

- Gini Index (The World Bank. 2013);
- Polity IV democracy index (Center for Systemic Peace. 2011);
- Civic Activism (International Institute of Social Studies. 2010);
- Intergroup cohesion (International Institute of Social Studies. 2010);
- Interpersonal trust and safety (International Institute of Social Studies. 2010);
- Inclusion of Minorities (International Institute of Social Studies. 2010)

I have chosen the Gini Index and the Polity IV indicators because they are the most used indicators when analyzing Income Inequality and Formal Democracy respectively. Moreover, they are able to capture important structural elements. The Gini Index is some times criticized because it focus in income and this doesn't necessarily means vulnerability. However, I don't consider this argument in this work, because I consider income an important element for making people independent.

I have chosen the Indices of Social Development hosted by the International Institute of Social Studies because it has information since 1990; it encompasses social indicators from reputable data sources; and those indicators encompass almost every country in the world. Because I am trying to understand the relationship between communities (as a whole) and their institutions, I am not using the Gender Equality and Clubs and Associations Indicators. I chose

to exclude those indicators, because I believe they bring very specific perspectives what could threaten a more holistic perspective of the community.

Once the indicators are defined, it is important to better understand them and how they relate to inequality and democracy. I am not adding any other indicator of social development, because I didn't find any other that can give me the same quality of information without generating redundancy.

## **Gini Index**

The Gini Index is one of the most used indicators of inequality. The World Bank defines the Gini Index as:

“Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.” (The World Bank. 2013)

The Gini Index exempts further comments. But it is important to highlight why we chose the Gini Index. As we going to see later, inequality is not a problem in itself, however, inequality and poverty have a very closer relationship. It is worldwide recognized that high levels of inequality condemn people to poverty and that on its turn condemns deprive people ability to choose, therefore interfering in their freedom. The World Bank defines poverty as:

“At its most general level, poverty is the absence of acceptable choices across a broad range of important life decisions—a severe lack of freedom to be or to do what one wants.”(Foster et al. 2013:1)

Amartya Sen, also corroborates this understanding:

“Poverty can be sensibly identified in terms of capacity deprivation” (Sen 1999:87)

The Gini Index allows us to understand how poverty is spread. This happens because “inequality and poverty often move together” (Foster et al. 2013:3) Moreover, “to measure and to understand the many dimensions of income poverty, one must have a clear understanding of income standards and inequality measures”. (Foster et al. 2013:3) And as aforementioned the Gini Index is the most used measure of income inequality.

The data set of the Gini Index take into consideration every country in the world, from under developed countries to developed countries passing through the developing countries. In total, the Gini Index we are going to use captures information from 149 countries.

## **Polity IV**

The Polity IV database is very used in Political Science's researches. In this work we will use only two of the many scales in this database: the autocracy scale and the democracy scale. The Polity IV Project codes “authority characteristics

of states in the world system for purposes of comparative, quantitative analysis.” (Center for Systemic Peace. 2011)

I consider it an important tool, because it “covers all major, independent states in the global system and because it is a living data collection that constantly monitors regime changes in all major countries and provides annual assessments of regime authority characteristics, changes and data updates.” In summary, the Polity IV is a very trustable measure of Formal Democracy.

Together with the Gini Index, the Polity IV database is the core of this work to measure the relationship between Formal Democracy and Income Inequality. While the Gini Index will be the measure responsible for giving us quantitative information about Income Inequality, the Polity IV will give us quantitative information about Democracy.

Polity IV captures data from 194 countries from underdeveloped to developed countries. The data set brings information from 1800 to 2013.

## **Indices of Social Development**

The Indices of Social Development is compiled by the International Institute of Social Studies and encompass 6 indicators: Civic activism, Clubs and Associations, Intergroup Cohesion, Interpersonal Safety and Trust, Gender Equality, Inclusion of Minorities. Those indicators are evaluated every five years from 1990 to 2010 in 209 countries, from developing and developed words. We will use in this work 4 out of the 6 indicators: civic activism, intergroup cohesion, interpersonal trust and safety and minorities inclusion.

### ***Civic Activism***

One of the initial hypothesis of this work is that civic activism should collaborate to a more equal community. However, this depends on how one interprets the concept of civic activism. Therefore, it is necessary to better understand what the indicator of civic activism represents. When looking at the descriptions of the indicators, we find:

“Civic activism refers to the social norms, organizations, and practices which facilitate greater citizen involvement in public policies and decisions. These include access to civic associations, participation in the media, and the means to participate in civic activities such as nonviolent demonstration or petition. Civic activism is essential in ensuring that public institutions function in an accountable and transparent manner, with participation and representation for all.”(International Institute of Social Studies. 2010)

This concept affirms the importance of civic activism in ensure a better functioning of public institutions.

Here is an important point. Institutions functioning well don’t necessarily mean they are working for decreasing inequality, because decreasing inequality is a political decision. Therefore, if the government doesn’t have decreasing inequality as a goal, it will not be necessarily ensured through the institutions’ working process.

One of the reasons why this happens is because there is not a consensus that inequality is bad in itself. As we will see in the session about inequality, some

scholars see inequality as something good. This way, if civic activism is measuring the quality of the norms, organizations and practices, it will reduce inequality only if this was defined as a governmental or state priority.

Moreover, many of the indicators that compose the civic activism indicator are based in the access and availability of newspapers, TV and radio. The role of the media is another complicated issue. While the majority of the scholars defend that without free media there is not democracy, the relation between media and inequality reduction is not so clear. De Jesus and van Staveren highlight that “independent media has only limited effects on social accountability mechanisms such as rule of law, government effectiveness, and social expenditures, and press freedom has almost no effect on social accountability service delivery.”(De Jesus and van Staveren 2014:35)

Some authors, mostly followers of Marks and Foucault, would say those media are used to ensure the *status quo*. And this way civic activism based in the role of media would positively influence inequality. Going through this way we will need to discuss democratization of the media, what is a very interesting theme, but that goes beyond the scope of this work.

### ***Intergroup Cohesion***

In the literature, the intergroup cohesion can happen in multiple levels, it can happen to improve poor's life (top-down cohesion) or it can occur in an ascendant manner to, for example, reduce tax and government dependency.

Schoem explains the dynamic of the top-down cohesion:

“Within the intergroup dialogue, participants confront the core structural issues facing American democracy. They must revisit the social and personal injustices visited upon its citizens from past and present. They must examine how communities of difference will live and work together, and they must identify the places of common heritage and interests.”(Schoem 2003:216)

Acemoglu et al explain the dynamics that can generate a bottom-up cohesion:

“When rates of social mobility are high and tax policy is sticky, people who are poor today may not support high rates of taxation and redistribution because they worry that it will negatively impact them should they become rich in the future.”(Acemoglu et al. 2013:8)

Those perspectives suggests that social beliefs, created normally through intergroup cohesion, can “lead to multiple equilibrium, some with low inequality and a lot of redistribution, and others with high inequality and little redistribution” (Piketty (1995) as cited in Acemoglu et al. 2013:8)

This can be exactly the reason why some countries, Costa Rica for instance, have experienced an increment in intergroup cohesion and at the same time an increasing in inequality. If this thesis is right, Costa Rica might has passed through bottom-up intergroup cohesion, while other countries from Latin America, such as Brazil, Argentina and Ecuador, might have passed through a top-down intergroup cohesion.

In any case, the question still exists: Is intergroup cohesion necessary and enough to ensure inequality reduction?

In order to answer this question, firstly it is necessary to understand what is intergroup cohesion. Initially intergroup cohesion can be confused with homogeneity. But this is exactly the opposite of the meaning the indicator shows.

“Intergroup cohesion refers to relations of cooperation and respect between identity groups in a society. Where this cooperation breaks down, there is the potential for conflictual acts such as ethnically or religiously motivated killing, targeted assassination and kidnapping, acts of terror such as public bombings or shootings, or riots involving grievous bodily harm to citizens, with concomitant effects upon growth and development.”(International Institute of Social Studies. 2010)

Cooperation and respect can only be achieved in a sustainable way when the relationships are based in dialogue. I highlight the importance of sustainable constructions, because it is possible that, for a period of time, one government ensure for some cooperation and respect through violence. But we must highlight this would not be a democratic behavior. Therefore, understanding the dynamic of intergroup dialogue is essential to comprehend the role of democracy in the construction of intergroup cohesion.

### ***Interpersonal Safety and Trust***

The International Institute of Social Studies defines the indicator of interpersonal safety and trust as:

“Interpersonal norms of trust and security exist to the extent that individuals in a society feel they can rely on those whom they have not met before. Where this is the case, the costs of social organization and collective action are reduced. Where these norms do not exist or have been eroded over time, it becomes more difficult for individuals to form group associations, undertake an enterprise, and live safely and securely.”(International Institute of Social Studies. 2010)

The components of this indicator vary from subjective measures based in peoples perceptions to objective measures based in crime rates.

According to Leigh, “in places where people trust one another, institutions, markets and societies seem to work better.” (Leigh 2006:268) Leigh attributes this better function to the ability of those societies to overcome market failure. I do agree with this explanation, however, I think it is necessary to go deeper on it.

Trust is in essence a personal feeling and therefore a subjective measure. One association seems to me trickier than the others.

“Ethnic diversity might also be associated with lower levels of trust. This could occur because those in homogenous communities have similar tastes, because members of the majority group have an aversion to heterogeneity, or because diverse communities find it more difficult to enforce a system of social sanctions.”(Leigh 2006:269)

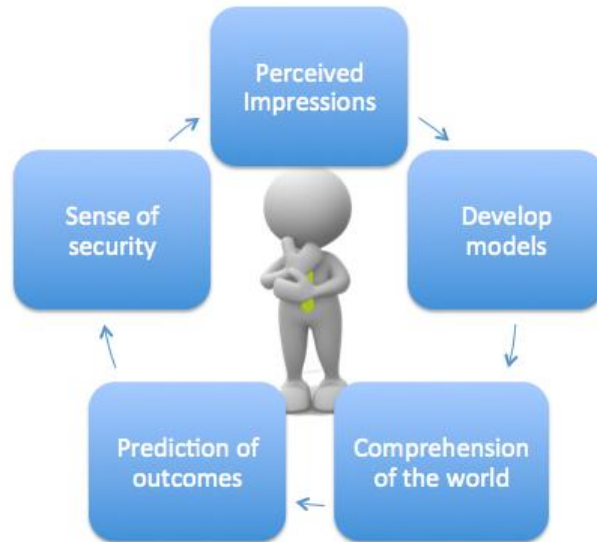
Because trust is a feeling that affects people behaviour, it is important to investigate the psychological mechanism that generates this kind of social behaviour.

“Human beings, to a greater extent than other species, have the capacity to organize the most complex impressions into internal models of the world,

which enable us to recognize and understand the world that we experience and to predict the outcome of our own and others' behavior.” (Parkes 1988:53)

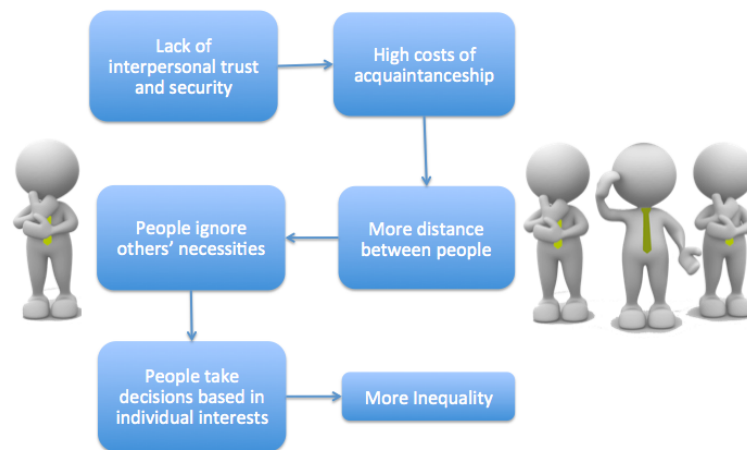
Put in a diagram we have the following:

**Figure 1 – Internal dynamics of security**



This mechanism differs us from other animals and can be exactly the one we are looking for to explain how trust and safety can influence human actions in a way that foster equality. Let me introduce another diagram in order to explain the problem cycle.

