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Economic Inequality and Democratic Representative Institutions Across Western Industrialized Democracies

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ECONOMIC INEQUALITY AND DEMOCRATIC REPRESENTATIVE INSTITUTIONS ACROSS WESTERN INDUSTRIALIZED DEMOCRACIES

by

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A thesis submitted in partial fulfillment of the requirements
for the degree of Master of Arts
in the Department of Political Science
in the College of Sciences
at the University of Central Florida
Orlando, Florida

Spring Term
2014

ABSTRACT

This study examines the effects of political representation on economic inequality across western industrialized democracies. I explore an explanation of increases in economic inequality as a consequence of less representative democratic institutions. Explaining economic inequality in this manner is a shift from to the *Transatlantic Consensus* that attributes increased economic inequality to globalization. I expect to find that more representative electoral and governments institutions will be associated with lower levels of economic inequality. The analysis takes place across twenty-three countries of the Organization for Economic Co-operation and Development (OECD) over the past forty years using a cross-sectional longitudinal model. Variables used to operationalize the level of representation of democratic institutions include a novel variable of the representative ratio, the effective number of parties, an index of institutional constraints, presidential system, single member districts, and judicial review. Voter turnout, the percentage of seats held by women, gross domestic product per capita, unemployment, and the size of the industrial sector are used as control variables. The findings support the main hypothesis: as political representation increases, economic inequality decreases.

This thesis is dedicated to everyone who has contributed to my learning. All of the individuals who have nurtured my curiosity to explore the world are responsible for this work, from my formal education to life lessons learned.

ACKNOWLEDGMENTS

I want to thank my thesis committee, Barbara Kinsey, Kerstin Hamann, and Bruce Wilson, for their continued support, advisement, and critical response over the past decade. I want to thank my parents for their love and for crafting me into the person I am today. I would also like to thank all of my friends and coworkers for letting me process through my writer's blocks and emotional fatigue during my educational career.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER 1: INTRODUCTION

Economic inequality varies within and across countries, regions, gender, ethnic groups and age. Many contributing factors affect economic inequality, such as differences in the productivity of labor versus capital (Piketty, 2014), the differences in wages and salaries (Gurría, 2011), levels of unemployment or underemployment (Gurría, 2011), progressive and regressive tax policy (OECD, 2011), human capital investment through education (OECD, 2011), and other variables; however, the impact of democratic institutions is understudied. The extent in which representation in democratic institutions functions as a mediator for economic inequality in developed countries is an important link in understanding recent increases in economic inequality.

In this thesis, I use comparative representative institutions to analyze variations in economic inequality across developed democracies. This thesis explores the link between democratic institutions and economic inequality. I expect to find that there is evidence to support that varying forms of democratic institutions are a contributing factor in developed states' economic inequality.

Economic Inequality's Importance

Importance and Consequences of Economic Inequalities

In the past decade, the issue of economic inequality has become more salient in national and global discourse. Questions about economic inequality have been an important and relevant issue from domestic debates about redistribution, a la the Tea Party and the Occupy Wall Street

Movement, to global concerns rooted in economic inequality, such as the "Arab Spring" and European debt crises. The Organization of Economic Co-operation and Development (OECD) Secretary-General Angel Gurría (2011) notes that:

> Sustained inequality inhibits growth and social cohesion…[we] observed [this] at the beginning of the [global economic] crisis when the housing bubble burst, and the most vulnerable couldn't afford to pay for their mortgages anymore. The framework and the incentives which made this happen had its roots in the deep-rooted social imbalances [due to economic inequality]. (para. 7)

While these current events are complex and multidimensional, these stories all share economic inequality as a common underlying factor. These examples illustrate that "[r]ising income inequality creates economic, social and political challenges" and these challenges can negatively impact individuals at all levels of society (OECD, 2011, p. 40).

The concept of economic inequality is a central focus in the social sciences. Economic inequality is both a normative and positive concern of researchers and policy-makers in political science, economics, and sociology. Rueda (2008) states that:

> Inequality is frequently invoked as an explanation for a number of crucial issues...[i]t is often considered a determinant of processes as diverse as the decline of electoral turnout, the increase in the support of extreme-right parties, or the likelihood of political conflict. (p. 169)

Many researchers illustrate that economic inequality and the effects on society are systemic and negatively impact public attitudes, political environments, economic output, and social wellness indicators (Alesina & Rodrik, 1994; Perotti, 1993; Persson & TaBellini, 1994; Rueda, 2008; Wilkinson & Pickett, 2010).

Wilkinson and Pickett (2010) have expounded on the consequences caused by high economic inequality. They find correlations and evidence that suggests that developed countries'

economic inequality has an effect on the level of trust of citizens, rates of mental illness, life expectancy, infant mortality, obesity, educational performance, teenage births, homicides, imprisonment rates, and overall social mobility. While the negative consequences from economic inequality are often debated, the generally understood perspective on economic inequality is that "[a]t an intuitive level people have always recognized that inequality is socially corrosive" (Wilkinson & Pickett, 2010, p. x).

High levels of economic inequality are a factor in a number of other research fields. Negative consequences of high levels of economic inequality include reduced national economic growth (Alesina & Rodrik, 1994; Perotti, 1993; Persson & Tabellini, 1994) and the reduction of social capital and social well-being (Wilkinson & Pickett, 2010). As a tool for research, "[m]ost analysts would agree that political factors influence inequality in significant ways. Because inequality has political determinants and political consequences, it deserves to be a central concern of comparative political economy" (Rueda, 2008, p. 170). I explore the philosophical basis and contemporary research of economic inequality further in the thesis to draw on the overall connection between inequality and representation.

Analyzing the Rise in Economic Inequality

Developed democratic countries do not share a definitive trend in economic inequality (Atkinson, 1999; Brandolini & Smeeding, 2008). For instance, the OECD report *Divided We Stand: Why Inequality Keeps Rising* finds that while the OECD countries' group Gini coefficient has increased ten percent in the past quarter century (from 0.29 to 0.316), income inequality for each country has moved in different patterns (OECD, 2011, p. 22). This is contrary to the

3

established *Transatlantic Consensus*, where advocates argue that systemic trends in economic inequality have been explained by economic shifts in exogenous factors resulting from globalization (Atkinson, 1999). Based on this perspective, as developed economies shift away from unskilled to skilled labor and economic rewards for skilled labor far exceeded those for unskilled labor, economic inequality is then increased. However, the *Transatlantic Consensus* does not adequately account for variations in economic inequality within a cross-national perspective.

Contemporary explanations for fluctuations or stabilization in rates of economic inequality must be based on a broader understanding of the contributing factors. A larger scope is needed to understand the full parameters involved with increasing economic inequality instead of a myopic economic explanation like the *Transatlantic Consensus* (Atkinson, 1999; Beramendi & Anderson, 2008; Beramendi & Cusack, 2008). Many variables have an effect on economic inequality and should be utilized to research changes in rates of economic inequality. One important factor to consider is the structure of democratic institutions in national governments when questioning the validity of the *Transatlantic Consensus* and the effects of globalization on economic inequality. Democratic institutions and the relative size of representative bodies to the national population is an underplayed factor in addressing contemporary economic inequality.

The United States Case Study: Representation Diluted

My motivation for studying economic inequality and democratic institutions is based on the United States' relatively high rate of economic inequality. Recent global economic inequality rankings have the United States "...near the extreme end of the inequality scale" (Fischer, 2011,

para. 4). The United States' economic inequality range is comparable to countries such as Cameroon, Uganda and Ecuador (Central Intelligence Agency, 2013-14). In terms of developed countries, the United States is ranked as one of the countries with the highest levels of economic inequality (Fischer, 2011). Why is this?

At the national legislative level, compared to other developed countries, the United States has the least number of representatives relative to its population. Each legislator in the United States House of Representatives represents an average of approximately 709,759 people. This compares to Germany (approximately 136,923 people per representative), Japan (approximately 265,750 people per representative), and at the lowest end of the spectrum Iceland's (approximately 5,067 people per representative). These figures compare to an average of approximately 101,000 of the 23 OECD countries used in this study. On a purely quantitative basis, the United States has very high economic inequality and has the least equitable ratio of representatives to its population.

From a historical perspective, at its founding the United States House of Representative was established with a ratio of around 30,000 individuals per representative. Eventually this number climbed to 212,019 in 1911 when Congress fixed its total members to 435 legislators. Since that time, the voting franchise has been extended to women, racial minorities and to those aged 18 year old or older, thus a broadening of the voter base. At its current ratio of 709,759 people per representative, one can conclude that an individual's share of a representation as a public good has declined by a drastic amount in the past century.

In 2001, U.S. Representative Alcee Hastings wrote a "Dear Colleague" letter concerning the drastic difference in relative number of the seats in the House of Representatives compared to

many other national legislatures. Hastings urged Congress to create a commission to study this issue further. He states that the impact of increasing the number of representatives "is obvious" and that there would be "reduced amount of campaign spending, smaller Congressional districts, more personal interactions between Members of Congress and their constituents, and most importantly, better representation for the American people" (Hastings, 2001, para. 3). Studying economic inequality and democratic representation within an institutional framework heeds Representative Hastings' H.R. 506 for the research of legislative size, representation, and its potential effects.

Purpose of Research

The purpose of this thesis is to analyze increases in economic inequality due to impact of democratic institutions as national populations increase and legislature sizes stagnate. This research will help to explain why the *Transatlantic Consensus* is limited in its explanation of increased economic inequality. While exogenous economic factors related to globalization are part of the puzzle of economic inequality, the mediating role of government must be included to fully understand the issue.

Higher rates of economic inequality, due to globalization, should cause lower income individuals (the "losers") to demand redistributionary policies or institutions and regulations from their democratically elected representatives. However, with less representative institutions, individuals that have economic and political means (the "winners" from globalization) will capture the interests of political institutions over those without similar access. The loss of

6

representative institutions will further fuel economic inequality and the wealth dispersion experienced because of globalization.

<div align="center">Summary of Thesis</div>

In Chapter 2, I review the literature on the philosophical arguments and empirical research on economic inequality. Economic inequality "...is political and institutional not only in its origins but also in its consequences" and the literature review illustrates how it must be understood as both a factor and a product, exogenous and endogenous, to a political economic structure (Beramendi & Anderson, 2008, p. 5). The study explores the links between economic inequality and the political-social structure of representative democracies.

After reviewing the relevant literature on the subject of economic inequality and democratic representation, Chapter 3 discusses methodology and the current and alternate methods of approaching economic inequality are reviewed to contrast against the methods used in this thesis. The quantitative model uses cross-national and longitudinal variables that have an impact on economic inequality. The data is from 23 OECD countries over a period from 1970 to 2009. In the methodology section, the variable selection is reviewed and the model is constructed. The hypothesis of the study is that there will be a negative relationship between the level of representation of democratic institutions and economic inequality.

In Chapter 4, the results of the quantitative analysis will be reported and discussed. The results are evaluated within the context of the original hypothesis and the expectations set by the literature review.

Chapter 5 concludes the study within the larger scope of the results. I discuss the study's contribution and highlight the broader implications of this research. The limitations of the research are expounded upon, both in regard to this thesis, the topic of economic inequality, and representative democratic institutions. Finally, avenues for future research are elaborated on including the use of other variables, populations, and methodologies.

CHAPTER 2: LITERATURE REVIEW

Introduction to the Literature

The literature on economic inequality and the connection to democracy is wide and varied. For the purpose of this thesis, the literature review focuses first on the philosophical and historical context of economic inequality; next, on the philosophical basis of democratic governance and representation; and last in the institutional mechanisms, interplay, and factors that connect economic inequality and democratic representation. The literature review will set the foundation in understanding the link between economic inequality and democratic representation.

