Factors Explaining Variations in Levels of Income Redistribution across Former Communist Countries

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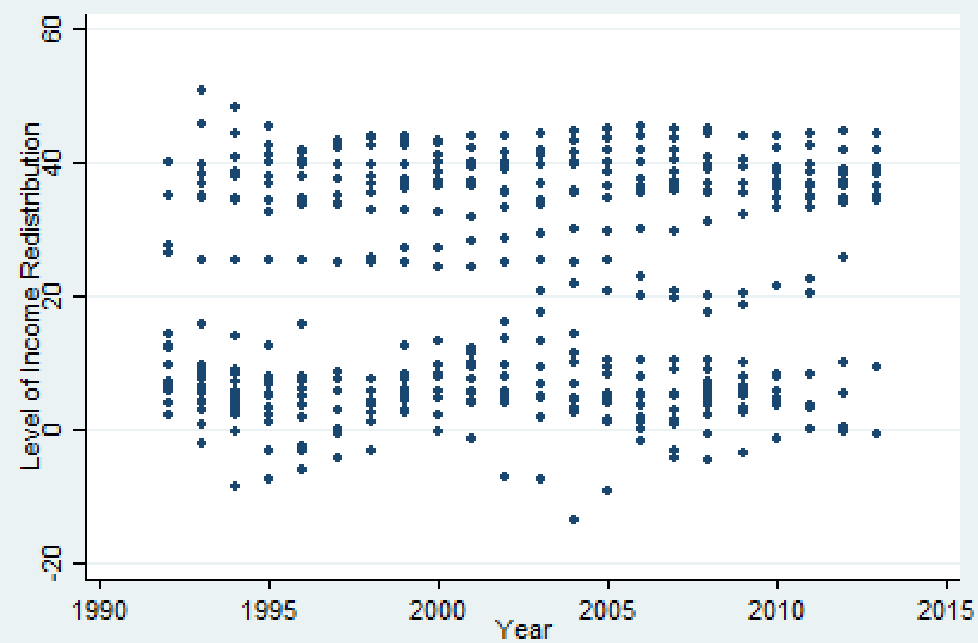
April 29, 2016

Introduction

The politics of income distribution and redistribution has been a key concern for scholars aiming to shed light on some of the core questions of political science: Who gets what and why? Much of the early theoretical work examining variations in income distributions across countries has argued that the distribution of power in a society determines both how the market shapes inequalities and how the state re-shapes marketplace inequalities through taxes and transfers (Korpi 1978; Stephens 1979). As data have become more available for advanced industrial democracies, scholars have begun to test and refine some of the early theoretical arguments explaining why income distributions vary across societies (see Bradley et al. 2003; Iversen & Soskice 2006; Korpi 2006; Iversen & Soskice 2009; Kenworthy & Pontussen 2005; Beramendi & Anderson 2008; Beramendi & Cusack 2008; Kenworthy & McCall 2008; Rodrik 1999; Moene & Wallerstein 2001). Much of this scholarship has found that countries with high union membership and long-standing left-wing governments typically implement redistributive policies that limit inequalities in society. Yet while this literature may explain variations in income distributions across developed democracies, it is unclear whether they apply to developing countries, where political parties and their ideologies are less rooted and where civil society organizations are less vibrant. What causes variations in distributional outcomes in the context of developing countries?

This paper aims to contribute knowledge on why income distributions vary in developing countries by focusing specifically on variations in levels of income redistribution across former communist countries. It is particularly unlikely that theories developed to explain variations in income redistribution across advanced industrial democracies apply to the post-communist context because of the ways that the communist legacy has affected both the development of political parties and civil society organizations. Tavits and Letki (2009), for example, find that across former communist countries, right-wing governments have increased spending on government programs to protect people from market forces, while left-wing governments have cut spending to distance themselves from the communist ideology. They conclude that parties' stated positions do not always match their behavior and that stated ideologies may match policies only in the context of Western democracies in the post-war period. Howard (2003) further finds that Central and Eastern Europeans are disinterested in joining civil society organizations partly because of their distrust of organizations has carried over from the communist period. His research implies that union membership may not be a key factor driving variations in redistributive policies across former communist countries because civil society membership is relatively low across all countries.

Figure 1. Variations in Income Redistribution across Former Communist Countries



Former communist countries offer a useful context for examining what causes variations in levels of income redistribution because the countries share similar histories under communism and have varied considerably in their levels of redistribution since communism's collapse. Figure 1 shows the variation in levels of income redistribution, measured by the percentage change in the Gini coefficient after of taxes and government transfers. Some countries, like Slovenia and the Czech Republic, have maintained comparatively high levels of income redistribution that resemble some Scandinavian countries, known for their highly egalitarian societies. Other countries, like Macedonia and Kazakhstan, have implemented tax and transfer policies that have lead to higher levels of inequality than what the societies experience in the marketplace. Because all of these countries experienced a similar history of communist political and economic institutions, it is unlikely that the communist legacy can explain the variation. How then can we explain this cross-country variation? What aspects of the countries' political, economic, and social development since communism's collapse explain the variation in redistribution levels?