**Figure 2 – Social interaction of distrust**



What we see in this diagram is that when we have uncertainty (lack of trust) about the other, the models we develop about the world impose many restrictions and defense mechanisms in order to keep our sense of security. In physical terms it is, for example, constructing walls or fences around the property to prevent invasion. In legal terms, it can represent more complex contracts that try to prevent all the possible problems. This behavior makes people keep some distance from the others in order to avoid aggressions and can decrease intergroup cohesion, because it increases the costs of acquaintanceship. With less intergroup cohesion people, the dialogue is impaired, people start to ignore others necessities and take decisions based in individual interests. This individualism can increase inequality. More inequality may generate a sense of unfairness that increases the lever of uncertainty among people, restarting the cycle.

This cycle shows us some interrelation between intergroup cohesion and interpersonal trust. Moreover, as in the case of intergroup cohesion the uncertainty about the other is in the base of the problem. As aforementioned, it can only be decreased through intergroup dialogue, respecting the characteristics and limits presented by Schoem.

But why does this give societies the ability to overcome market failure? The answer to this question is probably in reducing the costs of acquaintanceship and/or in creating bridges that eliminate the asymmetry of information. The individuals don't need to spend time trying to generate impossible perfect contracts because they know few problems will arise and they trust that those problems can be solved through dialogue in a fair manner.

### ***Inclusion of Minorities***

There is a hypothesis in this work that more inclusion will foster equality. Fund and Wright, when talking about Empowered Deliberative Democracy, partially explain the process through which inclusion can foster equality.

Empowered Deliberative Democracy (EDD) is a reform process that “aspires to deepen the ways in which ordinary people can effectively participate in and influence policies that directly affect their lives. It has the potential to be radically democratic in its reliance on the participation and capacities of ordinary people. It may surpass conventional democratic institutional forms on the quite practical aims of enhancing the responsiveness and effectiveness of the state while at the same time making it more fair, participatory, deliberative, and accountable. (Fund and Wright 2003:7-8)

There is an assumption here that by enhancing governmental responsiveness and effectiveness, “Inclusion” may contribute to foster equality. However, as we will mention in the session about inequality, inequality reduction cannot be ensured only based in effectiveness. The point is that an organization is effective when it is able to achieve the planned goals with the lowest cost possible. In this situation, the inequality reduction will be achieved only as an unintended externality or if it is deliberately settle as an institutional goal. At this point, we can agree that is likely that by including minorities in the decision making process, it is possible to make it more pro-equality. However, as mentioned when talking about intergroup cohesion, the equilibrium can also occur pro-rich or pro-middle class.

Looking specifically to the indicator, we find the following definition:

“Inclusion of Minorities measures levels of discrimination against vulnerable groups such as indigenous peoples, migrants, refugees, or lower caste groups. This measure focuses upon whether there is systemic bias among managers, administrators, and members of the community in the allocation of jobs, benefits, and other social and economic resources regarding particular social groups.”(International Institute of Social Studies. 2010)

## Chapter 3 - Understanding Democracy

Starting by the etymological meaning of the term, democracy comes from ancient Greek and combines *dēmos*, the “people”, with *kratos*, meaning “rule”, “power”. Thus, democracy is something like the power of the people. Because the term was born in Greece, it is instructive to go back in history and define what democracy had meant to that people.

In Athens, the most prominent Greek Democracy (508 BC – 322 BC), the citizens voted on legislation and public decisions directly (Direct Democracy) in their own right. To be able to vote, a person should be born in Athens, could not be a slave, should be an adult (finish the military service) and it was necessarily male. As we can see, many of the human rights that we defend today were not respected at this moment. Therefore, this democracy was definitely not able to ensure equality. Actually, democracy (or its main element, elections) was used to impose a group supremacy over other groups.

Despite of being important, because it was the origin of Democracy, the Greek Democracy is considered very peculiar and impossible to spread worldwide, due to the necessity of direct participation, what in that moment also required physical presence.

It was the Roman Democracy (509 BC - 29 BC) that evolved to the democracy we most commonly have nowadays.

“The Roman Republic was governed by a complex constitution, which centered on the principles of a separation of powers and checks and balances.” (Crabben. 2011)

As we can see in Crabben, the Roman Democracy was looking for a balance between different and diffuse power. In the Roman Republic the citizens chose representatives (Indirect or Representative Democracy) to take decisions in the Senate, while they could take direct decisions (Direct Democracy) in the local level through the Roman Assemblies. However, as in Greece, in the Roman Republic, the title of citizens was not given to everybody. Only male, free man could be “citizen”. Foreigners could become a citizen, but to vote they needed to go to Rome and because it was difficult for them to go there, in practice they could not exercise their rights. Therefore, the Roman Democracy was also incapable of ensuring equality.

Many centuries later, during the English Civil War, the Puritans were looking for alternatives to Monarchy and the alternative that best fitted their interests was the development of a government chosen by the population. (Dahl 1989:28) However, be represented by someone else is not something very natural to a human being, therefore the idea took a lot of time to be accepted and only in the XVIII century, it really became pervasive. The most eloquent justification to the idea of representation can be found in Montesquieu.

“As in a country of liberty, every man who is supposed a free agent ought to be his own governor; the legislative power should reside in the whole body of the people. But since this is impossible in large states, and in small ones is subject to many inconveniences, it is fit the people should transact by their representatives what they cannot transact by themselves.” (Montesquieu 2001:176)



The impossibilities presented by Montesquieu are based in the costs of participation. A person that decides to participate in the political arena must dedicate time and very often spend money with transport (just to cite the most obvious financial cost). Those that organize the meeting must pay for place, furniture, office supplies and must dedicate a lot of time in the process of organization and communication related to the meeting. When the number of individuals in a community starts to grow those costs become higher and higher, people must pay not only for transport but also for accommodation, the process of communication become much more complex and the costs of organization explode. Those are the costs that, according to Montesquieu, make direct democracy impossible in large countries.

Montesquieu's idea of representativeness is however contested by Dahl, that affirms:

“Representation was no invented by democrats but developed instead as a medieval institution of monarchical and aristocratic government.”(Dahl 1989:29)

This statement of Dahl sees Representative Democracy as a toll of manipulation, a way of distributing *de jure* power, while keeping the *de facto* power. It is interesting to note that Dahl do not criticize the argument of Montesquieu about the infeasibility of the process. What Dahl makes is change the focus, he brings the debate to a more theoretical perspective, where no matter the costs initially it is necessary to understand if representative democracy can offer the community the same benefits of direct democracy. Dahl understands that it cannot, and it was not created with this goal, it is only a mechanism of manipulation.

Acemoglu and Robinson present the distinction between *de jure* and *de facto* political power. They state:

“While the former is the type of political power allocated by political institutions (such as constitutions or electoral systems), the latter emerges from the ability to engage in collective action, or use brute force or other channels such as lobbying or bribery.” (Acemoglu and Robinson 2006:325-326)

The distinction is pretty obvious: one thing is what is written another is how what is written can represent the demands from those that do not choose directly.

The negative perspective of Dahl (1989:29-30) goes further with the idea that representation is a manipulative way of democracy, but at the same time he highlight 6 main consequences of the union between democracy and representation, three of them are good and three, bad:

1. Popular government can be extended to include vast number of people;
2. It is given space for the flourishing of personal rights and individual freedom;
3. The capacity of citizens to govern themselves was greatly enhanced;
4. Development of a new complex net of institutions;
5. People were kept in a certain distance from the power (process of decision making);
6. The idea of political conflict as a normal social entity weakened the ideal that a person should look for “the public good”.

Another important element that Dahl presents is the debate about the fatherhood of representative democracy. While Montesquieu defends the fathers

of representative democracy were democrats, Dahl defend the fathers are the Aristocrats. In this work, the debate about whether Democrats or Aristocrats developed the concept of Representative Democracy is irrelevant.

For us, what really matters is that nowadays Representative Democracy is the most common and widespread form of Democracy and all groups within a society recognize its importance. If we have a consensus about the importance of representative democracy, we cannot affirm the same thing about the definition of Democracy. We can still notice differences among the concepts.

Let's start with the liberal perspective:

"The essential idea of democracy is that the people have the right to determine who governs them. In most cases they elect the principal governing officials and hold them accountable for their actions. Democracies also impose legal limits on the government's authority by guaranteeing certain rights and freedoms to their citizens." (Sodaro (2004) as cited in Campbell 2008:5)

This perspective focuses in free choice of representatives. The idea of individuals choosing what is better for them can only be achieved in an indirect way, and therefore it is not the focus. Moreover, it has as its main element the electoral process. It is very well linked with the consequences presented by Dahl.

However, Campbell criticizes the concept of Liberal Democracy and observes:

"Liberal democracy certainly shows strengths with regard to the fundamental principle of freedom. But (western-style) liberal democracy also shows (substantial) weaknesses concerning the fundamental principle of equality." (Campbell 2008:9)

This quote brings an important element to this work. According to Campbell, Liberal Democracy fails in enforcing equality. What is the dynamic that makes it happen?

As aforementioned, Dahl attributes to the Representative Democracy the ability to weaken people's considerations about the "public good". In this scenario, the enforcement of individual values and freedoms creates a society in which individuals are looking for their own well-being.

As we can see this ideal of Liberal Democracy fits perfectly the idea of free market. Both are based in the assumption of the invisible hand that will arrange the collective benefits. If on one hand Liberal Democracy is closed linked with Capitalism and free market, on the other hand Marxist Democracy is linked with Socialism and Communism. While Liberal Democracy fails to achieve social equality, Marxist Democracy, in it turns, fails in support individual freedom.

"Marxism's distinctive approach (and, hence, contribution) to democracy focuses on the objects of democratic decision-making: the 'what' of democracy's concerns. (...) 'True democracy,' which entailed "abolishing class differences," (Wolff 2009:113)

By putting the social equality over individual rights, Socialism intent to create a society truly democratic. In Marxist terms, the true Democracy is the de facto equality between people, but not necessarily freedom of choice. This lack of interest for the opinion or the process of understanding people's interest shows up in the Marxist Democracy, because they have an assumption that people's objectives are objectively knowable.

“Karl Marx and his followers, who argue that formal democracy is in effect captured by the bourgeoisie, and the outcomes of democratic elections do not really reflect the true interest of ‘the people’. These interests are in some sense objectively knowable even in the absence of procedural methods for revealing citizen preferences such as elections, and can be promoted by authoritarian regimes speaking ‘in the name of people’.” (Fukuyama 2012:5-6)

The implosion of socialism in the world showed the perspective was not feasible. After Socialism’s decadence, the Marxist Democracy has also eroded. The supremacy of Capitalism and its individualist point of view imposes challenges to equality in Democratic Regimes.

One could argue that this preoccupation is a political choice or even that the decrease in inequality will occur in the long term, when the democracies are more mature. However, cases such as that of Hugo Chaves in Venezuela that undermined democratic institutions in the name of greater social equality (Fukuyama 2012:4) can show that the poor are not intending to wait for the long-term perspective. This has also increased the preoccupation that inequality may threaten Democracy.