Equality and Inequality

Philosophical and Historical Perspective

Economic inequality has been a subject of concern since the beginning of civilization (Freund, 1979; Gosepath, 2011). Consideration for the 'haves' and the 'have nots' have always been a topic debated between philosophers, leaders, advocates for the poor and in general discourse for many generations. Concerns about economic inequality have ranged from moral arguments and normative assessments to practical policy and measures to prevent social disruption. For instance, Plato warns about the importance of balancing economic inequality in society:

> In a state which is desirous of being saved from the greatest of all plagues-not faction, but rather distraction-there should exist among the citizens neither extreme poverty nor,

again, excessive wealth, for both are productive of great evil...Now the legislator should determine what is to be the limit of poverty or of wealth. (2008, section 5, para. 18)

Equality, in the theoretical sense, is multifaceted. Outside of the economic dimension, equality as a concept is functional with regard to civil liberties, political participation, and social positions (Gosepath, 2011). While defining equality, the exact meaning follows normative notions of justice, various minimum threshold requirements, an overall extension of equality and what is ultimately the benefit from working towards the ideal of equality (Freund, 1979). Understanding the broader concept of equality allows for the expansion of its application in an economic scope.

Concerns with regard to equality have existed from the beginning of civilization. The basis for advocating for various forms of equality in society is rooted in the study of justice. It is used as a context for understanding equality and is phrased as the "principle of equality" where equality "…through its connection with justice…has different *justitanda*, i.e., objects the term 'just' or 'equal' or their opposites can be applied to" (Gosepath, 2011, section 2, para. 2). Essentially, when "…choosing for comparison the appropriate grouping—whether the appropriate unit is the individual or some category of individuals…" one must understand the overall "…appropriateness—the relevance and representativeness—of classifications" (Freund, 1979, p. 18). The first concern when attempting to find if objects or concepts are equal or balanced is to assess if a valid comparison is being made. This concern can be summed up as the common idiom of whether one is comparing 'apples to oranges'.

The principle of equality is categorized into additional concepts to further explain how justice relates to equality. At the most basic level of equality is formal equality which is to "treat

like cases as like" (Aristotle, 350 B.C.E., book 5, section 3, para. 1). Formal equality can only be considered based the subjective standpoint of what equal cases might be. For instance, if a lord and a pauper come before the law as 'equal citizens', how might the two be considered a-like when it is evident that they are not objectively implicit equals in a society?

Questions of comparing "apples to oranges" in the context of formal equality leads one to consider the next form of equality, proportional equality. Proportional equality "...further specifies formal equality; it is more precise and detailed, hence actually the more comprehensive formulation of formal equality" (Gosepath, 2011, section 2.2, para. 1). Proportional equality is the consideration of unequal status and applying this consideration to the judgments of equality. Based on the previous example, according to proportional equality a lord would be held to a higher status compared to a pauper. The two may never be considered on the same level of justice due to the unequal status between the two categories. Proportional equality is limited because it does not explicitly weigh the unequal status. Egalitarians, individuals who advocate equality for all, believe that both formal and proportional equality are the foundation for justice, however, through moral equality, justice through equality is further expanded through a normative position.

From the time of Plato and Aristotle up until the Age of Enlightenment, concerns of justice and equality were not universal as they are today. Instead, the franchise of citizenship, suffrage, and other constructions of rights and privilege were restricted by society and by law. Individuals were not considered to be equals and "...it was assumed that human beings are unequal by nature" (Gosepath, 2011, Section 2.3, paragraph 1). Early classical liberal philosophers laid the foundation for claims of universal human justice and equality with the

evolution of natural rights. This evolution in Western philosophy developed a narrative in the moral claim for the expansion of civil rights for labor, minorities, women, immigrants, etc. The previous understanding of a natural order between the heavens and beasts was overtaken by a leveled field of universality of human rights developed by the works of Hobbes, Locke, Rousseau and other political philosophers. With this basis Kymlicka finds that "…moral equality constitutes the 'egalitarian plateau' for all contemporary political theories" (Gosepath, 2011, section 2.3, para. 2).

Normative claims for universal justice and equality became the standard of a civil society due to moral equality in the development of natural rights. However, the *justitanda* becomes a new concern. While contemporary philosophers agree that universal justice through equality is the moral position, one must then consider 'equality of what'. If one is to consider that society has a presumption of equality then there is the requirement that "…everyone, regardless of differences, should get an equal share in the distribution…" of all politically distributable goods (Gosepath, 2011).

These political distributable goods are identified as civil rights that exist in the legal sphere, opportunities for political participation which exist in the political sphere, social positions and opportunities which exists in the social sphere, and economic rewards that exist in the economic sphere. Both the legal sphere and political sphere has been developed within Western democracies with the ending of slavery and the full emancipation of former slaves as well as the expansion of suffrage and property rights to women and all minorities. However, there are still issues with qualifying full equality for civil rights (immigration and enemy combatants) and political participation (electoral reform and voter disenfranchisement).

Both the social and economic spheres of politically distributable goods are modern areas that are still developing as areas for the expansion of moral equality. The social sphere of equality is a normative position where social positions and opportunities in society are to be considered based on an equal positioning with unbiased influence. While it can be agreed that individuals should be awarded positions based on qualifications and performance, the question then becomes to what extent should something be done to correct instances where this does not occur, whether due to structural or individual discrimination.

In contrast to equality of opportunity, equality of outcomes is the maintaining of equal economic conditions for individuals in society. The need for equality of outcomes should not be necessary when equality of opportunity has been fully established. This is because when equality of opportunity is present "…individuals [then] have responsibility for their decisions…" and the overall outcome of those decisions (Gosepath, 2011, section 3.1, para. 7). Even within the perspective of egalitarians, individuals still have a moral responsibility to make the correct decisions and choices when equality of opportunity is prevalent (Gosepath, 2011).

The economic sphere, with regard to the presumption of equality of public political distribution, is the major theoretical departure for this research. For both the social and economic sphere, one must ask:

> [W]hether, and to what extent, the state should establish far-reaching equality of social conditions for all through political measures such as redistribution of income and property, tax reform, a more equal education system, social insurance, and positive discrimination. (Gosepath, 2011, section 2.4, para. 10)

If the attempt is to find some semblance of justice through equality, to what extent is economic

equality then justified? Governments and policy makers have the tools and abilities to affect the

level of economic equality, but when is it justified to do so?

Most contemporary liberals advocate some level of justified economic distribution. The

opposing perspectives against a moderate position on the economic sphere of the presumption of

equality are those of librarians and socialists. Freund (1979) refers to this divergence from

moderate economic distribution:

> Philosophers of the free market…who would limit equality to formal neutral rules for the
> market and the law, see in the enforced equality of opportunity a doctrinal device to
> justify more tinkering and control, more coercion and distortion..[o]n the other hand,
> democratic socialists...have seen in the principle of equality of opportunity an attempt to
> evade the responsibility of moral decision regarding ultimate equality and inequality.
> (p. 22-23)

Both perspectives represent the two extremes against the presumption of equality in the

economic sphere. Both the orthodox libertarian and socialists have limitations in their arguments

against the contemporary liberals views on economic equality.

Advocates of economic equality through distributive means would argue that the

libertarian perspective of freedom from distributive equality is not good enough, or does

anything at all, to achieve justice through equality. A major point of contention for these

advocates is that Nozick's (1974) interpretation of the "Lockean Proviso" is limited (Gosepath,

2011; Kymlicka, 1990).

Locke advocated the ideals of the natural right for all humans to achieve freedom through

self-ownership and many libertarians use his *The Second Treatise of Civil Government* (1690) as

the foundational understanding of natural rights with regard to classical liberalism. The

"Lockean Proviso" puts forth that acquisitions of private property (more specifically land) is just so long as "…at least where there is enough, and as good, left in common for others" (Locke, 1690, Chapter 5, Section 27). However, qualifying and interpreting what might be "enough" or as "good" is problematic. According to Nozick's interpretation of the "Lockean Proviso," so long as the initial acquisition of property does not have a negative effect on those already bound to the property, then it meets Locke's overall requirement (Nozick, 1974).

In response to Nozick's understanding of Locke, Kymlicka argues that the libertarian version of Locke is conflicting due to its limitations in fully realizing what occurs with regard to those affected (1990). To say "…where there is enough…" of resources or left "…as good…" as the previous condition of resources does not explain the after-effects of the material well-being of the commons. Nozick's understanding does not take into consideration the pre-appropriation conditions of private property acquisition. When the commons are subject to solely the will of individuals claim ownership, the resources become restricted from others to benefit from their potential labor of said resource. Furthermore, other conditions based on the pre-acquisition of resources are important to consider when attempting to compare the period before and after the resources are put into private ownership. Locke assumes that resources in the state of nature exist as un-owned though a counter-argument can be made that the commons are already the owner of resource endowments from the beginning (Kymlicka, 1990).

From the opposite perspective, the most orthodox socialist or communist, the ideal of full social and economic equality, that of simple equality, "…is generally rejected as untenable" (Gosepath, 2011, Section 3.1, para. 1). To apply full social and economic equality through law would be immoral, unsustainable, and unnatural. Simple equality and the full enforcement of

equality of outcomes is an unrealistic ideal based on objections developed by contemporary liberals, modern libertarians, socialists, and Marxists (Gosepath, 2011). Instead, egalitarians, socialists, and Marxists generally seek a more complex equality over that of simple equality.

Levels of Economic Inequality

Economic inequality in Western developed nations have been a large subject of study for academics, policy-makers, think tanks, and global institutions. While rates of economic inequality have increased as a group, individual countries' rates and trends have not (OECD, 2011). When exploring the factors explaining economic inequality, it is found that "any theory must account for the basic fact that inequality levels and trends vary widely both across democratic countries and within each country" (Brandolini & Smeeding, 2008, p. 26). Furthermore, differences in economic inequality over time and across nations are dependent on a large number of factors that impact inequality. A singular reasoning or unified economic explanation, such as the *Transatlantic Consensus*, is misguided when attempting to explain assumed trends or variations in economic inequality (Atkinson, 1999).

From a historical perspective, Brandolini and Smeeding find that a selected group of Western developed democracies experienced a large drop in inequality during and immediately after World War II. A slow increase in inequality during the post-war period then led to an eventual climb in the 1970s, which has continued until today. These specific trends have not been consistent nor are universal throughout all the industrialized democracies. According to Brandolini and Smeeding (2008):

> Changes in inequality do not exhibit clear trajectories but rather irregular movements... [t]ogether with the lack of a common international pattern, this suggests that we should look at explanations based on the joint working of multiple factors. (p. 53)

Their analysis argues against the previously established trend of the *Transatlantic Consensus* where, due to economic shifts in labor and capital values because of globalization, industrialized democratic countries were thought to share a general trend in economic inequality.

Brandolini and Smeedings' analysis concludes that in the past 40 years, there is no universal story for economic inequality rates in industrialized democracies. Furthermore, they find that the state-specific changes to public monetary redistribution are an important determinant in establishing patterns with rates of economic inequality. Lastly, Brandolini and Smeedings' research illustrates that there are currently clusters in grouping of rates of inequality generally related to geographic and/or cultural similarities. Brandolini and Smeeding (2008) state that:

> Mexico and Russia have the most unequal distributions, followed by English-speaking countries intertwined with Southern European countries, other continental European nations comes next, and the Nordic countries show the lowest level of inequality; most Eastern European countries show low to medium levels of inequality, while Taiwan and Japan are in an intermediate position. (p. 51)

A lack of universal trend for industrialized democratic countries is evident; however, geographic and/or cultural clustering may help in understanding relative differences in economic inequality movement.

Democratic Representation and Economic Inequality

Democratic Representation is understood as two parts of a single concept. First is that of representation theory and how an individual has the ability to represent a population in government. And next is democracy as a means for linking governmental institutions and citizenry. While the two concepts are often considered as a natural pair, philosophically they are two distinct ideas. I use an institutional approach in which representation and democracy are viewed as one concept.