Studying income redistribution trends in former communist countries can help shed light on how varying political, economic, and socio-demographic contexts since communism's collapse shape economic inequalities. Communism's collapse was followed by both an economic transition to market institutions as well as a political transition marked by political sovereignty from the Soviet Union. Both the political and economic transitions have produced very different outcomes across Eastern Europe and Eurasia. Although all countries in the region experienced economic decline after the communist regime's collapse (Milanovic 1995), some rebounded relatively quickly and grew their economies well beyond the size of the former communist economy. The size of the economy in other countries remains similar to, or even smaller than, the size of the economy under communism. Further, while some countries in the region established democratic political structures and institutions, others transitioned from one authoritarian regime to another or established hybrid regimes with a mixture of democratic and authoritarian characteristics (Diamond 2002). Finally, some countries began the transition with an ethnically homogeneous population, while ethnic heterogeneity in other countries prompted conflict, which sometimes turned violent, over the meaning of national membership. The variation in political, economic, and socio-demographic contexts in the region may offer a better understanding of how different development contexts shape income distributions.

Furthermore, by specifically investigating how different political contexts shape levels of income redistribution, this paper aims to contribute to the comparative welfare state literature arguing that "politics matters." This literature has found that politics shapes social welfare largely by determining the shape of government expenditures and how these expenditures are turned into distributive outcomes (Cook 2007; 4). It consequently argues that social policy cannot be reduced to economic determinism or the modernization process, but instead depends on a variety of political variables (Bradley et al. 2003; Haggard & Kaufman 2008). Studying how variations in levels of income redistribution are associated with varying political contexts across former communist countries provides an ideal opportunity to advance the literature on how politics matters for social welfare in developing countries.

In what follows, I review the literature on factors that may cause variations in levels of redistribution. Then, I discuss my data and findings. In the conclusion, I discuss the implications of my findings for the comparative welfare state literature on developing countries.

Factors affecting redistribution in former communist countries

Under communism, states in Europe and Eurasia shared similar welfare state structures that centered on the state's role in guaranteeing employment, providing social services, and subsidizing prices for goods and services (Cook 2007). When the communist regime collapsed, however, states gained political sovereignty from the Soviet Union and were free to structure their economies independently. The transition to the market economy deeply challenged the welfare systems in Eastern Europe and Eurasia. People became vulnerable to market forces, which increased the demand for welfare services. At the same time, contributions to the state welfare budgets decreased significantly as a result of mass unemployment, a growing shadow economy, and easy availability of early retirement and disability pensions (Szikra & Tomka 2009).

Although there is a tendency in the literature to group countries in Europe and Eurasia into a single category of “post-communist” or “post-Soviet”, the countries have responded to the challenges of building new welfare states differently. Countries’ responses have also varied over time. For example, in Hungary, the socialist-liberal coalition government of the mid-1990s implemented an austerity package that significantly curtailed social benefits. The conservative government that took power after 1998 cancelled several of the liberal measures and reintroduced universal family allowance. It also revised the pension law to ensure more revenue in the public pension fund. After 2002, the new socialist-liberal coalition embarked on minor liberal reforms to respond to a perceived need for liberal welfare state transformation (Szikra & Tomka 2009, 29). The volatility in the Hungarian welfare state contrasts with the relative stability of the Czech welfare state, which matured early in the transition and turned out to be much more resilient and generous (Inglot 2009, 93). The variations in welfare state developments have lead several Eastern Europe and Eurasia scholars to argue that unlike many developed Western countries, post-communist states cannot be classified into distinct types of welfare state regimes (Hacker 2009; Haggard & Kaufman 2008; Vanhuysse 2009; Cerami 2006; Inglot 2009; Szikra & Tomka 2009). Instead, it is important to investigate how and why countries that share a similar history of state socialism have diverged considerably in their social policies since the communist regime's collapse.

Democracy

In their seminal work, Meltzer & Richards (1981) theorized that democracy reduces inequality by empowering the median voter to demand redistributive policies and by incentivizing governments to respond to the median voter's demands. Levels income redistribution should consequently be higher and levels of inequality should be lower in democracies. However, there is considerable debate in the literature about the actual relationship between democracy, inequality, and redistribution (Lee 2005, 158; Acemoglu et al. 2013). In cross-national studies, some scholars have found that democracy reduces inequality (Cutright 1967; Muller 1985, 1988; Reuveny & Li 2003; Lee 2005) or that there is a curvilinear relationship between democracy and inequality (Simpson 1990; Nell 2008). In investigating the relationship between democracy and social spending, several scholars have also found that democracy is positively associated with various forms of social spending, including education, health, social security, or welfare spending (Kaufman & Segura-Ubiergo 2001; Huber & Stephens 2012; Brown & Hunter 1999; Persson & Tabellini 2003; Ansell 2010). However, others have found that there is no meaningful relationship between inequality and democracy (Bollen & Jackman 1985, 1989; Weede 1989) or between democracy and social spending (Gil et al. 2004). In describing the debate about the relationship between democracy, redistribution, and inequality, Acemoglu et al (2013) conclude that democracy's effect may vary across different contexts.