“The concern that poverty and economic inequality pose a threat to the quality and even survival of democracy has taken on new urgency in recent years.” (Plattner 2012:ix)

In fact, the lack of development (understanding development here as the reduction or elimination of poverty) has really threat regimes (not only democracies) around the world. If on one hand we can see democratic regimes in Latin America becoming less democratic, on the other hand the emergence of the Spring Revolution and the protests in Hong Kong in favor of democracies shows that dictatorships are not safe at all.

Summarizing, on one extreme we have Liberal Democracy and its commitment with *jure equality*, on the other extreme Marxist Democracy and its commitment with *de facto equality*. Both however seem incapable of generating the balance between process and result that a socio-economic system needs. In order to better understand the dynamics that threatens equality in Liberal Democracies, it is interesting to understand its main element, elections.

## Understanding the dynamics of elections

Let’s start this session with a simple case.

Situation 1 - Hypothetic society, two alternatives, and every person must choose only one alternative. Win the alternative that receives more than 50% of the valid votes.

This simple scenario is the representation of elections that we have in mind. It works well because each individual freely choose the alternative that best fits to him/her. In the end, the sum of individual preferences gives the final result that is the collective preference. At this situation, the position of the pivotal voter<sup>1</sup> determines the collective preference. One could argue that this vision is too simplistic, very rarely we have to choose only between two options.

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<sup>1</sup> The pivotal voter is the one that fulfill the position  $50\% + 1$  in the distribution of preferences.

Actually, it is not rare, this scenario happens in all the regimes that choose their representatives in a two rounds system (TRS). In other words, this is exactly the scenario that happens in the second round of TRS. In order to give you idea of how spread is this system, it is important to inform that the following countries adopt two rounds in their electoral process: “France, most Latin American countries, all the five post-Soviet Central Asian republics, and many countries in francophone Africa use TRS to elect their presidents. Elsewhere in Africa, the system is used by Angola, Cape Verde, Gambia, Ghana, Guinea-Bissau, Kenya, Liberia, Mozambique, Namibia, Nigeria, São Tomé and Príncipe, the Seychelles, Sierra Leone, Sudan, Tanzania, Uganda, and Zimbabwe; in Europe, apart from France, it is used by Armenia, Azerbaijan, Austria, Belarus, Bulgaria, Croatia, Cyprus, Finland, Georgia, Lithuania, Macedonia, Poland, Portugal, Romania, Russia, Slovakia, Slovenia, and Ukraine; and it is found in Afghanistan, Haiti, Indonesia, Iran, Timor-Leste, and Yemen.” (Ace Project. 2014)

However, we must recognize this is only one possibility and it is not even the most common one, because even in a country that adopt the two round system, the first round do not follow this rule. Therefore it is important to ask what happens when we have more than two elective options.

Situation 2 – Hypothetic society, three alternatives, and every person must choose only one alternative.

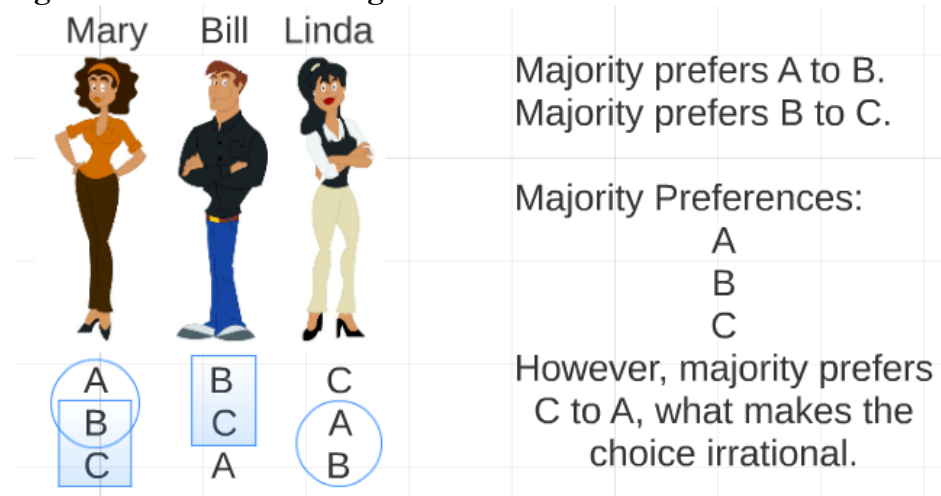
The immediate problem of having three alternatives is that now it is very possible that we will not have one of the alternatives with more than 50% of the votes. In order to solve this problem we can either do the elections in two rounds or accepting the winner even without the majority of the votes.

Situation 2a – Situation 2 + win the candidate with more votes

In this kind of elective process, each person chooses only one candidate. The most common behavior is that rational individuals rank their preferences, instead of choosing only one. In other words, it is normal, even if it is not formally manifested, that an individual decide that it prefers "A" more than "B", and "B" more than "C". It is very difficult to see people choosing only the “winner”.

Kenneth Arrow discussed the problem that arises in this kind of process. He named it “Paradox of Voting”. According to him, when we have three alternatives and the individuals scale those preferences, “the method for passing from individual to collective tastes fails to satisfy the condition of rationality, as we ordinarily understand it.”(Arrow 1976: 3). The diagram bellow details the known paradox of voting.

**Figure 3 - Paradox of voting**



As you can see, the election process would be a simplification of the process of choice that is incapable of capturing all the preferences of individuals. What Arrows shows us is that when choosing between more than two alternatives, the election process always ignores the secondary and tertiary preferences of individuals, framing conclusions (results) that are rationally incongruent.

When the system confirms the result of this choice as the sovereign choice, it internalizes those mistakes. This problem is serious and this is the case for presidential elections in Bosnia and Herzegovina, Cameroon, the Comoros Islands, Equatorial Guinea, Guyana, Honduras, Iceland, Kiribati, South Korea, Malawi, Mexico, Palestine, Panama, Paraguay, the Philippines, Rwanda, Singapore, Taiwan, Tunisia, Venezuela, and Zambia.”(Ace Project. 2014)

Situation 2b – Situation 2 + If any candidate can achieve 50% + 1 of the votes, (s)he dispute with the second position in a second round.

Situation 2b can be draw to minimize the effects of the superficial judgment presented in situation 2a. What happens is that the second round gives people the possibility to adjust the secondary preferences. This benefits initially those whose first alternative had lost in the first round and bring the situation back to what we expressed in situation 1. By reducing the possibilities of choice to two the electoral system reduces the superficiality of the choice and minimize the problems identified in the Paradox of Choice. The countries that use this system have been aforementioned.

Situation 3 – Situation 2b + vote not mandatory

In a simplistic conclusion, the introduction of not compulsory voting would be useful to defend riches’ interests, because as summarized by Bonica et al:

“If those with lower incomes are less likely to vote, then the political system will be less responsive to a rise in inequality.”(Bonica et al. 2013:110)

Why does it happen?

In a situation in which voting is an option not a duty, the decision to vote is determined by individual’s political interests. Steven Rosenstone after analyzing two elections in the US showed that poor people are less likely to vote. Therefore, the liberalization of voting would move the median voter to a richer position, reinforcing the interests of more fortunate classes. In this scenario, we would have a situation in which the difference between *de jure power* and *de facto*

*power* is fostered and instead of fostering equality democracy would increase inequality.

When analyzing the income redistribution Stigler noticed what become known as the Director's Law.

"Public expenditures are made for the primary benefit of the middle classes, and financed with taxes which are borne in considerable part by the poor and the rich." (Stigler 1970 as cited in Feld and Schnellenbach 2007:4)

Later, scholars noticed that despite of not being universal, the Director's Law is likely to occur under some institutional framework. (Feld and Schnellenbach 2007:2) If we correlate the Director's Law with the median voter theorem, it is possible to better understand the possible impacts of free voting in a democratic process. The situation become even more complicated when we notice that only 11 countries in the world enforce compulsory voting: Argentina, Australia, Brazil, Cyprus, Ecuador, Liechtenstein, Luxembourg, Nauru, Peru, Singapore and Uruguay. (Central Intelligence Agency. 2013) This means that in all other democracies not mandatory voting is probably reinforcing inequality.

Situation 4 – Situation 3 + private money used in the campaigns

Another important element when talking about elections is understanding how it is financed and the impact of this on the democratic process. As empirically and theoretically observed, "campaign expenditures increase the probability of election." (Potters et al. 1997:22) In other words, more a candidate spends in elections, more chance it has to win. This generates a situation in which candidates run after sponsorship. If the electoral system allows private campaigns, candidates will run after companies and for sure those companies will not finance a campaign because they are altruists. The objective of a company is profit and it will evaluate this money as an investment. A company will not invest in a candidate whose ideas will harm their business. Therefore, introduction of private money in political campaigns affects candidates' positions. The electoral discourse start to be created based in the desire of receiving contributions. (Prat 2002:163)

When analyzing the US context, Bonica et al shows that the majority of the contributions come from the richest people.

"The share of campaign contribution made by the top 0.01 percent of the voting age population is now over 40 percent." (Bonica et al. 2013: 111)

In other words, when private financing is accepted in elections, in order to receive contributions the candidates must align themselves with the rich, otherwise, they will compromised their elective process. This makes democracy foster inequality.

According to the International Institute for Democracy and Electoral Assistance, 60 out of 180 countries finance their elections exclusively using private money, making the situation even worse. Those countries are: Afghanistan, Andorra, Antigua and Barbuda, Bahamas, Bangladesh, Belarus, Belize, Bolivia, Botswana, Cambodia, Central African Republic, Comoros, Dominica, Egypt, Fiji, Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, India, Iran, Islamic Republic of, Iraq, Jamaica, Kiribati, Kyrgyzstan, Lebanon, Liberia, Libya, Malaysia, Malta, Marshall Islands, Mauritania, Mauritius, Micronesia, Federated States of, Moldova, Republic of, Myanmar, Nauru, Nepal, Nigeria, Pakistan, Palau, Philippines, Saint Kitts and Nevis, Saint Lucia, Senegal, Sierra Leone, Singapore,

Solomon Islands, Sudan, Suriname, Swaziland, Switzerland, Trinidad and Tobago, Turkmenistan, Ukraine, Vanuatu, Venezuela, Zambia. (International Institute for Democracy and Electoral Assistance. 2012)

In this subsection, I tried to point out how elements of the electoral process could influence in the outcomes of democracy, limiting redistribution. Those explanations are based in the Pivotal Voter Theory that says:

“A pivotal voter in society decides on the value of some redistributive policy instrument. (...) the redistribution decision generally depends on the distance between the income or wealth of the pivotal agent and the mean income in the economy,” (Bourguignon and Verdier 2000: 285-286)

A proper question that we didn't answer up to now would be: when the pivotal voter can have income greater than the median. Bonica et al answer that this usually happens when the turnout is unequal. But what makes the turnout unequal? The turnout can be unequal for many reasons, but the two most important are:

1. A society has a great number of poor residents without voting rights, for example, foreigners; and
2. The practical costs (need of transportation, lack of will to participate politically, etc.) for voting are too high for the poor (as it was to the foreigners in the Roman Republic).