Representation

Pitkin goes to great lengths to fully understand the concept of representation while illustrating the key philosophical differences in various definitions of representation (1967). She starts with a basic definition of representation as being "...a making present again" something which already exists or existed (Pitkin, 1967, p.8). Individuals in society have personal interests, priorities, and concerns that a representative has the responsibility to relate in government. Representatives stand in for constituents to express their political agendas and policy preferences. For the purposes of this thesis, representation, based on Pitkin's definition, is the 'making present again' societal demands of mediating economic inequality.

Pitkin explains representation in four different conceptualizations of representation as it applies to politics and government: formalistic representation, symbolic representation, descriptive representation and substantive representation. She describes these four definitions of representation as having distinct differences with varying applications. Each orientation on representation is debated as to its requirements in forming an affirmative meaning of political

representation. Instead, of considering each as a separate form of valid political representation, the four together form a complete understanding of representation for the purposes of this thesis.

The first conceptual explanation of representation is that of formalistic representation. Pitkin describes formalistic representation as being the institutional arrangements that exist or existed to allow government to represent a population. Whether through conquest, hereditary lineage, divine right, or electoral agreements, the formalistic version of representation is the accepted right to govern and represent a population. Pitkin's formalistic representation is supported by authorization theorists and accountability theorists where:

> [T]he one group defines a representative as someone who has been elected (authorized), the other defines him as someone who will be subject to election (held to account). Where the one sees representation as initiated in a certain way, the other sees it as terminated in a certain way. (1967, p. 58)

Pitkin points to how the formalistic definition of representation is limited because it only focuses on the right to represent through being given legitimacy, even if not actually representative in the modern sense. Formalistic representation does not go far enough to explain the broader conceptualization representation.

The view of symbolic representation is more abstract as it relates to this thesis. Symbolic representation is how a representative "stands for" a represented population. This understanding of representation, as it applies to political science and government, can be exemplified (as Pitkin does) as a revolutionary assembly. In this instance Pitkin (1967) finds that:

> [R]epresenting is not acting with authority, or acting before being held to account... [r]ather, it depends on the representative's characteristics, on what he *is* or is *like*, on being something rather than doing something...he 'stands for' [the represented]. (p. 61)

19

This can be interpreted to mean that symbolic forms of representation have shortcomings due to the subjective nature of representative meaning. On a practical policy and outcomes basis, symbolic representation will only be effective so long as the meaning lasts. Revolutionary assemblies may only last for the period of revolution when they are found to be representatively meaningful. The differences in voting for a party on the left or right can be considered symbolic representation as it relates to economic inequality where the former may "stand for" increased redistribution of wealth and government regulation compared to the latter.

The final two forms of representation that Pitkin defines are descriptive representation and substantive representation. Descriptive representation is the way the representative compares to whom they are representing. For identity and minority politics, this is the literal way the representative's demographics compare to their constituents. This includes economic and social background, age, education level, race, and other demographic factors. It is assumed that constituents will feel and be more represented when their representatives are of similar backgrounds. Meeting the qualifications of descriptive representation will not guarantee that those of similar backgrounds will act to fully represent those constituents with common demographics. This leads to Pitkin's final conceptualization of representation.

Substantive representation is measured by the actual actions of the representative for whom they are representing. The measure of substantive representation is through the endorsement or voting for particular policies and advocating certain agendas for their constituencies. When a representative crafts policy, votes for certain legislation, and supports particular priorities which benefit whom they represent, then this is what it means to be substantively representative of their population.

With Pikin's four definitions of political representation, one can apply a framework to analyze a government's representation through institutions and efficacy. Whether framed conceptually by formal, symbolic, descriptive or substantive representation, Pitkin develops a structured understanding of representation as it applies to politics and government. Pitkin's requirements of representation, though not implicitly applied to a democratic mechanism, have a direct connection with democratic governance.

Democracy

Democracy finds its strength and support, as an institution and a means for governance, in the legitimacy constructed by participatory government (Fukuyama, 1992). The perception of legitimacy is created by the ability for individuals to participate in governmental processes and express their opinions. Individuals find greater legitimacy and have an impactful voice in governing society through participatory government and voting. However, absolute democracy, where individuals are required to participate on all government decisions, is limited in its realistic implementation. This is due to the requirement to have people constantly participate in self-governing bodies on a day-to-day basis. Forms of representative democracy are used as the realistic alternative since the idealized form of democracy is not feasible in modern society.

The discussion of democracy and representation, as it applies to modern government, should include an understanding of perspectives on freedom. Freedom, as defined by Berlin, is separated into two different concepts. One form is a negative freedom, meaning freedom from being coerced or interfered with by government. This is freedom, in the classical liberal sense, where government ought be limited and restrained as to maximize individual freedom. The other

form is as a positive freedom, which allows "...individual to be his own master" (Berlin, 1969). Positive freedom is the ability for individuals to pursue their potential so long as they have the ability and resources to do so. The guarantee of varying degrees of both negative and positive freedom by government is generally understood as a basic right. This perspective on freedom is the contemporary standard of liberal democratic governance.

The model of liberal democratic governance is championed as the pinnacle of human social-political development. The implications of this form of governance is cited and illustrated by Fukuyama (1992). Fukuyama argues that humanity has reached a Hegelian-"End of History" due to the continued proliferation globally of liberal democratic governments. Both the ideals of political freedom and self-sustaining legitimacy of representative government is inherent to liberal democratic systems and it has and continues to follow humanities' long social-evolutionary climb to achieving this form of governance (Fukuyama, 1992).

The overall effect of liberal democracies, it is argued, has led to a continued increase in prosperity and a decrease in violent conflict both domestically and internationally (Fukuyama, 1992). Liberal democracies have increased the ability for individuals to achieve an ethical life with limited government coercion that is not possible for the majority of society under dictatorships, monarchies or totalitarian rule. While arguments can be made as to the different standards for what constitute a "liberal democratic regime" it remains that liberal democratic forms of government, however defined, have had positive affects compared to past forms of societal organization.

The mechanism of the democratic process, in a legitimate government, has the ability to fulfill the desires of a population. French philosopher Jean Jacques Rousseau was one of the

most prominent thinkers who dealt with issues of legitimacy in a society with regards to democratic governance. While generally advocating for smaller, less interdependent and more egalitarian societies, he also looked to identify a conception of societal direction that he termed the General Will. In *Of the Social Contract* (1762)*,* Rousseau considered that when men come together and "consider themselves a single body, they have but one will, which is concerned with their common preservation and the general welfare" (Rousseau, 1988, p. 148). Rousseau explained that societies of men would find a realization of the General Will through the sovereign, or government, of a nation. The interplay between the two would be a fulfillment of needed democratic legitimacy in a society.

A main concern that Rousseau expressed is that as a society grew and became larger "…the social bond is stretched, the more slack it grows" (Rousseau, 1988, p. 112). Eventually, as these social bonds in a society become further stretched and worn down, like that of a used rubber band, then there will be negative effects on the General Will and the legitimacy of a sovereign government. Rousseau warns that this creates the potential that "[n]ot only is the government less vigorous and swift in enforcing the laws...but the people [have] less affection for leaders whom it never sees, for its homeland...and for its fellow citizens" (Rousseau, 1988, p. 112). While Rousseau may have been inferring this reality from the history of expansive empires and pre-Westphalian kingdoms, there are still real implications that this can has for governments and the perspective of their rule as legitimate. He warns that the growing slack in a society will eventually conclude to "...a body too large for its constitution [which] collapses and perishes, crushed under its own weight" (Rousseau, 1988, p. 113).

Rousseau develops a relevant thought experiment that illustrates what growth does to a state when the growth is not accounted for in governmental institutions. He imagines a state that has 10,000 citizens and only one overall sovereign or government. In this situation, each individual has a ten-thousandth (1/10,000) share in the government. He then asks what happens when the population of citizens changes from 10,000 to 100,000 individuals. Of course a dilution in the share of individuals slice of government would occur decreasing the absolute size but maintaining equal relative size of shares. Though their change is from ten-thousandth a share to one-hundred-thousandth (1/100,000), the overall responsibility for citizens to the laws and their subjection to the sovereign will remain the same. Rousseau (1988) continues by stating:

> [S]ince the subject always remains a single individual, the ratio between the sovereign and the subject increases with the number of citizens. Whence it follows that *the more the state expands, the more liberty is diminished*. (p.120)

Institutional Representation and Economic Inequality

In this study I consider the link between economic inequality and the level of representation of democratic institutions. The relationship between economic inequality and political structure can form an echo-chamber in which "...inequality affects democratic political processes...broadly and fundamentally, including the choice of political regime, the selection of fiscal structures, parties' mobilization strategies, and the decision to turn out to vote" (Beramendi & Anderson, 2008, p. 5). At the core of the democratic process is the link between the population and their government. The link can exist in many forms, including rallies, petitions and opinion polls. The most formal of these connections between citizens and government is through their elected representatives. National governments are mediators of economic inequality and

24

international trade and if they do not perform this role, economic inequality will become even more destabilizing to a society and economy.

Within a historical context, economic and social inequality has a recorded relationship with institutional structures ever since the Greek democracies. What Rogowski and MacRae explore is the nature of this relationship between inequality and institutions. More specifically, they note that the two concepts have moved together throughout history but they attempt to isolate whether one leads to the transformation of the other (2008).

The traditional stance in political science and economic studies is that institutions affect inequality while new research has challenged this assumption (Beramendi and Anderson, 2008; Rogowski and MacRae, 2008). Rogowski and MacRae find that there is a "causal sequence" that illustrates "that both [in]equality and institutions are affected by exogenous social change, usually occasioned by innovations in technology, trade, demographics, or some combination of these three" (2008). In their perspective, first there is the exogenous social change is followed by a change in inequality. This change quickly leads to a change in institutions and ultimately there is a further change in inequality.

Regardless of the actual causality of events between inequality and institutions, Rogowski and MacRae (2008) support their sequence by analyzing change through a mathematical and historical scope. In the mathematical models of change, shifts are noted to generally occur when the income of the median voter becomes less than that of the average voter whether due to exogenous shifts (because of technology, trade, and/or demographics) and impactful welfare losses (because of inadequate democratic institutions) (Rogowski & MacRae, 2008).

Through the historical model, Rogowski and MacRae focus on the shift that have occurred in Western History focusing on the exogenous social changes that occur due to technology, trade, and demographics throughout the centuries. The overall evolution starts with the early forms of change with the military technology and trade of the Ancient Greeks and Roman Republic, the advent of sustained European Feudalism, the demographic shifts due to Black Death, the societal changes due to the technology changes resulting in the Protestant Reformation, the rise of Monarchical Absolutism, the shift towards the Democratic Revolution, the mass mobilization of the World Wars and the final shift towards Universal Franchise Expansion (2008, p. 357). From this overview Rogowski and MacRae (2008) establish two major points:

> First, equality of endowments usually changes with, or even before, changes occur in political institutions in the standard historical accounts. And second, the main exogenous sources of change in inequality and institutions have been changes in military technology, trade, migration, disease, and information technology. (p. 369)

Within their final interpretation they infer that historians are right to focus on these broader shifts where inequality brings forth institutional shifts. However, "the view that 'institutions determine inequality' is right for the shorter and more realistic term" that is traditionally used by social scientists in exploring inequality and institutions (Rogowski & MacRae, 2008, p. 369). They note that emerging research has been challenging the notion that "institutions determine inequality". The compromise for Rogowski and MacRae is that for democratic transitions and sustainability, there is an inverse-U relationship. On one side is a society, which is economically equal with no incentive to change institutions; the other is a society that is extremely economically unequal with no ability to change institutions.