## **The Impact of Free Market Ideology in Democracy**

Beyond the election elements that I have introduced, Bonica et al also mention the adherence to the idea of free market as one of the elements that can make democracy unable to reduce inequality. The argument is that the ideology of free market reduces the government provision of transfers, lower marginal tax rates for those with high incomes, and deregulation of a number of industries. (Bonica et al. 2013:104)

However, if we keep straight connection with the theory, only the deregulation of a number of industries is a direct effect of free market, the others (government provision of transfers and lower marginal tax rates for those with high incomes) are political decisions that often follow the free market ideology, but that are not mandatory. I mean: it is possible to a government to allow free competition in the market without necessarily giving up redistribution programs. Therefore, I think this phenomenon cannot be properly explained without looking at the political arrangements that support the process of decision-making.

Nonetheless, many authors affirm that “market failure is a major and growing source of income inequality in the United States.” (Weeden and Grusky 2014:473) And some also insist this is not an exclusive American problem, but a problem that will arise in any liberal market economy.

“Market competition is responsible for the high baseline level of inequality in liberal market economies (LMEs), and a more recent wave of deregulation and other competition-enhancing reforms pushed levels of inequality in LMEs even higher.” (Weeden and Grusky 2014:474)

Other authors such as Helen Hughes, goes in the opposite direction, arguing the problem is the excess of governmental intervention. She argues that “governments should introduce specific measures to liberalize their economies” (Kakwani and Krongkaew 2000:10) in order to eliminate inequality. The argument here is that competition would increase growth and by doing that it would reduce absolute poverty.

Her answer is actually a confusion of terms, once reducing absolute poverty is not the same of reducing inequality. In other words, it is possible to reduce poverty and increase inequality. Imagine, for example, that 80% of the country’s growth benefits the riches. The resting 20% would increase the situation of the poor. They would be in an absolute situation better than before, but inequality would also increase. This argument opens space to discuss if inequality is really bad or not. We will treat this subject later.

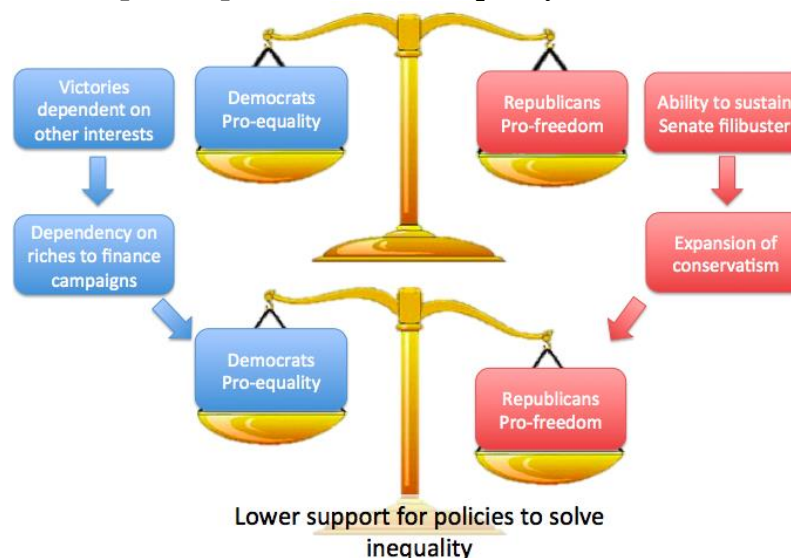
Going back to the relationship between Democracy and inequality, the analysis that Bonica et al (2013) do about the process of polarization in the US brings a more comprehensive and solid explanation of the deficiencies of the democratic process in the phenomenon. They show “a polarization in the American Congress caused by the movement of Republicans to a more conservative position, this polarization aligned with the Republican ability to sustain a Senate filibuster, unbalance power relations in favor of the conservatives. The Democrats, on the other hand, have won elections in large part to voters’ concerns about issues other than redistribution to the poor and depend on resources from rich people to finance their electoral campaigns.” (Bonica et al. 2013:107)

Both combined bring us to the conclusion that:

“Lower support for policies that would influence inequality may result from an increase in polarization coupled with a greater adherence to free-market ideology, which is in turn supported by campaign contributions from the rich.” (Bonica et al. 2013:107)

The aforementioned mechanism is represented in the following graph.

**Figure 4 – Impact of polarization in inequality**





In addition to the scheme presented above, it is possible to highlight distortions in the political process caused by institutions that reduce the accountability.

The points presented by Bonica et al serve as warning against the blind faith in democracy and give us the first insights to understand why democracy, mainly the one that focus in elections, has not necessarily conducted countries to better social conditions.

## Democracy beyond elections

Huber et al establish the elements that compose Formal Democracy:

“By formal democracy we mean a political system that combines four features: regular free and fair elections, universal suffrage, accountability of the state's administrative organs to the elected representatives, and effective guarantees for freedom of expression and association as well as protection against arbitrary state action”(Huber et al. 1997:323)

Bresser-Pereira goes further and drew a history of democracy initiating in the Aristocratic Republic, passing through Liberal Democracy, Social Democracy and arriving in the Participatory Democracy. According to him, “only after a capitalist revolution and after a liberal period – XIX century – more developed countries were capable to adopt the universal suffrage and by doing this become democracies.”(Bresser-Pereira 2005: 79)

This close link between capitalism and democracy is a very interesting point, because capitalism doesn't have as one of its values equality. Moreover, in this period of time, the concept of democracy was very elitist and the work of Schumpeter shows this characteristic when he affirms:

“The people doesn't hold a definite and rational opinion about every individual question (...) in a democracy, as I have said, the primary function of the elector's vote is to produce government.”(Schumpeter 1976:269,273)

Still according to Bresser-Pereira, “media made politicians responsible for their actions and in parallel workers were organizing themselves and left-side political coalitions started to assume the power. Those changes made democracy evolve to Social Democracy. More recently, the role of non governmental organizations looking for social accountability increased and Democracy is evolving to a Participatory Democracy.”(Bresser-Pereira 2005:79)

Bresser-Pereira describes the evolution of democracy in a way that make us believe in a system that is able to promote more equality. The assumption behind this statement is that free media could generate accountability and through this accountability people could reinforce their demands. Moreover, by organizing themselves in social groups they would be able to pressure more. This is the first time in this work that we are admitting that a democratic mechanism can foster equality. But let's keep this discussion in stand by and focus in the kinds of democracy.

Huber encompasses Bresser-Pereira and adds the concept of Social Democracy, that has similarities with the concept of Social Democracy aforementioned, but it is not the same.

“We therefore introduce two additional dimensions: high levels of participation without systematic differences across social categories (for example, class, ethnicity, gender) and increasing equality in social and economic outcomes. We

call a political system that meets the requirements in the first four plus the fifth dimensions participatory democracy. Social democracy denotes a political system that meets the requirements in all six dimensions”(Huber et al. 1997:324)

The investigation we did about the dynamics of elections demonstrates the fragilities of the formal democracy in achieving social gains for the poorest. Huber proposes that the reason for this gap is the incapacity of Formal Democracy to entail a uniform distribution of power.(Huber et al. 1997:323-324)

On the other hand, we do not consider the sixth element proposed by Huber a constitutive element, but a measure of outcomes. Because in this work we are interested in measure the capacity of the constitutive elements of democracy to ensure or promote equality, we will not consider the Social Democracy of Huber as an object of analysis.

We understand the Social Democracy as the desired objective in itself, not the path to achieve another objective and, therefore, this work will adopt the concept of Participatory Democracy as the second type of Democracy to be compared with indices of inequality in order to investigate the impact of Democracy in inequality.

## Participatory Democracy

As can be seen in the Huber’s concept presented above, the element that differentiates the Participatory Democracy from the Formal Democracy is the high levels of participation. Huber goes further requiring the lack of systematic differences across social categories. We will not consider this characterization because it is very difficult to measure the level of participation separated by social groups. This explains why we will focus in the level of participation.

Fung and Wright go further and state the central ideals of democracy:

1. “Facilitating active political involvement of the citizenry;
2. Forging political consensus through dialogue;
3. Devising and implementing public policies that ground a productive economy and healthy society;
4. Assuring that all citizens benefit from the nation’s wealth (in a more radical egalitarian version)” (Fung and Wright 2003:3)

As we can see, according to Fung and Wright democracy and participation are almost synonymous and democracy without participation is not democracy. However, one could question what makes us think that a Participatory Democracy would be more effective in reducing inequality. This question is interesting because even if we consider that participatory democracy is a better democracy, we still need to prove the assumption that democracy can solve inequality. In the point of view of this work, the answer to this question passes through the understanding of the limits of elections aforementioned and through other aspects. The following characteristics make us think that participatory democracy is more likely to reduce inequality:

1. The cost of popular participation is reduced when the arenas of participation are widespread.

2. The bargain power of the poor is strengthened, when more poor people participate in the political system.
3. *De facto* power move to the hands of the most vulnerable, when they are participating in decision processes that directly affect their wellbeing.

This perspective is aligned with Stack's statement that "democratic political organization may not have a substantial impact on reducing inequality unless a relatively large proportion of lower status citizens take advantage of democratic structures." (Stack 1979:169)

However, we also need to take into consideration Bonica et al. advise:

"The mass public may well embrace such an ideological shift if rising inequality nonetheless "trickles down" to rising incomes and home ownership for all." (Bonica et al. 2013:104)

This means that even if the *de facto power* is on the hands of the poor, it is still possible that they will not choose to finish inequality. In other words, there are other issues that threaten the end of inequality and go beyond the process of participation. Therefore, it is important to measure if higher levels of participation are really positively influencing the end of inequality.

When looking at Democracy we can evaluate it based in its intrinsic value or considering it as an instrument to achieve other important values. Some people take this ability of democracy to achieve other important values as granted.

"The value of democracy as an instrument for securing many of the other things that we value is well established; I take it as given that a substantial reason for valuing democracy lies in its effectiveness as a reliable instrument for gaining and defending other valued ends, including liberty and social justice." (Ober 2006:1)

Here, we will not take this effectiveness as granted. As aforementioned, we want to test the ability of democracy to foster equality. This doesn't mean, however, that we disregard the intrinsic value of Democracy. A good manner to understand the intrinsic value of democracy is asking ourselves if we would prefer a benevolent dictator or a democracy able to ensure the same results. I would definitely prefer Democracy for understanding that the freedom of choice is a very important value for human beings. Actually, the capacity to act as a rational individual is the most differentiating characteristic we have. And one element of acting rationally is taking decisions. When talking about the intrinsic value of Democracy, Ober goes even further.

"Political participation has noninstrumental, as well as instrumental, value for humans because of the kind of beings we are. It is because we are, as Aristotle saw, a political-animal kind of being that the opportunity for exercising a natural capacity for practicing democracy, defined in a minimal sense as "association in public decision," is for us a good-in-itself that is both inherently happiness-producing and necessary to our full happiness. It is necessary to our complete happiness because, along with (for example) our capacities to reason and to love, the capacity to associate ourselves in decisions through the medium of speech is constitutive of our distinctive kind of being." (Ober 2006:2-3)

This clarification is important because this work doesn't want to deny the importance of Democracy. We just want to better understand if democracy can

ensure development or if it is necessary to add some elements in the democratic process in order to ensure it. If our analysis point to the second case, it is also important to understand if those changes must be done in the macro or micro level of the democratic process. A change in the macro level would point to changes in structures and rules while a change in the micro level would be more related to the human relationships or human consciousness.

The perspective behind democracy is that through dialogue human beings are able to solve conflict. This is what we must understand when we say that human beings are political-animals. However, Politics is based in a structural element, dialogue. And a political environment will be more successful as it is able to make different groups find a consensus. Therefore, intergroup dialogue, the theme in which I will focus next is so important.

## **Intergroup Dialogue as an essential element of Participatory Democracy**

The first thing we must say about intergroup dialogue is that it is in the essence of democracy. Without intergroup dialogue there is no democracy, because Democracy is the power of people, not imposition of power over a people. However, Formal Democracy doesn't give enough attention to direct intergroup dialogue, by fostering representation it limits the dialogue to those that can be in the Parliament and this condemn the majority to individualism. (One goes to the ballot, put his/her vote there and that is it)

In the concept of Rosenblum (1998) this would not be a strong democracy. He states:

“A strong democracy today requires both that citizens be engaged in civil life and that they act together in a spirit of social justice, speaking out individually and collectively against injustice.”(as cited in Schoem 2003:213)

We will assume this vision later in this work, for now, it is important to understand the role of intergroup dialogue, once it was the indicator that can (at least partially) explain the evolution of certain countries in Latin America against inequality.

Why is intergroup dialogue so important? The explanations are:

1. It helps people to build bridges across the dramatic demographic diversity of their fellows, including the prejudice and hurtful incidents that erupts in their space of coexistence(Fernandez 2001, McKenna and Saucedo 2001, Tiven 2001 as cited in Schoem 2003:214);
2. It creates a just environment where all participants carry equal status in the dialogue arena (Schoem 2003:214);
3. Very often people from both “rival” groups compose the facilitation team (Schoem 2003:215);
4. The process it uses value open discussion and introspection (Schoem 2003:215);

5. “The process encourages respectful behavior and careful listening” (Schoem 2003:215)

In summary, “through intergroup dialogue community members learn to confront, on both a personal and theoretical level, the confining and stratified walls of their segregated ‘comfort zones’.”(Schoem 2003:215)

This makes clear that we are not talking about every kind of dialogue. In order to be able to satisfy those hypotheses, the intergroup dialogue must have some characteristics that Schoem highlights in his paper.

1. “It is a process, not an event.
2. It is about relationship-building and thoughtful engagement about difficult issues.
3. It requires an extended commitment.
4. It takes place face-to-face.
5. It takes place in an atmosphere of confidentiality, and issues of sponsorship and context are important to its success.
6. It often focuses on race, but they also address multiple social identity issues that extend beyond race.
7. It focuses on both intergroup conflict and community building. It is intense, difficult work, and only occasionally is it a “feel-good” experience.
8. Skilled facilitators lead it.
9. It is about inquiry and understanding and the integration of content and process.
10. It involves talking, but doing often leads to good talking, and dialogue often leads to action.” (Schoem 2003:217)

Here, we can see why Formal Democracy can have a weak relation with inequality. Formal Democracy bases its democratic process in events (elections); it looks at individuals more than on the community needs, this weakens the relationship-building process and deprives the importance of intergroup conflicts and community-building.

In the background, there is the assumption that through individual action, the individuals can foster collective gains, what instead of extending commitment to common wellbeing decreases it. It is very often limited to the relation between people and paper ballot or people and machine (electronic election), limiting or eliminating face-to-face relations and devaluing the importance of dialogue. It focuses on choosing a person that will take all the decisions in the name of all, what makes impossible the understanding and integration of content and process.

Therefore, by fostering individual behavior, Formal Democracy indirectly weakens the process of intergroup dialogue, what in its turn fosters isolation of groups. The process of bridge building is also affected once individuals start to believe they don't need each other. This way the sense of community is affected and conflicts become more violent, because people start to defend positions instead of looking for a common good. When looking at themselves people are incapable of looking at the other's needs. Empathy is damaged.

When talking about Participatory Democracy, some would argue, I am talking about real democracy, because Participatory Democracy have elements that foster intergroup dialogue, instead of individual protagonism. This is the most basic difference between Formal and Participatory Democracy.

My assumption here is that a society in which Intergroup Dialogue is fostered is more likely to have high levels of Intergroup Cohesion and Interpersonal Safety and Trust. Because all the mechanisms I mentioned before, if this assumption is not right, the risk that Democracy is incapable to solve conflicts in a more sustainable way is very high. And if this high risk is true, then Democracy's value can be reduced to its freedom of choice.

As aforementioned, Participatory Democracy is more efficient in generating intergroup dialogue than Formal Democracy, therefore I am considering that higher levels in the Indicators of Intergroup Cohesion and Interpersonal Safety and Trust advocates for Participatory Democracy. Therefore, I will test those indicators in the regression analysis as elements of the Participatory Democracy.

## Chapter 4 - Understanding Inequality

At this point, I want to interrupt the reflections about Democracy to start the reflections about inequality. Inequality is the opposite of equality. But both words can be used to compare the situation of two elements in almost every single human characteristic. The most famous advocacy for equality can be found in the Universal Declaration of Human Rights.

In this work, despite of recognizing the importance of the Human Rights, I will not use the concept of equality (formal equality) presented in the Universal Declaration of Human Rights.

“Article 1. All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.

Article 2. Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. Furthermore, no distinction shall be made on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs, whether it be independent, trust, non-self-governing or under any other limitation of sovereignty.” (United Nations 1948)

I understand that formal equality is essential to ensure a solid democracy (it is therefore fundamental condition to Democracy), but I want to understand if democracy necessarily makes decisions converge to income equality. Behind this hypothesis exist some assumptions: the first one is that income equality is not necessarily a human value. The second one is that income equality is not necessarily something fair or good.

A way to explain this second assumption was presented in the Brazilian TV. The anchor asked about inequality to the Brazilian Economist Eduardo Gianetti and he answered the question telling the following metaphor:

“Two children are walking in the sidewalk and one of them find two apples, one big and another small. The boy that found the apples keeps the big one and gives the small one to his friend. His friend complains:

- You are unfair.

He immediately asks:

- If you had found the apples, what would you do?

His friend answers:

- I would keep the small one and give you the big apple.

He replies:

- But this is exactly what I have done. Why are you complaining?

His friend answers:

- Well, one thing is achieve this result voluntarily another thing is achieve this result through your imposition.”(TV Cultura. 2011)

This metaphor shows that the problem about inequality is not the inequality in itself, but the way this inequality is achieved and the level of consciousness

the individuals have about this choice. Some scholars also argue that the real problem is the level of inequality that one society accepts, as we can see in Robert Barro statement:

“While there is no particular correlation between inequality and growth in developed countries, there is a negative one for developing nations when levels of inequality get to be very high.”(Barro as cited in Fukuyama 2012:8)

The assumption that a high level of inequality is a problem is similar to the assumption that poverty is a problem. Moreover, the focus in inequality brings the same preoccupation about social justice that the focus in poverty. Actually, many authors make confusion between inequality and poverty, as we will see later. In this context we understand inequality as the way income is spread throughout the society. And we can assume that high levels of inequality are negative. But how about low levels of inequality?

Mankiw seems more aligned with Gainnetti’s perspective and he advances the studies point to two different ways to achieve inequality, the first one through technological advances and the second one through political arrangements. According to him political arrangements would lead to inequality in an inefficient way (Mankiw 2013:3-4), while technological advances would lead to inequality in a positive way because it would result in capturing gains in the international market (Mankiw 2013:5).

This way according to Mankiw’s perspective, levels of inequality kept low through political arrangements can generate inefficiency in the productive system. A good example of this inefficiency is the lack of incentives to make good performance individuals keep high performance behavior.

“If it redistributes income too much, high productivity individuals will start to act as if they are low productivity individuals.” (Mankiw 2013:10)

But at this point, we must follow the suggestion of Amartya Sen and firstly define what means the inequality we are talking about. This is important, because every theory of social arrangement demand equality of *something* (Sen 2003:13), and this something is not necessarily the same thing from one theory to another.

Sen cites the following examples: John Rawls defends equal liberty and equality in the distribution of ‘primary goods’, Ronald Dworkin cares about ‘treatment as equals’ and ‘equality of resources’, Thomas Nagel supports ‘economic equality’, Thomas Scanlon endorses ‘equality’ in a more wider perspective, Robert Nozick demands equality of libertarian rights, James Buchanan builds equal legal and political treatment. (Sen 2003:13-14) Therefore, when talking about equality or inequality it is important to define precisely what we are talking about.

This work will deal with Income Inequality in the bases used to calculate the Gini Index. We have chosen this based in the following reasons:

The Gini Index based in Household’s Income is the most used measure of inequality and it is widespread, allowing us to compare different countries.

Income Inequality gives us a very good general image of the level of inequality in a country.

However, we are conscious that by choosing this path (income inequality) we will face an important problem:



“The extent of real inequality of opportunities that people face cannot be readily deduced from the magnitude of inequality of incomes, since what we can or cannot do, can or cannot achieve, do not depend just on our incomes but also on the variety of physical and social characteristics that affect our lives and make us what we are.” (Sen 2003:29)

Inequality can also be measured based in consumption instead of income, however, the aforementioned problem persist.

Sen proposes a view about development based in freedom. This multi-layered perspective take into consideration more subjective elements such as wishes and possibilities of achieving, but it misses objectivity and impersonality, compromising the possibility to compare it with other time periods and other geographical spaces.

Nonetheless, we opted to use a money metric measure, because we understand this is necessary to give people independency. In other words, we know that some people have difficulties to convert income into well-being, but we assume that without any income (money) the ability to generate well-being would be even more compromised. As mentioned by Arne Bigsten and Jorgen Levin, “income is a means by which other needs are satisfied.” (Bigsten and Levin 2004:252) Moreover, we understand that by using income we are aligned with the definition of poverty aforementioned.

“At its most general level, poverty is the absence of acceptable choices across a broad range of important life decisions—a severe lack of freedom to be or to do what one wants.”(Foster et al. 2013:1)

And we opted to use income instead of consumption, because while income demonstrates possibilities from which the individual must choose, consumption can add to the analysis debits that instead of giving individuals freedom, limit them even more in the medium and long terms.

Another important element we must cite here is the impossibility to trust completely in the data set. We try to use a very reliable data set, however, many problems can occur.

“Survey and price data can be out of date, the quality of the surveys varies across countries and over time, some household surveys measure consumption, others income, and international comparability is affected by difficulties in estimating purchasing power parities across countries and over time.” (Naschold 2004:112)

## **Inequality, poverty and development**

When we speak about development, who listen to us can understand it in very different perspectives. The most common one correlates it to growth and poverty. Those that believe in this chain of thoughts believe that growth by itself will benefit the most vulnerable ones and this way will promote development to everyone.

“A common conclusion has been that growth, rather than distribution, is what matters for poverty reduction. (...) The high inequality countries need growth rates around three times as high as low inequality countries to achieve the same rate of poverty reduction.”(Naschold 2004:109-110)

The extent that liberal capitalism has become hegemonic, the idea of development was related to poverty reduction. This perspective of development encompasses the perspective of growth and at the same time the perspective of alleviating the negative externalities generated in the process of development.

“The most important goal for development efforts is to reduce poverty, and this can be accomplished by economic growth and/or by income redistribution.” (Bigsten and Levin 2004:252)

This promotes a high level of ambiguity in the concept. And this ambiguity makes it difficult to properly understand the relationship between inequality and other social phenomena. Moreover, the importance of such a definition can be extracted from two ideas: firstly, development has become the goal of almost every country in this world; second, as introduced by Cornwall “the language of development defines worlds-in-the-making, animating and justifying intervention in currently existing worlds with fulsome promises of the possible.” (Cornwall and Eade 2010:1) In other words, the way development is understood directly impacts the actions of the government that on its turns directly impacts the life of their citizens.