Institutional Factors

After considering the foundations and developments of economic inequality and democratic representation, one can begin to understand the factors that link the two. Through an institutional perspective, government has an impact on economic inequality through the ability to redistribute resources, implement regulations and create new institutions (Smeeding, 2004). The following section is an account of what has already been examined regarding the link between economic inequality and democratic representation.

Beramendi and Anderson (2008) compile several studies that explore the connection between inequality and representation. They acknowledge that the question of inequality in society has historical origins to the time of Plato and is now widely pervasive in contemporary academic research. They make the case that differences in inequality "...are political and institutional---that is, that they are the product of the democratic political process and of how political institutions work to produce economic outcomes" (Beramendi & Anderson, 2008, p. 4).

They argue that the Downsian perspective of the competitive median voter, the oldest and best known framework, is too limited in its approach because "the model oversimplifies...the politics of redistribution" (Beramendi & Anderson, 2008, p. 6). They argue that using the Downsian perspective to analyze redistributory politics, the key connection between government policy and economic inequality, incorrectly "reduces redistribution to a single dimension, which...allows for single-peaked preferences" for the classic median voter (Beramendi & Anderson, 2008, p. 6). Thus, Beramendi and Anderson point to the need to analyze inequality within a theoretical approach that takes into account institutional factors.

An institutional based approach is the framework used to analyze the effects of varying levels of representation on a democratic society. "Political struggles are mediated by the institutional setting…" of a country and that changing the amount of representation in a system may "affect the nature of...how politics is conducted" (Ware, 1996, p. 9). While the effect that occurs when changing the level of representation is the focus of this research the responsiveness of the system needs to be analyzed. Implementing a delay in the dependent variable of economic inequality is one way in which to accomplish this challenge (as used in this paper's research design).

Democratic governance and economic inequality are linked to each other. The relationship has been described by Beramendi and Anderson as an "echo-chamber"; however, it is important for researchers to decouple this relationship (2008). In regard to redistributionary policy, "there is broad agreement that the explanation [of varying economic inequality]...lies in the design of political institutions and partisan responses to inequality" (Iversen & Soskice, 2008, p. 93). Furthermore, it is found that countries that are more egalitarian redistribute more than countries that are less egalitarian and thus egalitarian countries have lower rates of economic inequality because of redistribution (Iversen & Soskice, 2008). The varying redistribution patterns support a research design that defines economic inequality as a dependent variable of political institutions. The impact of government on economic inequality is a more salient approach compared to arguments stating that economic inequality impacts and forms representative and/or democratic political institutions.

Electoral Structure and Institutions

Iversen and Soskice use the scope of electoral institutions to illustrate how parties and income/wealth classes develop and create coalitions. These coalitions, on a cross-national basis, tend to be dependent on the structure of the democratic electoral process. Iversen and Soskice found that based on their survey of 17 advanced democracies from 1945 to 1998, "three-quarters of governments in majoritarian systems were center-right, while three-quarters of governments under proportional representation were center-left" (2008, p. 94). What this illustrates is that the structure of electoral systems can impact the outcomes of partisan composition. This is important to note because it demonstrates the connection between the institutional perspective and redistributive policy.

According to Iversen and Soskice, "…the electoral formula affects coalition behavior and leads to systematic differences in the partisan composition of governments--hence to different distributive outcomes" (2008, p. 94-95). It is generally accepted and understood, in regard to distribution, that "center-left government always redistributes more than center-right governments" whether in the scope of redistribution to the poor or in the reduction of measures of inequality through other policy (Iversen & Soskice, 2008, p. 101). Acknowledging this point is then further compounded by the findings that:

> [I]n a two-party majoritarian system the center-right party is more likely to win government power, and redistribute less, than would be true in a multiparty PR system, where the center party is more likely to ally with parties to its left. (Iversen and Soskice, 2008, p. 95)

Iversen and Soskice's findings support their argument that the institutional structure of democracies (whether two-party majoritarian or multiparty PR) has an effect on coalition

building largely for the middle class. Ultimately, two-party majoritarian systems will be center-right governments that redistribute less than multiparty PR systems that produce center-left governments that redistribute more. This research illustrates the reality of redistributive politics and the institutional outputs of electoral formulas.

In the fiscal commons theory, government spending will benefit narrow segments of the population but at the same time taxation is broadly distributed to a larger base (Buchanan & Tullock, 1962; Gilligan & Matsusaka, 2001). Creating policy, more specifically redistributive policy, is affected as legislative size increase. When the ratio of representatives to the population increases the cost of collective decision making for legislative bodies is lowered (Buchanan & Tullock, 1962; Gilligan & Matsusaka, 1999). Lowered costs for collective decision making should lead to more incentives to pass policy compared to the opposite.

Gilligan and Matsusaka find evidence to support that a larger legislature has a positive and statistically significant effect on United States' state and local expenditures and revenues (2001). They find that the larger legislatures spend more on education and highways compared to smaller legislature sizes. The study also finds that the amount of seats in upper houses has a larger effect for fiscal policy due possibly to inter-house bargaining (2001). Higher government spending is a distribution of wealth that generally lessens rates of economic inequality. Based on Gilligan and Matsusaka's research, larger legislative size suggests higher levels of public spending and lessened economic inequality.

The number of seats in the legislature has been found to have an effect on district gerrymandering and partisan bias. When there is a greater number of seats and districts, the ability to cut up pieces of districts through gerrymandering becomes easier (Gilligan &

30

Matsusaka, 2001). Gilligan and Matsusaka define partisan bias as the variance between the popular vote to the number of seats obtained in the legislature (1999).

They find that when the voting population increases without a change of total number of seats in a legislature through additional districts then partisan bias increases. When the number of seats increases and the voting population stays constant then partisan bias decreases. However, if both the voting population and number of seats increase proportionally then partisan bias decreases. Ultimately their study finds that "…partisan bias across unrelated political jurisdictions (e.g., states) is systematically and directly related to the size of the voting population…" (Gilligan & Matsusaka, 1999, p. 67).

Partisan bias will negatively impact economic inequality when center-left parties are in control but this is not true when center-right parties are the majority. Partisan bias and gerrymandering are largely a problem of majoritarian systems that are more likely to elect center-right governments compared to proportional representation (Iversen & Soskice, 2008). Majoritarian systems with partisan bias will lead to center-right legislatures who will redistribute less and allow for higher levels of economic inequality.

Institutional Constraints

In analyzing the relationship between inequality and politics, Rueda explores how political agency is affected within possible institutional constraints when it comes to creating policy and affecting wage inequality (2008). He acknowledges that corporatist governmental arrangements can affect left-governments' ability to alter wages and thus corporatism constrains overall political agency. This leads to limiting the ability for left-governments to craft policy that

can effectively impact inequality. He argues that the relationship between corporatist structures and left governments is "…complementary: when institutions cannot provide enough equality, left governments pick up the slack" (Rueda, 2008, p. 189). This means that when the corporatist structure is unable to address inequality, left governments are still able to effect change. This also means that as there is a "decline of some institutional factors...[there can] be an opportunity for political agency to become more influential" (Rueda, 2008, p. 190).

Executive and Judicial Institutions

Unlike the legislative branches of national governments, "…executive and judiciary branches are purely state institutions [while] the national legislature is specifically designed to link state and society" (Kroenig & Karan-Delhaye, 2011, p. 3). While executives and judiciary branches exist in many countries, their level of power and amount of constitutional authority varies. The literature debates the effect that executives and judiciaries have on representation and democracy. However, the ability of each branch to restrain each other is important to consider when establishing the overall impact that the institutions have on each other.

The executive branch has been considered to be closer to the median voter compared to the legislature in cases of extreme gerrymandering (Matsusaka, 2007). While legislative branches can suffer from partisan bias, as previously discussed, the executive branch is generally reflected as a closer reflection of the general population. Depending on the constitutional powers of the executive branch (veto power, policy crafting, administrational abilities), it can serve the role of a representative check to the legislature.

While framing the executive as more reflective of the electorate and a check against the legislative branch, it also has potential of being too powerful without a proper counterbalance. Generally defining the difference as it is applied to power, Kroenig and Karan-Delbaye state that "national legislatures…are the principle institutions structured to disperse political power to a broad segment of society and…constrain executive authority" which tends to be more narrow (2011, p. 3).

An executive that is elected and then unrestrained can become too unpredictable, too solitary, and largely insular in their policy. It is noted as an example that "countries with political institutions that constrain executive power can provide more credible commitments to economic actors in society that good economic institutions, where they exist, will remain in place," meaning that constraining executive power can help to stabilize political and economic institutions within a society (Kroenig & Karan-Delhaye, 2011, p. 2). The literature illustrates that the executive branch as an institution can be more representative of an electorate is also narrower in its focus and application of power.

Judicial review is an institution that allows judges to interpret the constitutionality of laws passed by legislative bodies and rule on the outcome of the legislative process. The concern with judicial review is in the legitimacy puzzle where it is argued that judicial review can be anti-democratic, unrepresentative, and illegitimate (Kyritsis, 2006). The democratic objection to judicial review is that when accepting the ability of judges to review and rule on constitutionality of laws it can come at a cost to the democratic process and ultimately have a negative impact on the legitimacy of a countries' legal structure (Kyritsis, 2006). While supporters of judicial review argue that judicial review has the ability to enhance democracy and defend constitutional rights

(like the United States' Warren Court from 1953 to 1969), others find that the potential negative

impacts from judicial review can be detrimental for the democratic process (Waldron, 1999).

Judicial review is as a check against the ability of the majority to tyrannize the rights of the

minority in a democracy by defending and supporting a countries' preexisting constitution.

Waldron argues for on the democratic objection to judicial review and concludes that

legislative supremacy is the legitimate form of democratic decision-making. Waldron (1999)

argues that:

> [M]ost judges whose interpretations will be influential in the legal system [are not
> elected]. Moreover, those judges who are elected are seldom regarded by voters (and
> hardly ever regard themselves) as popular *representatives* in the way that legislators
> are…" (p. 120)

Based on Waldron's perspective, the legitimacy puzzle of judicial review is considered to

be unrepresentative and undemocratic. However, the use of judicial review is explicitly for the

purpose of defending a countries' constitution and implicit for supporting representative

democratic governance. The same issues of legitimacy, which Waldron uses, can be applied to

representative democracy when compared to direct democracy. While both judicial review and

representative democratic institutions are pragmatic forms of governance, Kyritsis (2006) finds

that the former is:

> [A] system that pits the judiciary not against the 'collective will of the people'…but
> against another institution, which, though representative of the people in a sense…is not
> the same as the People. (p. 741)

While the democratic objection to judicial review illustrates the conflicts of judicial review,

similar objections can be applied to having representative democracy instead of direct

democracy. In both situations, "someone else decide[s] what the people ought to do" instead of the people deciding for themselves (Kyritsis, 2006, p. 742).

Constitutional integrity is the ability of courts to protect an individual's rights. However, the judiciary has had "…its influence on promoting progressive notions of distributive justice…exaggerated" (Hirschl, 2004, p. 214). In a comparative sense, economic inequality and judicial review finds a positive correlation where "[t]he United States…has a vigorous judicial review process…[with high inequality] compared to other advanced industrial nations" (Schor, 2008, p. 272). The United States case is contrasted with Nordic countries that have low rates of economic inequality "…while being less than enthusiastic (to put it mildly) about the American notions of rights and judicial review" (Hirschl, 2004, p. 220).

The Nordic case is interesting because they have "…traditionally been agnostic, at best, toward American-style high-voltage constitutionalism, rights talk, and judicial activism" while instead relying mainly on their legislatures for judicial review (Hirschl, 2011, p. 450). Judicial review is an institutional check against the tyranny the legislature and executive branch. If a country's constitution restricts representative democratic governance's ability to impact economic inequality, through wealth redistribution and the formation of regulations and institutions, then judicial review will be correlated with higher rates of economic inequality.