This perspective is however very partial. In many countries, the development policies were unable to decrease poverty. The elite of the country captured the benefits of the development’s policies. In order, to better evaluate the relation between inequality, poverty and development Felix Naschold’s econometric analysis concluded:

“Growth clearly matters for poverty reduction. (...) The distribution of consumption also matters for poverty reduction. Once, for a given level of consumption, increases in inequality lead to higher levels of poverty. However, there is no distinct pattern between the level of development and the size of inequality.” (Naschold 2004:113)

Despite the fact that Naschold is talking about consumption inequality instead of income inequality, it is interesting to note the impact of inequality in poverty reduction. The lack of distinct pattern between the level of development and the size of inequality reinforces the idea that inequality in itself is not the problem, but the way you achieve this inequality can be problematic. In this context, understanding the process of development is mandatory. In other words, democracy becomes a value in itself, even if it is not enough to generate equality.

Another important element we must highlight is that if inequality (distribution of consumption) matters for poverty reduction, but doesn’t matter to development. How is it possible to understand development as poverty reduction? These results only make sense if we consider development something bigger than poverty reduction and in this perspective the definition Sen presents about development is more interesting:

“Development can be seen as a process of expanding the real freedoms that people enjoy. (...) Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over activity of repressive states.”(Sen 1999:3)

Sen’s perspective about development is the understanding that makes this work valuable. When we look at development as a way to give people freedom.

The first and most immediate conclusion is that development encompasses democracy, because one of the most basic freedoms we can have is the freedom to choose and define our own path through life. This necessarily means freedom to choose roles and duties of those that govern us.

Another important element in Sen's definition is that it literally mentions poverty as one of the unfreedom that must be eliminated. This perspective justifies our concern with inequality. One could say that poverty and inequality are not the same. Actually, we said this here. So, why the incorporation of poverty in Sen's definition justifies our concern with inequality? As we saw in Bigsten and Levin (2004), poverty reduction can be accomplished by economic growth or income redistribution. This means that by reducing income inequality we can reduce poverty.

Usually when we talk about development we talk about adding things: adding money in the economy by growing; adding people in the market by professional qualification; adding consumption; intensifying the trade, etc. However, nowadays the limits imposed by the environment advocates for a new perspective, where less is more. The advocates of sustainable development demand us to spend less raw material, less pollutants, to consume less, etc. Those demands can also be understood in an additive perspective. Less material is actually more efficiency, less pollutants can be more technology or more elements of preservation (filters in the factories, for example), to consume less can mean consume better quality products that in some way can be more expensive. This means that development has an intricate combination of additions and subtractions.

However, the majority of the theories about development discard this combination. When talking about growth as development or when defining poverty reduction as development, the authors lose the counterpart perspective. This is another interesting element about Sen's definition. He advocates for freedom expansion, but he set clearly the counterpart perspective when he defines this should be achieved by removal of major sources of unfreedom. Therefore, Sen's definition is very interesting and challenging.

Sen also advocates against tyranny and against repressive states. In this perspective, how can we evaluate the role of autocracies and democracies? I understand that even if a dictatorship could foster economic development (growth and poverty alleviation) or even social development (reducing inequality), it still will lack great part of development, the part that is related to freedom of choice. On the other hand, even if democracy is incapable of ensuring economic and social development, it at least ensures people's right to choose and therefore, when democracy distributes *de facto* power it necessarily promotes development. In conclusion, autocracies can completely fail in promoting development, once there is no reason to believe that it will promote social and economic development and it immediately fails in preserving individuals' freedoms. Democracies ensure at least individual freedoms, even if it is incapable to ensure social and economic development.

As we can see, the ideas of development and poverty surround all the discussion in this work. But we will really focus in analysing the relations between inequality and democracy. The idea is truly understand if democracy can or cannot ensure inequality reduction, why it can or why it cannot. If it cannot, is there any element that can foster equality?

## Chapter 5 - Relating participation and inequality

Before starting the studies about the relationship between participation and inequality in this chapter is important to present the table of summary statistics for all the variables. This shows the scale of measurement for each variable and helps to give the readers a more clear idea about the results we will achieve.

**Table 1 - Summary statistics for all the variables**

Variable	Obs	Mean	Std. Dev.	Min	Max
Gini_Index~1	1049	.4065897	.1019356	.1623	.7433
PIV_Democr~y	1048575	.0025938	.0464566	0	1
PIV_Autocr~y	1048575	.0017386	.0347412	0	1
Civil_Acti~n	634	.5012519	.1010264	.2619276	.8801061
Intergroup~n	493	.5973245	.0961053	.0318304	.7889097
Interperso~t	433	.489999	.0985661	.2315338	.7593223
Inclusion	352	.4980969	.0992863	.1725931	.9005465

We will start this session comparing the Polity IV indicator of Democracy (formal democracy) to the Gini Index, indicator of income inequality. This comparison will be done through regression. The simple regression with Gini Index as dependent variable and Polity IV Democracy as independent variable give us the following result:

**Table 2 - Regression Gini Index and Polity IV\_Democracy**

**. reg Gini\_Index0\_1 PIV\_Democracy**

Source	SS	df	MS	Number of obs = 1049		
Model	1.8418e-06	1	1.8418e-06	F( 1, 1047) = 0.00		
Residual	10.8896225	1047	.010400786	Prob > F = 0.9894		
Total	10.8896244	1048	.010390863	R-squared = 0.0000		
				Adj R-squared = -0.0010		
				Root MSE = .10198		

Gini_Index0_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
PIV_Democracy	.0001154	.0086744	0.01	0.989	-.0169057	.0171366
_cons	.4065176	.0062665	64.87	0.000	.3942212	.418814

The results show that a variation of 10% in the index of democracy increases inequality in 0,00001%. This is a very inexpressive impact. The regression was done using 1.049 observations, from 136 countries. We only excluded countries whose Gini Index is not measured by the World Bank. As we can see the t-value (0.01) shows a low level of significance and the high p-value (0.989) confirms it. Hence the parameter is not statistically significant. R-squared value shows this model doesn't explain the correlation at all. In order to continue the analysis, we will suspend the use of the independent variable Polity IV-

Democracy and use some variables from the Social Development Indices, from the International Institute of Social Studies.

As aforementioned, we will use the indicators of Civic activism, Intergroup Cohesion, Interpersonal Safety and Trust and Inclusion. In these new models the dependent variable is still the Gini Index.

**Table 3 – Regression Gini Index and Civic activism**

**. reg Gini\_Index01 Civil\_Activism**

Source	SS	df	MS	Number of obs = <b>210</b>		
Model	<b>.186584005</b>	<b>1</b>	<b>.186584005</b>	F( 1, 208) = <b>20.25</b>		
Residual	<b>1.91687987</b>	<b>208</b>	<b>.009215769</b>	Prob > F = <b>0.0000</b>		
Total	<b>2.10346388</b>	<b>209</b>	<b>.01006442</b>	R-squared = <b>0.0887</b>		
				Adj R-squared = <b>0.0843</b>		
				Root MSE = <b>.096</b>		

Gini_Index01	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Civil_Activism	<b>-.3436995</b>	<b>.0763849</b>	<b>-4.50</b>	<b>0.000</b>	<b>-.4942873</b>	<b>-.1931117</b>
_cons	<b>.5795594</b>	<b>.0411834</b>	<b>14.07</b>	<b>0.000</b>	<b>.4983691</b>	<b>.6607498</b>

The simple regression with Gini Index as dependent variable and civic activism as independent variable is represented above. It counts on 210 observations. The coefficient is expressive, while the civic activism increases 10%, the inequality reduces 3,5%. The t-value (-4.50) demonstrates it is a significant value. This characteristic is reinforced by the p-value (0.000). The R-squared value (0.0887) shows that civic activism is weak in explaining inequality. The Adj. R-squared value (0.0843) reinforces the weakness of explanation. Nonetheless, this is an indicator that will be very important in our analysis; therefore, we will save this value in order to add some more variables later. For now, we will continue analyzing the simple regression. Our next study case will be the intergroup cohesion.

**Table 4 – Regression Gini Index and Intergroup Cohesion**

**. reg Gini\_Index01 Intergroup\_Cohesion**

Source	SS	df	MS	Number of obs = <b>178</b>		
Model	<b>.131148001</b>	<b>1</b>	<b>.131148001</b>	F( 1, 176) = <b>13.96</b>		
Residual	<b>1.652886</b>	<b>176</b>	<b>.009391398</b>	Prob > F = <b>0.0003</b>		
Total	<b>1.784034</b>	<b>177</b>	<b>.010079288</b>	R-squared = <b>0.0735</b>		
				Adj R-squared = <b>0.0682</b>		
				Root MSE = <b>.09691</b>		

Gini_Index01	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Intergroup_Cohesion	<b>-.2846906</b>	<b>.0761829</b>	<b>-3.74</b>	<b>0.000</b>	<b>-.4350401</b>	<b>-.134341</b>
_cons	<b>.5785355</b>	<b>.0470685</b>	<b>12.29</b>	<b>0.000</b>	<b>.4856442</b>	<b>.6714268</b>

The simple regression with Gini Index as dependent variable and intergroup cohesion as independent variable is represented above. It counts on 178 observations. The coefficient (-0.28) has some expressivity, when the intergroup cohesion increases in 10%, the inequality reduces 2,8%. The t-value (-3,74) demonstrates it is a significant value. This characteristic is reinforced by the p-value

(0.000). The R-squared value (0.0735) shows that intergroup cohesion, in a simple model, is weak in explaining inequality. The Adj. R-squared value (0.0682) reinforces the weakness of explanation. However, this also counts as an important variable to be used in multiple variable regressions. When putting civic activism and intergroup cohesion as two independent variables, we achieve the following table.

**Table 5 – Multiple Regression Gini Index, Intergroup Cohesion, Civic activism**

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. reg Gini_Index01 Civil_Activism Intergroup_Cohesion
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Source	SS	df	MS	Number of obs = 175		
Model	.138058102	2	.069029051	F( 2, 172) = 7.36		
Residual	1.61263452	172	.009375782	Prob > F = 0.0009		
Total	1.75069262	174	.010061452	R-squared = 0.0789		
				Adj R-squared = 0.0681		
				Root MSE = .09683		

Gini_Index01	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Civil_Activism	-.1432993	.1128613	-1.27	0.206	-.3660707	.0794722
Intergroup_Cohesion	-.2506618	.0803579	-3.12	0.002	-.4092764	-.0920471
_cons	.6341501	.0657554	9.64	0.000	.5043587	.7639415

The multiple regression with Gini Index as dependent variable, intergroup cohesion and civic activism as independent variables counts on 175 observations. It doesn't show any interesting new information. Actually, it only demonstrates the civic activism's impact in inequality can be in great part explained by intergroup cohesion. This can be seen by the decrease in the coefficient from 0.34 in the simple regression to 0.14 in the above mentioned multiple regression.

The R-squared value (0.0789) shows that putting only those two variables together we still have a poor model to explain inequality. The Adj. R-squared value (0.0681) reinforces the weakness of this explanation. We will save both values and continue with the simple regression using other independent variables. The next one is Inclusion of Minorities.

**Table 6 - Regression Gini Index and Inclusion of Minorities**

**. reg Gini\_Index01 Inclusion**

Source	SS	df	MS	Number of obs =	166
Model	.113314635	1	.113314635	F( 1, 164) =	11.56
Residual	1.60692451	164	.00979832	Prob > F =	0.0008
				R-squared =	0.0659
				Adj R-squared =	0.0602
Total	1.72023914	165	.010425692	Root MSE =	.09899

Gini_Index01	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Inclusion	-.3137383	.0922572	-3.40	0.001	-.4959034	-.1315733
_cons	.5475843	.0468631	11.68	0.000	.4550514	.6401171

The simple regression with Gini Index as dependent variable and inclusion as independent variable is represented above. It counts on 166 observations. The coefficient (-0.31) has some expressivity, when the inclusion increases in 10% the inequality reduces 3.1%. The t-value (-3.40) demonstrates it is a significant value. This characteristic is reinforced by the p-value (0.001). The R-squared value (0.0659) shows a weak capacity to explain inequality, as in the aforementioned variables. The Adj. R-squared value (0.0602) reinforces it. It is important to highlight this result is coherent with the common sense, as mentioned in the explanation of the indicator.

**Table 7 – Multiple Regression Gini Index, Intergroup Cohesion, Civic activism, Inclusion of Minorities**

**. reg Gini\_Index0\_1 Civil\_Activism Intergroup\_Cohesion Inclusion**

Source	SS	df	MS	Number of obs =	143
Model	.144777527	3	.048259176	F( 3, 139) =	4.98
Residual	1.34715086	139	.009691733	Prob > F =	0.0026
				R-squared =	0.0970
				Adj R-squared =	0.0776
Total	1.49192839	142	.010506538	Root MSE =	.09845

Gini_Index0_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Civil_Activism	-.1487723	.1787307	-0.83	0.407	-.5021546	.2046101
Intergroup_Cohesion	-.2633618	.0905199	-2.91	0.004	-.4423358	-.0843878
Inclusion	-.0589964	.1488412	-0.40	0.692	-.3532819	.235289
_cons	.6694041	.081907	8.17	0.000	.5074594	.8313488

The multiple regression with Gini Index as dependent variable, intergroup cohesion, civic activism and Inclusion of Minorities as independent variables counts on 143 observations. It doesn't show any interesting new information about Civic activism and Intergroup Cohesion. But it demonstrates that one of those variables assimilate the impact of inclusion of minorities in inequality. This can be seen by the decrease in the coefficient from 0.31 in the simple regression to 0.059 in the above mentioned multiple regression.



The R-squared value (0.0970) shows that putting only those three variables together we still have a poor model to explain inequality. The Adj. R-squared value (0.0776) reinforces the weakness of this explanation.

It is important to check which of those variables (civic activism or Intergroup cohesion) interferes with inclusion of minorities. Therefore we will run two multiple regressions using Gini Index as dependent variable, inclusion of minorities and each of those variables individually.

**Table 8 – Multiple Regression Gini Index, Intergroup Cohesion, Inclusion of Minorities**

**. reg Gini\_Index0\_1 Intergroup\_Cohesion Inclusion**

Source	SS	df	MS	Number of obs = 146		
Model	.143988659	2	.07199433	F( 2, 143) = 7.47		
Residual	1.37862184	143	.009640712	Prob > F = 0.0008		
Total	1.5226105	145	.010500762	R-squared = 0.0946		
				Adj R-squared = 0.0819		
				Root MSE = .09819		

Gini_Index0_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Intergroup_Cohesion	-.2769103	.0884864	-3.13	0.002	-.4518207	-.1019999
Inclusion	-.1153047	.1204408	-0.96	0.340	-.353379	.1227696
_cons	.6250392	.0642524	9.73	0.000	.498032	.7520464

The multiple regression with Gini Index as dependent variable, intergroup cohesion and Inclusion of Minorities as independent variables counts on 146 observations. It demonstrates the impact of inclusion of minorities in inequality can be in great part explained by intergroup cohesion. This can be seen by the decrease in the coefficient of inclusion of minorities from 0.31 in the simple regression to 0.11 in the above mentioned multiple regression.

The R-squared value (0.0946) shows that putting only those two variables together we still have a poor model to explain inequality. The Adj. R-squared value (0.0819) reinforces the weakness of this explanation.

**Table 9 – Multiple Regression Gini Index, Civic activism, Inclusion of Minorities**

**. reg Gini\_Index0\_1 Civil\_Activism Inclusion**

Source	SS	df	MS	Number of obs = 163		
Model	.157868342	2	.078934171	F( 2, 160) = 8.23		
Residual	1.53545262	160	.009596579	Prob > F = 0.0004		
Total	1.69332096	162	.010452599	R-squared = 0.0932		
				Adj R-squared = 0.0819		
				Root MSE = .09796		

Gini_Index0_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Civil_Activism	-.2540355	.128123	-1.98	0.049	-.5070658	-.0010052
Inclusion	-.1845608	.1153373	-1.60	0.112	-.4123407	.0432191
_cons	.6207926	.057446	10.81	0.000	.5073425	.7342428



The multiple regression with Gini Index as dependent variable, Civic activism and Inclusion of Minorities as independent variables counts on 163 observations. It demonstrates that Civic activism explain part of the impact of Inclusion of Minorities in inequality. This can be perceived by the decrease in the coefficient of inclusion of minorities from 0.31 in the simple regression to 0.18 in the above mentioned multiple regression.

The R-squared value (0.0932) shows that putting only those two variables together we still have a poor model to explain inequality. The Adj. R-squared value (0.0819) reinforces the weakness of this explanation. Nonetheless, we will save those values and continue with the simple regression using other independent variables. The next one is Interpersonal Safety and Trust.

**Table 10 – Multiple Regression Gini Index, Interpersonal Safety and Trust**

**. reg Gini\_Index01 Interpersonal\_Safety\_and\_Trust**

Source	SS	df	MS	Number of obs = 193		
Model	.587979042	1	.587979042	F( 1, 191) = 82.29		
Residual	1.36471056	191	.007145081	Prob > F = 0.0000		
Total	1.9526896	192	.010170258	R-squared = 0.3011		
				Adj R-squared = 0.2975		
				Root MSE = .08453		

Gini_Index01	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Interpersonal_Safety_and_Trust	-.569738	.0628055	-9.07	0.000	-.6936195	-.4458565
_cons	.6698226	.0313522	21.36	0.000	.6079815	.7316636

The simple regression with Gini Index as dependent variable and interpersonal safety and trust as independent variable is represented above. It counts on 193 observations. The coefficient (-0.56) has important expressivity, when the interpersonal safety and trust increases in 10%, the inequality reduces 5,7%. The t-value (-9,07) demonstrates it is a significant value. This characteristic is reinforced by the p-value (0.000). The R-squared value (0.3011) shows a very interesting capacity to explain inequality. The Adj. R-squared value (0.2975) reinforces it.

Before putting all the variables together, we still want to test only the variables presented in the Social Development Indices in order to test their capacity to explain inequality.

**Table 11 – Multiple Regression Gini Index, Civic activism, Intergroup**

## Cohesion, Interpersonal Safety and Trust and Inclusion of Minorities

. reg Gini\_Index0\_1 Civil\_Activism Intergroup\_Cohesion Interpersonal\_Safety\_and\_Trust Inclusion

Source	SS	df	MS	Number of obs = 142		
Model	.582325672	4	.145581418	F( 4, 137) = 22.02		
Residual	.905728851	137	.006611159	Prob > F = 0.0000		
				R-squared = 0.3913		
				Adj R-squared = 0.3736		
Total	1.48805452	141	.010553578	Root MSE = .08131		

	Gini_Index0_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
	Civil_Activism	.3368853	.1595562	2.11	0.037	.0213739	.6523968
	Intergroup_Cohesion	-.2009404	.0751562	-2.67	0.008	-.3495566	-.0523243
	Interpersonal_Safety_and_Trust	-.6914204	.0847555	-8.16	0.000	-.8590186	-.5238222
	Inclusion	.0824134	.1241518	0.66	0.508	-.1630882	.3279151
	_cons	.6328515	.0682416	9.27	0.000	.4979084	.7677945

It shows that an increase in 10% of Civic activism would bring an increase of 3,4% in inequality. The signal multiple regression has inverted the impact of civic activism. This is probably understood because within civic activism we have access to civic associations, the means to participate in civic activities but we also have access to the media. This result shows that part of Civic activism is probably captured by other variables, as we saw before. The t-value (2.11) points a significant result and the low p-value (0.037) reinforces its importance.

It also shows that an increase in 10% of Intergroup Cohesion would bring a reduction of 2% in inequality. The t-value (2.67) points a significant result and the low p-value (0.008) reinforces its importance.

We saw before that Intergroup Cohesion can happen in multiple levels, it can happen in a top-down cohesion or it can occur in a bottom-up cohesion. But when comparing the data, the indicator shows that most of the cohesions happen to benefit the poor, what is a very interesting finding, despite of the fact that the impact is relatively small.

Analyzing the next independent variable, we see an increase in 10% of Interpersonal Safety and Trust generates a decrease of 6,9% in inequality. The t-value shows that the significance is high (8.16) and the p-value (0.000) confirms its importance.

This result is the most important one when considering an isolated variable. Firstly it is able to explain the major party of the relations. Second it reinforces the common sense and what we were waiting for before running the regression. The idea of Leigh that “in places where people trust one another, institutions, markets and societies seem to work better.” (Leigh 2006:268) is reinforced.

Following the analysis, we see an increasing of 10% in Inclusion increases inequality in 0,8%. Here it is important to highlight the meaning is not aligned with the idea that more participation would foster equality. Those results don't make sense. Here, we can also find a change in the signal, pointing to some kind of interference between variables. However, the t-value (0.66) shows this is not a significant measure and the p-value (0.508) confirms it. This way, when inclusion is part of the multiple regression in which civic activism, intergroup cohesion and interpersonal trust and safety are the other variables it loses its importance. What probably means that the other variables encompass inclusion.

This multiple regression is the most interesting from all the regressions done so far, because of all the changes it has demonstrated. The first reason is because the R-squared value (0.3913) reveals this model, using only indicators of the Indices of Social Development, is capable of explaining approximately 40% of the impact in inequality. The Adj. R-squared value (0.3736) reinforces it.

Second, the change in the coefficient of Interpersonal Safety and Trust from 0.57 in the simple regression to 0.69 in the aforementioned multiple variable regression demonstrates higher importance of Interpersonal Safety and Trust on correlation to Inequality.

Third, the change on the signal of Inclusion of Minorities make this part of the equation closer to what we were expecting. The problem about this change is that Inclusion of Minorities missed significance.

Fourth, the change on the signal of Civic activism generate an initially not expected situation, that can be understood when focusing in role of the media as status quo maintainer. Another important aspect is that it decreased Civic activism significance.

This multiple variable regression showed the Indices of Social Development is a very important instrument in order to understand the impact of social changes objectively. But, because the aim of this work is compare the impact of multiple types of democracy (including Formal Democracy) in inequality, it is mandatory to put back in the model the Polity IV indices of Democracy, even considerate that it will reduce the explanatory power of the model. Putting all the tested independent variables together we have:

**Table 12 – Multiple Regression Gini Index, Civic activism, Intergroup Cohesion, Interpersonal Safety and Trust, Inclusion of Minorities, Polity IV - Democracy**

```
. reg Gini_Index0_1 PIV_Democracy Civil_Activism Intergroup_Cohesion Interpersonal_Safety_and_Trust Inclusion
```

Source	SS	df	MS
Model	.583617224	5	.116723445
Residual	.904437299	136	.006650274
Total	1.48805452	141	.010553578

Number of obs = 142  
F( 5, 136) = 17.55  
Prob > F = 0.0000  
R-squared = 0.3922  
Adj R-squared = 0.3699  
Root MSE = .08155

Gini_Index0_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
PIV_Democracy	.0115511	.0262112	0.44	0.660	-.0402832	.0633854
Civil_Activism	.2960242	.1849482	1.60	0.112	-.0697221	.6617705
Intergroup_Cohesion	-.207372	.076778	-2.70	0.008	-.359205	-.0555389
Interpersonal_Safety_and_Trust	-.6830541	.0871	-7.84	0.000	-.8552996	-.5108086
Inclusion	.0888738	.1253785	0.71	0.480	-.1590698	.3368173
_cons	.6428352	.072095	8.92	0.000	.5002628	.7854075

Thus, with the data and objectives we had, the model that better explains the relationship between inequality and democracy is composed by the following independent variables: Civic activism, Intergroup Cohesion, Interpersonal Safety and Trust, Polity IV Democracy Index, Inclusion of Minorities.