Participation and Electoral Composition

Anderson and Beramendi (2008) explore the connection between income, whether absolute or relative, and electoral participation. They argue that "...the notion that income and income inequality matter to democratic processes and the quality of democratic outcomes is

35

widely accepted" and further explore the challenges associated with the connection between electoral participation and income inequality (Anderson & Beramendi, 2008, p. 278). Furthermore, they note "[s]tudents of mass political behavior have long argued that a country's economic conditions affect people's beliefs about whether government is legitimate and effective" which leads to one's inclination to be involved in politics and government (Anderson & Bermendi, 2008, p. 279). As noted, issues of income inequality, political participation, and perceptions of government legitimacy are all linked together through the research.

Anderson and Bermendi create a framework for the connection between income and political participation (2008). They note that "...higher levels of education and social status...are the most consistently significant predictors of political action across a variety of countries" illustrating a connection between social standing, income levels and political participation (Anderson & Bermendi, 2008, p. 281). The researchers find that "...the existing evidence linking income inequality and participation at the aggregate level points to a similar direction" where overall levels of inequality can be matched with lower levels of involvement (Anderson & Bermendi, 2008, p. 281). The main issue, however, is that there is lack of research regarding the "issue of causality" in the relationship between inequality and electoral participation. The propensity for echo chambers between economic inequality and political participation make the saliency of the two concepts difficult to decouple though a connection does exist.

Anderson and Beramendi find that "...greater inequality is indeed associated with lower turnout at the macro level" and that countries with the higher levels of income inequality experience the lowest electoral participation and that "countries where inequality increases over time should experience drops in electoral participation" (2008, p. 293). They also conclude that

36

in countries where there is an overall "decommodification", where individuals rely less on the market (due to advanced welfare states guarantee of basic material rights and other positive freedoms), there is a higher amount of political participation because the costs of participation are lessened and amount of income inequality damped (2008). Anderson and Beramendi's research points to the complex nature of income inequality and overall electoral participation and helps to further the foundation for this research.

The demographics of an electoral body should mirror the electorate to be considered representative of the population. This form of descriptive representation is one form of representation used by Pitkin when conceptualizing representation (1967). Through descriptive representation it is found that "[e]ven where representatives are chosen through fair and democratic elections…that legislative assemblies remain 'unrepresentative'…[t]his is especially true of representation at the national level" (Bird, 2003, p. 2). This is a key concern for the representation of women and ethnic minorities in society.

There has never been an ideal national legislative body that fully meets the descriptive representative requirement. However, in many countries there has been an effort to increase representation of women and ethnic minorities through quotas, candidate lists and other methods to increase diversity in legislatures. Whether the use of such tools is appropriate for representative democracies to meet the goal of descriptive representation is questioned.

Using institutional mechanisms to increase descriptive representation instead of addressing the underlying reason for underrepresentation can be viewed as problematic. The under-representation may be contributed "…to badly functioning democratic institutions or…failing normative foundations of postmodern Western democracies" (Meier & Kombardo,

2013, p. 48). Women and minorities may participate and be represented in larger numbers if any barriers or negative mechanisms barring participation were removed. Furthermore, the use of quotas and other mechanisms can be viewed as 'special help' or 'preferential treatment' in what might be perceived by citizens as an already 'fair system' (Bacchi, 2006; Meier & Kombardo, 2013).

Currently women and ethnic minorities are marginalized in most national legislatures of democratic industrialized countries (Bird, 2003). In majoritarian-single member districts women members in the national legislature range from 12.1% (France 2002) to 25.3% (Australia 2001) and for proportional representation 13.3% (Ireland 2002) to 38% (Denmark 2001 and Netherlands 2003) of legislative seats. For ethnic minorities in majoritarian-single member districts range from 0% of seats held compared to 8% in the national population (France 2002) to 15.7% of seats held compared to 28.1% in the national population (United States 2002) and for proportional representation 0% seats held compared to 1-6% (Ireland 2002, Portugal 2002, Switzerland 1999) to 8.7% seats held compared to 9% in the national population (Netherlands 2003) (Bird, 2003, Table 1).

The comparative framework for measuring and analyzing the representation of women is straightforward but complex for ethnic minorities. Classifying data between men and women in elections and legislatures is a simple count of votes, seats and population. Identifying and measuring ethnic minorities can be difficult compared to gender. The saliency of comparative representation of ethnic minorities is difficult because of the lack of ethnic minority data (like in Belgium and France) and the differences in definitions of what constitutes an ethnic minority and qualifies an individual as an ethnic minorities in a particular country (Bird, 2003).

There are other major differences when comparing women and ethnic minorities within the context of descriptive representation. Proportional representative electoral systems are more beneficial for the descriptive representation of women compared to single-member districts as well systems that employ close-lists candidate selection (Bird, 2003; Darcy, Welch & Clark, 1994; Meier & Lombardo, 2013). Neither proportional representation or single-member districts has had a clear benefit for ethnic minorities due to the way in which party lists are made with proportional representation or how districts are drawn with single member districts (Bird, 2003; Tossutti & Najem, 2002). There are lower levels of political solidarity on issues at the national level with the women electorate compared to ethnic minority groups (Bird, 2003). Lastly, women make up approximately half of the population of any country while ethnic minority groups are smaller populations that are often regionalized.

Economic Conditions

The major way in which governments have an effect on economic inequality is through redistribution policy of wealth and income. A recent OECD report found that "[p]ublic cash transfers, as well as income taxes and social security contributions, played a major role in all OECD countries in reducing market-income inequality" to the extent that it reduces the Gini coefficient by an average of one-quarter for OECD countries for the working-age population (2011, p. 36). Governments have a direct impact on economic inequality through tax-and-transfer policies as well as through other economic regulatory institutions and social policies.

Scruggs (2008) examines historical trends in national social welfare and insurance programs. His research argues that the level of generosity of welfare programs is structurally

dependent, based on differences in economic growth, and is rooted in differences in taxation systems. The research shows that there was an expansion of generosity of social programs for redistribution in the 1970s to 1980s. Since then, for most countries, this trend has stagnated, if not contracted. Scruggs' research also notes that countries with more generous welfare programs often have fiscal systems that reduce poverty and economic inequality. Countries with strong national welfare systems also have progressive taxation systems which; such policies target poverty and inequality.

When analyzing rates of economic inequality many pundits, politicians and academics have pointed at the *Transatlantic Consensus* (Atkinson 1999). This viewpoint finds that most of the fluctuations and trends in the growth of economic inequality are explained by the decreased value in labor due to globalization and the economic liberalizing of developing countries. Instead there is an overall increased value in capital (relative to labor) in developed countries. Beramendi and Cusack question the conventional viewpoint with regard to the *Transatlantic Consensus* by stating that this view "exaggerates the uniformity in trends toward inegalitarian societies" and that the inclusion of overall market income, meaning from capital markets instead of simply wages from labor, must be fully illustrated and considered when analyzing rates of inequality (2008, p. 127).

Beramendi and Cusack identify a "structural dependence of the state on capital" and they argue, "once the distribution of earnings is controlled for, [political] parties are not able to affect the distribution of market income directly" (2008, p. 153). There is a greater need for state involvement in capital markets to address concerns of economic inequality based on this perspective. Governments that heavily regulate the stock market tend to lessen the ability for

wealthy individuals to benefit in investing in capital markets. They state directly that "the scope of the government's control of the workings of the stock market is a political decision...thus...the degree of stock market capitalization can be seen as a channel through which the distribution of market income becomes politicized...in an indirect way" (Beramendi & Cusack, 2008, p. 153).

A certain level of popular support for redistribution must exist for parties and policies that would enact progressive economic changes from tax policies to welfare strategies. Cusack, Iversen, and Rehm argue that policy demands for economic redistribution are based at the individual level. Individuals' policy preferences on redistribution are "shaped by actual or threatened unemployment" since it can reduce total income and will increase the need for services funded by redistribution (2008, p. 203). The policy supply for economic redistribution is based on two factors: first, salient political cleavages, which negotiate the distribution of political risks for economic redistribution; second, how the aggregate of interests play on the institutional dimension. The supply and demand of redistributionary policy due to unemployment is considered as a factor in this study to be a factor within this model.

In sum, the literature establishes connections between economic inequality and democratic representation. The literature has explored this connection on how they influence each other based on an institutional perspective. The history and philosophy on economic inequality and democratic representation share a common evolution in Western society. This intertwining history begins with the Greeks and has continued to progress by the shift caused by the Age of Enlightenment and continues until modern times. Both concepts share common problems with meeting their ideal form. Each have their challenges whether it is expanding

equality to larger populations or making democracy more representative. The thesis will continue

to develop on these established points where economic inequality and democratic representation

interact.

CHAPTER 3: RESEARCH DESIGN

This thesis proposes empirical support that economic inequality increases as democratic institutions become less representative. This connection helps to further elaborate on *Transatlantic Consensus* by including the mediating role of government in the economic inequality equation. Higher rates of economic inequality should cause lower income individuals to demand redistributionary policies or institutions and regulations from their democratically elected representatives. My theoretical framework when analyzing democratic representation is informed by an institutional perspective.

Based on the literature, I expect that more progressive forms of representative institutions will be associated with lower levels of economic inequality. These progressive forms of representative institutions should allow the greater citizenry an impact on decision-making by qualifying under Pitkin's definitions of representation (1967). Economic inequality will decrease when representation is increased in industrialized democracies through increases in access to representatives, increases in egalitarian political structures, decreasing power distance between institutions and citizenry, or other structural arrangements. A novel variable used in this study is the total number of representatives in national legislatures relative to the national population. I establish that this variable is an important factor that has not been fully considered in understanding the link between representation and economic inequality.

The main hypothesis in this thesis is that there is a negative relationship between the level of institutional representation, operationalized through institutional variables, and economic inequality in a democracy. When a country has more progressive forms of representation,

measured through institutional factors that have a positive relationship with democratic representation, then economic inequality decreases. In addition, I examine the effect of a dilution of representative shares per capita using the ratio of representatives to the general population. When there are fewer representatives then there is the possibility of less access to representatives by the general population. If this occurs then the ability of a narrow segment of the population, through economic and political means, can capture the interests of representatives relative to the overall population. When this occurs economic inequality will increase as well.

<div align="center">Current Approach and Alternatives</div>

Current research has found that the *Transatlantic Consensus* is limited (Atkinson, 1999; Beramendi & Anderson, 2008). According to the *Transatlantic Consensus*, the increase of economic inequality in Western countries within the past few decades is due to shifts in economic composition of national economies where:

> [I]ncreased wage inequality is attributed to a shift in relative demand away from unskilled to skilled workers." (Atkinson, 2002, p. 6)

The *Transatlantic Consensus* is limited as the universal explanation for what has occurred with Western economic inequality. It is found to be too broad and over-simplified to explain the economics shifts in economic inequality (Atkinson, 1999; 2002; Beramendi & Anderson, 2008). This is due to multiple reasons including the lack of a universal systematic trend in economic inequality over the past few decades, varying levels of economic inequality episodes in different countries or regions, as well as differing levels of trade liberalism, technological changes and pools of unskilled labor. Furthermore, a recent OECD report finds

"…that neither rising trade integration nor financial openness had a significant impact on…wage inequality…within the OECD countries" further supporting the limitations of the *Transatlantic Consensus* (2011, p. 29). But if not the *Transatlantic Consensus*, then what might be a better way to understand the economic inequality in developed countries?

Many researchers have studied the components that impact both political representation and economic inequality when analyzing the changes in rates of economic inequality in Western developed countries (Beramendi et al., 2008; Kriesi et al., 2008). One perspective argues that globalization has shifted the social cleavages that form the divisions of voter blocs with respective support for political parties (Kriesi et al., 2008). Another perspective focuses on the causes and effects that economic inequality and representation have on each other (Beramendi & Anderson, 2008). However, neither offers a counter explanation against argument made by the *Transatlantic Consensus*.