As we were expecting, this model shows intergroup cohesion and interpersonal safety and trust have an important impact in reducing income inequality, 2,1% and 6,8% respectively. These values are the same than when Polity IV Indicator was not used, pointing to few correlation with the indicator of formal democracy. At the meantime, civic activism (understood as media liberty and rule obedience) has contributed to increase inequality. The measure of formal democracy (Polity IV) does not have significant impact in inequality and the captured relationship points to a positive (increasing inequality) contribution to inequality.

As aforementioned, theoretically this increment can be explained by the difference in de jure power and de facto power. It is important to highlight however, that if Formal Democracy does not have significant impact in equality, when substituting Democracy to Autocracy, the result keeps irrelevant, as we can see in the following graph. This demonstrates that Autocracy is also ineffective in generating equality, challenging the defenders of this kind of regime.

**Table 13 – Multiple Regression Gini Index, Civic activism, Intergroup Cohesion, Interpersonal Safety and Trust, Inclusion of Minorities, Polity IV – Autocracy**

. reg Gini\_Index0\_1 PIV\_Autocracy Civil\_Activism Intergroup\_Cohesion Interpersonal\_Safety\_and\_Trust Inclusion

Source	SS	df	MS	Number of obs = 142			
Model	.587590425	5	.117518085	F( 5, 136) = 17.75			
Residual	.900464098	136	.00662106	Prob > F = 0.0000			
Total	1.48805452	141	.010553578	R-squared = 0.3949			
				Adj R-squared = 0.3726			
				Root MSE = .08137			

Gini_Index0_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
PIV_Autocracy	-.0383422	.0429984	-0.89	0.374	-.1233741	.0466897
Civil_Activism	.2601716	.1813764	1.43	0.154	-.0985113	.6188545
Intergroup_Cohesion	-.2081729	.0756485	-2.75	0.007	-.3577724	-.0585735
Interpersonal_Safety_and_Trust	-.6535249	.0948698	-6.89	0.000	-.8411358	-.4659141
Inclusion	.100029	.1258054	0.80	0.428	-.1487588	.3488168
_cons	.6539116	.0722612	9.05	0.000	.5110107	.7968125

When talking about autocracy, however, we must highlight that under autocratic regimes, intergroup dialogues cannot properly occur. This means that Intergroup Cohesion and Interpersonal Safety and Trust would be threatened.

In the introduction of this work, we saw how controversial the use of Democracy is in the political arena. Later we saw that some definitions proposed in Political Science are useful and count on some interesting indicators. This apparent contradiction induce us to think that the political controversial is not a problem of unclearness, but a problem of rhetoric. They have incentives to misuse the term democracy in order to pretend they are serving their people, while actually they are serving other interests.

Then we tried to deepen our knowledge about democracy, we have summarized its evolution from the direct democracy from the Greeks passing through the mix democracy from the Romans, until arrive in the model of rep-

representative democracy we have today. We also deepen the understanding of representative democracy, dividing it in liberal democracy, social democracy and participatory democracy. This division allowed us to deepen the process of elections that is the most defended characteristic of democracy, mainly in a liberal perspective.

We saw researchers had some worries about the effectiveness of the liberal perspective, that later we called Formal Democracy, in effectively represent people's wishes and promote collective gains. Those worries were reinforced in the quantitative analysis, when the scale of Democracy, taken from the Polity IV database, showed low influence in reducing the level of inequality in the analyzed countries.

We had initially a hope that Participatory Democracy would have better influence in fostering equality than Formal Democracy. The quantitative analysis proved that impact in a relevant level.

The impact of Civic activism, understood as “social norms, organizations, and practices which facilitate greater citizen involvement in public policies and decisions” (International Institute of Social Studies. 2010) and the inclusion of minorities, understood as “systemic bias in the allocation of public services and benefits” (International Institute of Social Studies. 2010) were insignificant.

Moreover, as demonstrated in the successive regressions, most part of the Civic activism, the indicator we were using to express Participatory Democracy, was incorporated by other variables, generating a situation in which civic activism was shown as reinforcing inequality when taking together with intergroup cohesion, interpersonal trust and safety and formal democracy. Nonetheless, Participatory Democracy has demonstrated to be better to reduce inequality than Formal Democracy, when both variables were used alone.

**Table 14 – Multiple Regression Gini Index, Civic activism, Polity IV-Democracy**

**. reg Gini\_Index0\_1 Civil\_Activism PIV\_Democracy**

Source	SS	df	MS	Number of obs = <b>210</b>		
Model	<b>.208968012</b>	<b>2</b>	<b>.104484006</b>	F( 2, 207) = <b>11.42</b>		
Residual	<b>1.89449587</b>	<b>207</b>	<b>.009152154</b>	Prob > F = <b>0.0000</b>		
Total	<b>2.10346388</b>	<b>209</b>	<b>.01006442</b>	R-squared = <b>0.0993</b>		
				Adj R-squared = <b>0.0906</b>		
				Root MSE = <b>.09567</b>		

Gini_Index0_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Civil_Activism	<b>-.4244678</b>	<b>.0919872</b>	<b>-4.61</b>	<b>0.000</b>	<b>-.6058198</b>	<b>-.2431159</b>
PIV_Democracy	<b>.0355865</b>	<b>.0227551</b>	<b>1.56</b>	<b>0.119</b>	<b>-.0092749</b>	<b>.0804479</b>
_cons	<b>.5982217</b>	<b>.0427407</b>	<b>14.00</b>	<b>0.000</b>	<b>.5139589</b>	<b>.6824846</b>

As we can see, it shows that an increase in 10% of Participatory Democracy (Civic activism) would bring a reduction of 4,2% in inequality. The t-value (-4.61) points a significant result, while an increase in 10% of Formal Democracy (Polity IV-Democracy) would bring a rise of 0.3% in inequality, with a poor significance (t-value 1.56). Moreover, the impact of each type of Democracy on inequality can also be evaluated in the aforementioned simple regressions that

have exclusively Polity IV-Democracy and Civic activism as independent variables.

Because we found an important impact of Participatory Democracy on Inequality, we felt challenged to deepen even more in the correlation between Inequality and Democracy. In this task, the guidance of the Social Development Indices was essential. It offered us the opportunity to evaluate internal elements of Democracy and those internal elements offered a much more expressive explanation about how to reduce inequality.

Among those indicators was Interpersonal trust and safety that demonstrates a very interesting relationship with the subject. The relationship of Interpersonal Trust and Inequality demanded a better understanding of psychological processes that could explain how trust, a personal feeling, could generate reduction in inequality, a social consequence. The psychological dynamic identified linked interpersonal trust and safety with intergroup cohesion. The element that linked both and was identified as the main explanatory variable was the Intergroup Dialogue. Unfortunately, we didn't have an indicator of Intergroup Dialogue. Because of that, the level of intergroup dialogue could only be inferred.

Schoem has studied the relationship between trust and Democracy about ten years ago. We used this to support the statement that Interpersonal Trust could impact inequality in a positive way. The quantitative analysis demonstrated with a high level of significance (-6.95) and with a high capacity of explanation (0.3016), that inequality would be reduced in 5.7% when interpersonal trust and safety were increased in 10%.

The explanation to such a result can be tracked back putting together the works of Leigh and Schoem. Leigh focus in the effects of trust in the market and Schoem focus in how the process of trust building can extend engagement and commitment with the collective well-being.

There is an important element, showed up in some theoretical explanations, that we were unable to analyse due to the lack of data, the impact of the idea of social justice on public choice. According to those theories, a more collective oriented community would make choices that decrease inequality, because it would take into consideration the necessities of those left behind by the development process. If this is true, educating children with collective values would have a huge impact in inequality. This perspective seems feasible, but it deserves a more elaborated scrutiny.

## Chapter 6 - Conclusion

In summary, the regressions gave us the following conclusions:

- Formal Democracy does not ensure reduction in inequality.
- Participatory Democracy has a better performance than Formal Democracy in promoting equality.
- Participatory Democracy creates the context in which Intergroup Dialogue can flourish.
- Intergroup Dialogue is an essential element for ensuring intergroup cohesion and interpersonal trust.
- Intergroup Cohesion has a significant impact in reducing inequality.
- Among the variables analysed Interpersonal Trust and Safety is the most important variable to foster inequality reduction.

What do those results tell us about the relationship between development, poverty and democracy?

Despite the fact that Formal Democracy does not ensure equality, we can consider that it is the first step in creating the outline for it. The main element in this process is the interpersonal trust and safety. And as we have demonstrated, this element can only be ensured through dialogue. As we saw in Fung and Wright, “forging political consensus through dialogue” is one of the main elements of the concept of Democracy.

If we can understand why Democracy is important to reduce inequality, even without having direct impact over it, we still need to explain how democracy can correlate with poverty. As we saw throughout the paper, poverty and inequality are two different things. Poverty is a measure of stock, while inequality is a measure of dispersion. This means that eliminating poverty doesn't mean eliminating inequality (once you can have a very unequal society with everybody above the poverty line) and at the same time eliminating inequality doesn't mean eliminating poverty (once everybody can be equally poor).

However, the regressions showed us the process of intergroup cohesion as one of the elements that promote equality. Because we are in a democratic context, it is possible to assume that this choice (decreasing inequality) is being made in a conscious manner. If this assumption is true, it is very difficult to imagine that a society will consciously choose to make everybody equally poor.

This is exactly the point in which the difference between an autocracy and a democracy is clearer. While in an autocracy it is possible to imagine a dictator condemning all his people to an equal level of poverty (Cuba and North Korea as good examples), it is very difficult to imagine a democracy where this occurs. We have examples of democracies where the level of inequality is very high (some people are very rich and the majority is very poor), but I don't know any democracy where people are equal and at the same time poor.

Based in those arguments I believe the assumption of conscious choice is feasible and, therefore, in a democratic context we can extend the impact in inequality to poverty. In other words, the reduction of inequality in democracies would necessarily generate reduction of poverty. This conclusion is aligned with the aforementioned statement of Foster et al according to who “inequality and poverty often move together” (Foster et al. 2013:3).

Now that we can understand the impact of democracy in inequality and poverty, we must understand the relationship between democracy and development. Because we have already correlated democracy and poverty, the extension to development is almost straightforward. Because the concepts of development that we have presented in this work take poverty alleviation as one of its main characteristics, we can say that decrease or eliminate poverty is generate development.

If we recover the liberal concept of development adopted by Bigsten and Levin we will remember they defend that the most essential element of development initiatives is to reduce poverty. At the same time, if we prefer to recover Sen’s perspective we will understand development as freedom and poverty as the lack of freedom to choose. In both cases, the relationship between poverty and development is straightforward.

In conclusion, we argue that Formal Democracy do not ensure development, while Participatory Democracy does. Moreover, due to its intrinsic value in allowing people to freely manifest their preferences and due to its contribution in creating an environment open to the dialogue, democracy is much more productive than an autocracy in promoting the conditionalities (intergroup cohesion and interpersonal safety and trust) essentials to development.



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