Another perspective for the variations in cross-national economic inequality is due to differences in societal ideology and institutional efficacy. Societal ideologies on economic inequality differ between countries and regions. Smeeding (2004) conjectures that:

> Ideology—in the sense of national understanding of the meaning of "fairness," altruism and basic human rights—may play a crucial independent role in defining the acceptable domains of inequality. (p. 25)

Cultural differences on the preferred level of economic inequality are an abstract way of considering acceptable rates of resource disparity. Even more important to consider is institutional efficacy, or the connection between government and constituent interests. This may help to explain regional differences in economic inequality. There will be a higher potential for policies that combat economic inequality in governments with strong institutional efficacy.

Smeeding (2004) states that institutional efficacy is "…crucial in understanding whether demands are made of the political system to reach these 'fairness' objectives" (p. 25).

This thesis provides an alternative explanation of the growing economic inequality gap in Western developed economies based on the decline of political representation. The study follows that government institutions effect inequality in two ways, "[e]ither direct effects of redistribution or via indirect effects created by institutions and regulations" (Smeeding, 2004, p. 19). Government institutions posses a toolbox of "…policy choices, regulations, and institutions [that] can have a crucial impact" on economic inequality when mediating "…how globalization and technological changes affect the distribution of income" (OECD, 2011, p. 26). The key factor of institutional democratic mechanisms is used as the focus in explaining contemporary changes in economic inequality.

A thought experiment developed by Rousseau, discussed in Chapter 2, is the starting point for establishing a counter-*Transatlantic Consensus* and the novel variable of the representative ratio. Rousseau's main concern was in the legitimacy of democratic government when nations grew larger. As a population grows maintaining the General Will, or the fulfillment of the needs, wants, and/or desires of a given population, becomes more difficult. Rousseau's thought experiment can be applied to contemporary comparative politics when considering the dilution of an individual's representative shares as the population grows larger when the number of representatives stays constant.

The concept of the General Will is often debated and criticized however the translation of the General Will into modern democratic theory is still valid to consider within the framework of this study. I hypothesize that if the General Will of a population is not represented through the

mediation of government institutions that economic inequality will increase. This is one part of how representation relates to economic inequality. The General Will, for redistributionary policy, becomes problematic when representative shares are diluted based on the *fiscal commons theory* developed by Buchannan and Tullock (1967). In their theory, taxes are broadly applied to a population but the benefits are narrowly distributed. The *fiscal commons theory* becomes relevant when considering the potential for representatives to serve the narrow interest of higher income individuals.

Data, Hypotheses and Methods

This study uses a cross-national longitudinal model to evaluate the impact of democratic political representation has on economic inequality at the institutional level. The data include macroeconomic and national political factors from a 39-year time span, from 1970-2009, for 23 countries from the Organisation for Economic Co-operation and Development (OECD) (not all OECD countries are included). Most countries in the study are Western European countries (except for Australia, Canada, Japan, New Zealand and the United States). Only data from periods of democratic governance are included in the dataset (excluded are Greece until 1974, Portugal until 1975 and Spain until 1977). These countries were selected due to their status as developed democracies and their variation in rates of economic inequality and institutional composition. The comparative macro-data was readily available through many sources discussed in the Appendix.

This model examines and evaluates the impact that levels of democratic representation have on economic inequality. Measures of economic inequality are diverse and varied; here this study measures income inequality using the Gini coefficient. The Gini coefficient is a statistical measurement of statistical dispersion where a coefficient of zero represents perfect equality among the entire population and a coefficient of one represents all the resources are held by one individual (Solt, 2009).

The quantitative model in this paper uses the Standardized World Income Inequality Database (SWIID) to "...meet the needs of…cross-national research...maximizing the comparability of income inequality data while maintaining the widest possible coverage across countries over time" (Solt, 2009, p. 234). Income inequality, as represented by the net and gross Gini coefficient, is both the most readily available and standardized measure of economic inequality. I use both forms of the Gini coefficient to consider rates of economic inequality at a pre-tax and post-tax period. I use gross (market) and net income inequality to allow for the measurement of income inequality before and after government redistribution.

This study uses an institutional approach to comparative democratic theory. This approach follows that 'institutions do matter' in measuring the level of representation in a national legislatures. The model uses a novel variable of the representative ratio, where the population is divided by the number of representatives at the national legislature[1]. The representative ratio is different than district magnitude but somewhat similar to district size.

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[1] In bicameral systems, the number of representatives is only for the lower house.

District magnitude is the total number of candidates from any particular district (Chang & Golden, 2007). For instance, district magnitude would be the total number of representatives from any particular state or district. District size, on the other hand, is the "…mean population in a legislative district for a state" (Bailey & Hickman, 20055). The population is divided by the number of representatives for any particular district or state to find the district size. This is similar to the representative ratio, however the latter is not district based but instead a national measurement. The representative ratio uses the entire country as one unit of analysis even though differences of district size exist within countries. The use of district size would be applicable to a state-by-state comparison. I use the representative ratio for the purposes of a cross-national comparison of the effects of different national legislature sizes relative to the size of the national population.

I use additional variables to reflect institutional factors: the effective number of parties, an indexing of institutional constraints on central state government (including European Union membership, federalism, and bicameralism), the presence of a presidential system, the use of single-member districts and the presence of judicial review. The control variables used are voter turnout, seats held by women in parliamentary, gross domestic product per capita, unemployment and the percentage of civilian employment in the industrial sector.

Institutional Factors

The institutional factors in the model illustrate a country's level of democratic representation. The novel variable used, the representative ratio, is a measure of the national

population divided by the number of representatives in the national legislature[2]. When the ratio

is higher, it is assumed that the citizenry's democratic representation decreases and individual

shares in their representative are diluted, as representatives are responsible for a larger

constituency. When this occurs then economic inequality should increase *ceteris paribus*. This is

possibly due many factors including increased right-wing partisan bias of representatives in the

case of majoritarian systems (Gilligan & Matsusaka, 2001), overall decreased public spending

(Gilligan & Matsusaka, 1999), less political representative access for lower classes (Smeeding,

2004), and spending benefiting a narrower segment of the population to limited access

(Buchanan & Tullock, 1962). This study expects to find that economic inequality will be

increased because of a higher ratio of representatives to the overall populations. It is expected

that this occurs because as the ratio increases, the representative begins to represent the interests

of individuals with the means to support the representative, through financial contributions,

political endorsements, and overall mobilization efforts.

For other institutional factors which impact the electoral system, the study uses Laakso

and Taagepera's effective number of parties in parliament (1979). This variable illustrates the

level of party fractionalization in a political system. An increase in effective parties is assumed to

increase representation of different interests and allow more choice for the electorate. A lower

effective number of parties are assumed to reflect less representation of interests and give the

electorate less choice. However, the increase of fragmented government due to excessive parties

does have the potential of causing less effective government and decreased ability to pass laws

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[2] In bicameral systems, the number of representatives is only for the lower house.

and reforms. I expect a negative correlation between effective number of parties and economic inequality based on these assumptions.

For institutional factors that indicate structural or constitutional composition, the study uses Schmidt's index of institutional constraints of central state government (1996), which indexes European Union membership, federalism, difficulty of constitutional amendments, level of bicameralism, referendum frequency as well as Beyler's level of central bank autonomy (2007). A country with higher restraints on a government's ability to create and execute power is assumed to make it less effective and less able to carryout the desires of their constituents. This index is used to illustrate when legislatures have to compete with other formal institutions, such as the EU, autonomous central banks, state governments, or informal institutions, such as citizen referendums, ability to change the constitution, and an overall diffusion of power.

Additional structural factors used are Huber et al.'s coding for single-member districts, presidential systems, and judicial review (2004). Single-member districts tend to result in mostly center-right governments while systems that use proportional representation tend to elect center-left governments (Iversen & Soskice, 2008). Center-left governments will be more likely to redistribute wealth and will create institutions and regulations that are intended to lower economic inequality. Single-member districts should have a positive correlation with economic inequality due to the tendency of this system to result in center-right governments.

Both presidential systems and constitutions with judicial review are institutions that are viewed as a balance of power against national legislatures. Governments that have a presidential system have an executive branch, which is separate from the legislature, and are democratically elected through a separate vote. The impact that presidential systems have on economic

51

inequality will be supporting policies closer to the median voter compared to the legislature (Matsuasaka, 2007). The median voter is assumed to seek policies that decrease economic inequality; however, the importance of economic inequality to voters may vary.

Judicial review is considered to be unrepresentative and undemocratic compared to the executive and legislative branch. However, the ability for national courts to review laws is considered a way to protect individual rights and national constitutions from other institutions. Countries that have judicial review will limit the ability for other democratically elected branches to act in an unrestrained and unconstitutional manner. I expect that countries with judicial review will have a positive effect on economic inequality.

Other Controls Variables

The study includes additional variables that are found in the literature to have an impact on national economic inequality. These control variables will also help to explain economic conditions. Voter turnout is included as a proxy for the level of civic participation in electoral activities. More active populations in electoral activities mean a higher the amount of representation of the population in a democratic system *ceteris paribus*. Voter turnout has a strong connection with an individual's level of income where higher income results in a higher likelihood of participation in elections (Anderson & Beramendi, 2008). Lower voter turnout will indicate higher economic inequality as a larger portion of the lower income population is not invested in the political system.

The percentage of women representatives holding seats in the national legislature will illustrate how descriptively representative the national legislature is to the population and

52

indicate a proxy level of gender equality in a given society. Women generally make less than their male counterparts even though they represent approximately half of the population of any country (Duflo, 2012; Ferrant, 2014). There will be higher overall economic inequality for the larger population with a higher level of gendered-economic inequality. A greater focus on women's political and economic inequality on the national agenda is expected when women participate by holding seats in the national legislature. Legislatures with a higher number of women seated should have lower rates of economic inequality compared to societies with less women representatives.

The study applies macroeconomic data to control for key variables that are likely to affect the national economic structure and therefore economic inequality. Gross domestic product per capita and national civilian unemployment are used as two important macroeconomic control variables. The use of gross domestic product per capita is used to describe an approximation of average individual wealth though it is not indicative of any particular level of economic inequality. The unemployment rate should logically follow that when a larger portion of the population is unemployed then economic inequality will be higher. When individuals are out of work they begin to rely on social safety nets and their income levels, even with support, will be much lower.

The model also includes the civilian labor force involved in the industrial sector as a percentage of the total population. The use of the size of the workforce employed in industrial labor is key for a couple reasons. First, using industrial labor is a way to control for the *Transatlantic Consensus'* explanation of economic inequality where economic shifts in exogenous factors from globalization are attributed to increased economic inequality in

developed countries. Second, it serves as a proxy for unionization data. As the percentage of

labor involved in industrial sectors decreases, with other factors held constant, economic

inequality should increase. Institutions with higher levels of democratic representation but a

constant level of the industrial sector will find a decrease in economic inequality due to higher

redistribution of wealth, policies that support job training, increased regulation of trade and fair

trade requirements.

Quantitative Model

This study hypothesized that more representative institutions will be associated with

lower levels of economic inequality. Furthermore, this study tests for a novel variable, the

representative ratio, where the larger number of representatives at the national legislature relative

to the civilian population will result in lower economic inequality. Variables that represent more

progressive representation are expected to keep a negative relationship with economic inequality,

meaning less economic inequality. The use of gross and net income inequality is intended to

illustrate income inequality at a pre-tax and post-tax period. This allows for applying the

quantitative model to income inequality before and after government redistribution. Thus the

study assumes that the general population will prefer more economic egalitarianism to higher

economic inequality.

The equations used for the model is as follows:

$net\ income\ inequality\ =\ f(representative\ ratio,\ effective\ parties,$
$institutional\ constraints,\ presidential\ system,\ single\ member\ district,$
$judicial\ review,\ voter\ turnout,\ women\ in\ parliament,$
$gross\ domestic\ product\ per\ capita,\ unemployment,\ industrial\ labor)$ \hspace{1em} (1)

$$net\ income\ inequality\ lagged\ by\ two\ years\ =\ f(representative\ ratio,$$
$$effective\ parties, institutional\ constraints, presidential\ system,$$
$$single\ member\ district, judicial\ review, voter\ turnout, women\ in\ parliament,$$
$$gross\ domestic\ product\ per\ capita, unemployment, industrial\ labor)\qquad (2)$$

$$gross\ income\ inequality\ =\ f(representative\ ratio, effective\ parties,$$
$$institutional\ constraints, presidential\ system, single\ member\ district,\ judicial\ review,$$
$$voter\ turnout, women\ in\ parliament,\ gross\ domestic\ product\ per\ capita,$$
$$unemployment, industrial\ labor)\qquad (3)$$

$$gross\ income\ inequality\ lagged\ by\ two\ years\ =\ f(representative\ ratio,$$
$$effective\ parties,\ institutional\ constraints, presidential\ system,$$
$$single\ member\ district, judicial\ review,\ voter\ turnout,\ women\ in\ parliament,$$
$$gross\ domestic\ product\ per\ capita,\ unemployment, industrial\ labor)\qquad (4)$$

CHAPTER 4: ANALYSIS AND RESULTS

Introduction

The study uses a quantitative model that applies panel data (longitudinal or cross-sectional time-series data) *xt* model to estimate the effects that varying levels of representation and institutional variables have on economic inequality. The study hypothesizes that progressive representation in the form of increased representation of the civic population will lead to decreased economic inequality. The Gini coefficient is used as the dependent variable both expressed as the post-tax "net" and pre-tax "gross" version of income inequality. A two-year lag of the Gini coefficient is used as well to indicate what effects may follow changes in the electoral makeup or other societal composition. I use the Driscoll and Kraay (1998) model to account for the presence of heteroskedasticity and cross-sectional dependence.[3]

Results

The representative ratio, the novel variable of the study, is found to be statistically significant at the 1-percent level for all four modeled versions of economic inequality (Gini net and gross as well as the standard versus two-year lag). When individuals' share of representation by a legislator is diluted then democratic representation is decreased. The higher the ratio, meaning the higher number of individuals each legislative represents, the higher economic inequality. This is consistent with the hypothesis of the study.

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[3] A detailed explanation of the functional form of the model is included in the APPENDIX A section.

Laakso and Taagepera's effective number of parties based on seats in the legislature (1979) was found to have a positive and statistically significant effect on economic inequality for all four modeled version of economic inequality. As party fractionalization increases in an electoral system there is evidence that economic inequality increases as well. This is counter to the study's original assumption where the increase of party choices would mean increased representation and thus decreased economic inequality. I attribute this to an excessive amount of party fractionalization in government, which can lead to ineffective government.

Presidential systems and single-member districts are shown to have a negative impact on economic inequality and is statistically significant for all four modeled versions of economic inequality except for single member districts when the dependent variable is a two-year lagged measure of gross inequality. The result on the presidential system supports the study's original assumption that presidential systems be associated with lower economic inequality. However, the result for the single-member district is counter to the study's original assumption of a positive correlation with economic inequality. This provides a quandary to the previously established literature that would suggest different results.

Judicial review is shown to have positive effects on economic inequality although the statistical significance is weak if not non-existent for the net Gini coefficient but has a stronger statistical significance for gross Gini coefficient, meaning a weaker positive pre-tax effect versus a stronger post-tax effect. This positive effect follows the original assumption of the study. The institutional constraints index was shown to not have a statistically significant effect on economic inequality although the coefficients were positive. The positive coefficients are consistent with the study's original logic.

The other non-institutional variables show mixed results and impacts to economic inequality. Voter turnout is shown to not be statistically significant to economic inequality and had mixed results. The percentage of women holding seats in the national legislature is shown to have a positive effect on economic inequality though only statistically significant for both net and gross Gini coefficients when the dependent variable is lagged at the two-year interval. This result is not consistent with the original assumption of the study.

Gross domestic product per capita is found to have a negative statistically significant effect only on the net Gini coefficient. I use this factor as a control variable without any assumption as to its effect on economic inequality. The percentage of the labor force employed in the industrial sector is found to have a negative statistically significant effect only on the gross Gini coefficient. This result is consistent with the study's original assumption with regard to economic inequality and industrial labor. The unemployment rate, however, does not have a statistically significant result. The quantitative model accounts for 26.70-34.15% of variation in income inequality using four different dependent variables.

Table 1 – Effects of Democratic Representation on Economic Inequality
OECD countries, 1970-2009, N = 834.

	(1) Gini Net	(2) Gini Net (2-year lag)	(3) Gini Gross	(4) Gini Gross (2-year lag)
Representative Ratio	0.0000288 (0.0001)***	0.0000308 (0.0001)***	0.0000205 (0.0001)***	0.000023 (0.0001)***
Effective Parties Legislature Seats	0.4110 (0.1019)***	0.3713 (0.1135)***	0.0373 (0.1660)**	0.5184 (0.2546)**
Institutional Constraints Index	0.2816 (0.2896)	0.2827 (0.2728)	0.1049 (0.6794)	0.0615 (0.6353)
Presidential System	-2.5878 (0.4880)***	-2.2892 (0.6305)***	-6.1980 (1.1285)***	-6.0849 (1.2606)***
Single Member District	-1.7152 (0.5519)***	-2.0321 (0.5017)***	-1.4355 (0.7616)*	-1.3496 (0.8111)
Judicial Review	0.9305 (0.5519)*	0.8151 (0.5342)	4.5500 (1.4330)***	3.6549 (1.5324)**
Voter Turnout (%)	0.0049 (0.0331)	0.0182 (0.0363)	-0.0356 (0.0425)	0.0040 (0.0477)
Women in Leg. (%)	0.0149 (0.0246)	0.0182 (0.0205)*	0.0549 (0.0470)	0.1050 (0.0353)***
GDP Per Capita	-0.0012 (0.0003)***	-0.0006 (0.0003)*	-0.0003 (0.0005)	-0.0002 (0.0006)
Unemployment Rate (%)	-0.0624 (0.0494)	-0.0557 (0.0437)	-0.0822 (0.1128)	-0.1436 (0.1182)
Industrial Sector (%)	-5.6874 (5.1059)	-2.3251 (4.5056)	-24.6199 (6.0121)***	-18.4920 (5.415)***
Wald Chi-square Prob	0.000	0.000	0.000	0.000
N	834	795	834	795
R^2	0.2711	0.2670	0.3415	0.3155

Notes: Driscoll-Kraay standard errors in parentheses. Data sources in APPENDIX C.
* Significant at the 10-percent level
** Significant at the 5-percent level.
***Significant at the 1-percent level

<u>Discussion</u>

Expected Results

This study confirms the positive effect of the representative ratio on income inequality. Income inequality increases as the number of citizens that each representative in the national legislature represents increases. This is supported both with the net Gini coefficient and the gross Gini coefficient (meaning both pre and post-tax policy effects). The results follow the logic of the study and support the overall hypothesis that as a representative's share of the population inflates then representation is diluted and income inequality increases.

The effects of presidential systems, judicial review and industrial percentage of the labor market are consistent with my expectations. The negative effect that presidential systems have on economic inequality is consistent with the original hypothesis. The results show a higher degree of impact on income inequality with pre-tax income inequality compared to post-tax net income inequality. The executive's larger impact on the control of regulation and economic institutions compared to its effect on wealth distribution may explain this. Are presidential systems more representative than their parliamentarian systems? It is of the opinion of this study that presidential systems serve as a representative check against the legislature but are not necessarily more representative than non-presidential systems. However, presidential systems are thought to have an executive that is representative of the median voter; this supports the idea that median voters generally support policies which lead to less economic inequality.

Judicial review is positively related to income inequality. While judicial review can lead to decisions that help or hurt income inequality, generally speaking, the judicial review process occurs outside of a traditionally representative system. The effect of judicial review is only

60

statistically significant for gross income inequality and this may be similar to the results for the presidential system. The courts may play a role in income inequality with regard to issues of institutions and regulation and not necessarily on redistribution.

The percentage of the civilian population involved in the industrial sector follows the *Transatlantic Consensus* where systematic trends away from industrial sectors has lead to the growth of economic inequality. This is only true for gross income inequality, which is pre-tax-and-government distribution. The industrial sector factor loses its statistical significance with net income inequality. After government redistribution, industrial labor no longer has the same effect on income inequality. This result supports the argument that the *Transatlantic Consensus* is accurate but only to a point. This study makes and supports the case that the response of democratic institutions is an important factor instead of solely shifts in industrial labor and globalization as explained by the *Transatlantic Consensus*.

Contrary to Expectations

The effective number of parties in parliament, single-member districts, and the percentage of women in the legislature yield statistically significant results that are contrary to expectations. The effective number of parties was originally thought to have a negative relationship with economic inequality. As the amount of choices and options for parties increase, there would be more options and representation of the population policy and agenda preferences. However, this may be explained as a result of party fractionalization as well as marginalization of leftist parties in coalitions. Too many parties and choices may lead to ineffective coalitions,

coalition building that trades ideal policy for pragmatic agendas, or the possible structural marginalization of parties which advocate reducing economic inequality.

The negative effect that single-member districts have on income inequality does not support the original hypothesis. Are single member districts more representative than proportional representative systems? Single member districts are generally considered less representative than proportional representative systems (Lijphart, 1995). This is because each single member district is thought to only represent the winning interests' side while the population that does not endorse their representative normally does not have their issues fully represented at the national level. The results of this study find that single-member districts have a negative effect on income inequality.

The number of women in the legislature is found to be positively related to income inequality but only on the two-year lagged period. This is counter to my expectation of descriptive representation through gender politics. The number of women in the legislature represents cultural gender egalitarianism where increased gender egalitarianism would mean less income inequality. Based on the results of the study, there is evidence to support that the number of women in the legislature does not necessarily mean that there will be less income inequity. The literature suggests that this is due to less political unity among women on the issue of economics and party list selection methods (Bird, 2003). This variable being statistically significant only in the two-year lagged period may indicate that women legislatures do not help income inequality in the short-term. However, a longer lag period may have produced different results.

The results of the study support the original hypothesis and also bring up some valid questions in the way some of the factors have been interpreted in the literature. While the representative ratio, presidential system, judicial review, and industrialization sector all support the original hypothesis, the effective number of parties, single-member districts, and number of women in the legislature do not. Whether increased party fractionalization or single-member districts are more representative than their alternative can be debated. However, the requirement for descriptive representation with more women in the legislature not leading to less income inequality is confounding.

The institutional constraints index is found to not be statically significant. This variable is inclusive of European Union membership, federalism, difficulty of constitutional amendments, the level of bicameralism, referendum frequency, and central bank autonomy. All of these factors were originally considered to be constraints on the ability of effective governance. There were no statistically significant results for institutional constraints as it relates to income inequality. Separating these indexed factors into individual variables may have yielded a more precise and logical result.

Voter turnout not being statistically significant with regard to income inequality is surprising given arguments about the importance of civic participation and class based political participation. Variations in voter turnout are not too different for a majority of the countries (with a mean of 77.66 percent and a 50 percentile at 80.3 percent) and the lack of variation in the variable in-between the election may be relevant to why voter turnout did not yield statistically significant results.

CHAPTER 5: CONCLUSION

Economic inequality has a negative impact on society. High rates of economic inequality is a situation that policymakers should want to avoid from affecting economic growth, straining government budgets, to creating societal disharmony and fractionalization based on class lines. However, variations in economic inequality are still a question that many research and debate. From the perspective of the *Transatlantic Consensus*, many view economic inequality in developed nations as simply a side effect of globalization. This study argues and supports that the *Transatlantic Consensus* does not go far enough in explaining the factors that contribute to economic inequality.

Based on the results of this study, there is evidence that support the perspective that representative forms of democratic institutions have an impact on income inequality. Furthermore, the ratio of representatives compared to the overall population is shown to have a positive statistically significant effect on income inequality. The *Transatlantic Consensus*, represented by the industrial sector's composition of the economy, is found to have a negative statically significant effect on income inequality only when looking at the gross pre-tax Gini coefficient model. Thus, the results of this model find that the *Transatlantic Consensu*s is limited in its explanation of economic inequality and that political institutions' impact should be considered.

This study supports that representation, through democratic institutions, regulates economic inequality through redistribution and structural policy. Using this theoretical perspective, the study uses the composition of democratic government to seek out any factors

that connect economic inequality to democratic institutions or institutional structures. The

hypothesis follows that democratic institutions that are more representative of their constituents

will lead to lower rates of economic inequality.

The result of the quantitative model used finds some variation in the results, some of

which support the overall hypothesis. However, it does find that the *Transatlantic Consensus*

does not go far enough in explaining economic inequality in developed nations. With statistically

significant results for the representative ratio, the presence of judicial review, presidential

systems, effective parties, single member districts, and women in the legislature, this study

confirms that there is more to the puzzle of current rates of economic inequality in the developed

world other than just economic shifts due to globalization.

<u>Larger Scope of the Results</u>

The original question, which lead to this study, was whether an increasing population

with a constant number of seats in the legislature would lead to less representation. As it stands,

the United States has the highest rate of economic inequality and the highest ratio between

national representatives and the general population. Are high economic inequality rates, or the

impact other societal factors, enough of a reason to ask to increase the number of

representatives?

For the past century the House of Representatives has maintained 435 members. Would

increasing the number of legislatures to 547 members, what is advocated by the Wyoming Rule

(a leading alternative), mean that economic inequality would be reduced? Based on this study,

there is evidence to support that a change of the United States representative ratio from 704,957 citizens to 560,614 citizens per representative in 2009 (still drastically higher than all of the countries used) would decrease economic inequality, *ceteris paribus*, by approximately 2.9 with a 32.84 net Gini coefficient to 4.5 with a 41.07 gross Gini coefficient.

<u>Limitations and Future Research</u>

This study offered support to an alternative explanation to the *Transatlantic Consensus*. There is the possibility for much more research and alternative explanations on this topic. Economic inequality, more specifically income inequality, is used as the dependent variable but other measures of economic inequality could be used as well as other social well-being indicators. Additional independent variables could be implemented to either support the current hypothesis of this study or offer another perspective on the same research design. Furthermore, analyzing representation institutions with different populations, such as sub-national governments, could lend another scope in which to view the question of different economic inequality rates. Lastly, using qualitative models to study case studies of newly autonomous states may offer additional clue about how representative institutions impact economic inequality and other social well-being indicators.

This study focused on economic inequality through the proxy variable of income inequality. I measured income inequality using the pre-and-post-tax measures of the Gini coefficient. Other measures of income inequality which could be used include the 20/20 ratio, the

Palma ratio and the Theil Index. Alternative measures of inequality would help to empirically

identify if results were consistent or varied with different dependent variables.

Other studies could use the level of government taxes, benefits, government regulation or

other institutions (such as minimum wages, labor conditions, etc.) as the dependent variable

instead of income inequality. Additional forms of economic inequality can be measured through

wealth inequality, education inequality, gender inequality, and wealth concentration. Studying a

different form of the dependent variable will help to support whether the impact of government

on inequality remains salient across different measurements or factors.

The study uses standard structural factors that are studied in comparative politics from an

institutional approach. Other independent variables may help to add additional layers of

explanation to new research. Factors such as ethnic fractionalization, trade flows due to

globalization, the level of corruption, rates of unionization, and other relevant variables may help

to explain the differences between the *Transatlantic Consensus* and this studies explanation of

economic inequality. Furthermore, the use of the institutional constraints index separated into its

separate parts (European Union membership, federalism, difficulty of constitutional

amendments, level of bicameralism, referendum frequency, central bank autonomy) may help to

understand each component's relationship to economic inequality.

This study used national macro-data that has the potential of over-generalizing the

dynamics of economic inequality and representative institutions. Using sub-national

governments and their district size would help to develop this study further. A cross-sub-national

government study using district size instead of the representative ratio would maintain some

similarities with regard to culture, national policies, and other factors but still offer variability in

economic inequality and the independent variables used. Applying this version of the study to multiple countries would be relevant in finding consistency the results of this study.

Lastly, this study's research design was based on a quantitative model in investigating economic inequality from the perspective of democratic representation with regard to electoral institutions. The use of a qualitative study may lend itself to gain a deeper understanding of the mechanisms at hand through the use of various case studies that illustrate changes. Researching case studies of different situations would help to explore the dynamics of economic inequality and institutional mechanisms. Examples that could be used include Switzerland's federal system and culturally diverse canons, Germany's post-Cold War unification, the United Kingdom's differing levels of sub-national autonomy, or the United States' state-by-state study.

APPENDIX A: FUNCTIONAL FORM OF THE MODEL

First, the form of the model's regression analysis is established, that is whether to use a fixed effects or random effects model when analyzing the panel data. In the literature, the fixed effects *xt* model is considered the best method for running large panel data, in our case 23 countries for 39 years with 11 independent variables (Beck & Katz, 1995; Clark & Linzer, 2012; Wilson & Butler, 2004). The fixed effects model is better suited for large data sets and often gives unbiased estimates of the coefficients. However, this method may often subject to higher sample-to-sample variability (opposed to the random effects method).

After applying the fixed effects model to the data, the Hausman test confirms that the fixed effects model is indeed the best method. The Hausman test describes, "…how significantly parameter estimates differ between" fixed effects and random effects (Clark & Linzer, 2012, p. 2). With a chi^2 of -7772.83, the test fails to meet the asymptotic assumptions of the Hausman test and thus I reject the null hypothesis where the error term is correlated with the regressors. With this rejection, I further support the use of fixed effects over random effects model (Clark & Linzer, 2012).

The modified Wald test is then used to find if heteroskedasticity, where the variance of error terms differs across units, is present in the model (Baum, 2001). The study finds that the fixed effect regression model does indeed have heteroskedasticity in the model. Through the modified Wald test, the fixed effects model rejects the null of homoskedasticity, or a constant variance, in the variables (Baum, 2001; Greene, 2000). Due to the presence of heteroskedasticity, the regression is ran as fixed-effects robust to account for the heteroskedasticity.

The final test of the data and model is to identify if there is cross-sectional dependence present with the dataset. For large panel data "…assuming that the disturbances…are cross-

70

sectionally independent is…inappropriate" (Hoechle, 2007, p. 282). Though the data used in this study all come from different countries, there is still the possibility for cross-sectional dependence where there are "…indicat[ions] that…panel datasets are likely to exhibit complex patterns of mutual dependence between cross-sectional units (e.g., individuals or firms" due to "…social norms and psychological behavior patterns…as unobservable common factors [and] complex forms of spatial and temporal dependence may even arise when the cross-sectional units have been randomly and independently sampled" (Hoechle, 2007, p. 282). The Pesaran CD (cross-sectional dependence) test is applied to find whether the data's residuals are correlated across panel sections. With a null result of zero, I can support that cross-sectional dependence does exist in the model.

The model then is found to be optimal as a fixed effects regression but due to heteroskedasticity a robust form must be applied. However, with cross-sectional dependence evident, the final version of the regression must be more elaborate to account for both heteroskedasticity and the cross-sectional dependence. Hoechle suggests the Driscoll and Kraay model (1998) that is a "…nonparametric covariance matrix estimator that produces heteroskedasticity- and autocorrelation-consistent standard errors that are robust to general forms of spatial and temporal dependence" (Hoechle, 2007, p. 282).

APPENDIX B: LIST OF COUNTRIES AND YEARS ANALYZED

1. Australia, 1970 - 2009
2. Austria, 1970 - 2009
3. Belgium, 1970 - 2009
4. Canada, 1970 - 2009
5. Denmark, 1970 - 2009
6. Finland, 1970 - 2009
7. France, 1970 - 2009
8. Germany, 1970 – 2009[4]
9. Greece, 1974 - 2009
10. Iceland, 1970 - 2009
11. Ireland, 1970 - 2009
12. Italy, 1970 - 2009
13. Japan, 1970 - 2009
14. Luxembourg, 1970 - 2009
15. Netherlands, 1970 - 2009
16. New Zealand, 1970 - 2009
17. Norway, 1970 -2009
18. Portugal, 1975 - 2009
19. Spain, 1977 - 2009
20. Sweden, 1970 - 2009
21. Switzerland, 1970 - 2009
22. United Kingdom, 1970 - 2009
23. United State of America, 1970 – 2009

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[4] Data until the end of 1990 are for the Federal Republic of Germany prior to reunification only. From 1991 onwards is all of Germany.

APPENDIX C: DATA SOURCES, CODING AND EXPLANATION

Effective parties legislature seats – number of effective parties in government based on the seats held in the national assembly according to Laakso and Taagepera (1979). Source: calculations by Armingeon et al. (2012).

Gross domestic product per capita – national gross domestic product divided by the national population. Source: UNdata.

Gross Gini coefficient – pre-tax-and-transfer income distribution across a country's population measured from 0 to 100. A higher number indicates higher income inequality. Source: Solt (2009).

Industrial sector –size of the industrial sector of the economy as a percentage of total civilian employment, calculated by civilian employment in industry (in thousands) divided by civilian employment (in thousands). Source: OECD (2010) via Armingeon et al. (2012)[5]

Institutional constraints index – institutional constraints on central state government. High values indicate larger constraints on central state governments. Composed of the sum of six dummy variables: European Union membership, degree of centralization of state structure or federalism, difficulty of amending constitutions, strong bicameralism, central bank autonomy, frequent referenda. Source: Beyeler (2007) and Schmidt (1996) via Armingeon et al. (2012).

Judicial review – dummy variable indicating the absence of judicial review (0) or presence of judicial review (1). Source: Huber et al. (2004) via Armingeon et al. (2012).

Net Gini coefficient – post-tax-and-transfer income distribution across a country's population measured from 0 to 100. A higher number indicates higher income inequality. Source: Solt (2009).

Presidential system – dummy variable indicating parliamentary system (0) or presidential/collegial executive (1). Source: Huber et al. (2004) via Armingeon et al. (2012).

Representative ratio – country's national population divided by the number of seats in the national legislature[6]. Source: national population from OECD (2012) via Armingeon et al. (2012); number of legislative seats from Gallagher (2014).

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[5] Belgium 1999-2009 based on Armingeon et al. (2012) estimated values.
[6] Data is taken for the lower house in bicameral systems.

Single member district – scaled dummy variable indicating proportional representation (0), modified proportional representation (1), or single-member, simple plurality system (2). Source: Huber et al. (2004) via Armingeon et al. (2012).

Voter turnout – percentage of voter turnout in election. Source: compiled by Armingeon et al. (2012).

Women in legislature – percentage of women in national legislatures[7]. Source: Inter-Parliamentary Union (1995); Inter-Parliamentary Union (1997); compiled by Armingeon et al. (2012).

Unemployment rate – national unemployment rate as a percentage of total civilan labor force. Source: OECD (2010) via Armingeon et al. (2012)[8]

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[7] Data is taken for the lower house in bicameral systems.
[8] Belgium 1999-2009 based on Armingeon et al. (2012) estimated values.

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