Although there is relatively little research on democracy's effect on income redistribution across former communist countries specifically, I argue that democracy may have affected levels of redistribution through two primary mechanisms. First, democracy may have affected levels of redistribution by giving citizens opportunities to voice their demands for redistributive policies and by holding officials accountable for responding to their demands. Cook (2007) compares welfare states in Russia, Belarus, Kazakhstan, Poland, and Hungary and finds that democratic representation and bargaining in Poland and Hungary has played an important role in maintaining welfare expenditures and moderating liberalization. She also finds that the unity and concentration of executive power are key factors in welfare state restructuring (see also Haggard & Kaufman 1995). Because democratic states have more veto players who can express demands for redistributive policies, they are less likely to implement welfare retrenchment policies than states with highly concentrated executive power (Pierson 2001).

Voice and accountability may be particularly important for ensuring high levels of redistribution among ethnically heterogeneous states. Post-communist developments in Eastern Europe and Eurasia have been marked by the salience of ethno-nationalist movements (Calhoun 1993). In some countries, ethnic conceptions of national identity have been used to exclude national minorities from citizenship rights. In Latvia and Estonia, for example, ethnically based citizenship laws have excluded large portions of the Russian minority population from political decision making (Smith et al. 1998). Several scholars have linked ethno-nationalism to high levels of inequality. Bandelj and Mahutga (2010), for example, argue that ethno-nationalism has led to higher levels of inequality in Central and Eastern Europe by excluding national minorities from political and economic institutions. We should expect relatively low levels of redistribution in ethnically heterogeneous societies if ethnic minorities do not have sufficient political power to demand redistribution.

In addition to motivating greater redistribution by holding elected officials accountable to popular demands for redistributive policies, democracy may also lead to higher levels of redistribution by ensuring a strong state and the rule of law[1]. Redistributive policies ultimately require a strong state to raise the tax revenue necessary to fund welfare programs (Haggard & Kaufman 2008, 356). A strong state and the rule of law are also necessary to ensure that tax revenues support social welfare programs instead of elite special interests. For example, You and Khagram (2005) find that levels of inequality are typically higher in states without the rule of law because in these states, elites can frequently use public resources for private economic gain. The use of public resources for private gain may be particularly problematic in former communist countries, where politicians have used their political standing to acquire state assets during the privatization process (see Staniszkis 1991; Markus 2015). By ensuring the rule of law, democratic states can safeguard public resources for public use, thereby ensuring that state revenues fund social programs.

Ethnic Heterogeneity

Ethnic heterogeneity may also have an independent effect on the level of income redistribution. Scholars investigating support for redistribution have found that ethnic heterogeneity correlates negatively with popular support for redistribution (Alesina and Glaeser

[1] Bunce (2000) argues that a strong state is necessary for democratization because a strong state is needed to guarantee the rule of law. A democracy cannot have a divergence between law and informal practice; there must be certainty about the rules and procedures even if there is uncertainty about the outcome of electoral contestation. Linz and Stepan (1996) similarly point to both a functioning state and the rule of law as two arenas of a consolidated democracy.

2004; Mau and Burkhardt 2009; Senik et al. 2009; Eger 2010). The titular ethnic group may be less likely to demand redistributive policies from their governments because they may believe that social programs will primarily benefit ethnic minorities. In ethnically heterogeneous states, there may therefore be insufficient demand for redistributive policies from the majority ethnic group. Ethnic heterogeneity may also affect the supply of redistributive policies. Alesina, Baqir, and Easterly (1999) show that ethnic heterogeneity is negatively related to the share of local government spending on welfare.

The association between ethnic heterogeneity and low levels of redistribution may be particularly strong in former communist countries with a large Roma population. The Roma minority has been particularly stigmatized in Eastern Europe as they have undergone a process of racialization, "the process of turning cultural distinctions based on social differences into cultural distinctions based on physical differences" (Emigh and Szelenyi 2001: 4-5). The privileged ethnic group may use a strategy of racialization to keep itself out of poverty and to differentiate itself from the Roma "underclass" (Emigh and Szelenyi 2001). Although democratic structures and rights might offer some redress to the Roma minority, scholars have found that democratization may not offer sufficient political power for the Roma. For example, Barany (2002) finds that the Roma frequently exhibit low levels of political mobilization because they lack "mobilizational prerequisites", including strong ethnic identity and solidarity (see also Pogany 1999), good leadership, and resources. Pogany (2006) further argues that minority rights regimes have had a marginal impact on the Roma minority's political participation.

Foreign Direct Investment

The communist regime's collapse and the market liberalization that followed offered considerable opportunities for foreign capital to penetrate into Eastern Europe and Eurasia (Borocz 2001). Governments implemented a variety of policies that aimed either to attract or limit foreign investors (Bandelj 2008; Bandelj 2009). For example, some governments implemented policies to facilitate foreign ownership during the privatization process while others implemented policies to restrict or limit foreigners from acquiring state assets (Stark & Bruszt 1998). Scholars have pointed to a relationship between foreign direct investment (FDI) and levels of income inequality (Bandelj & Mahutga 2010; Beer & Boswell 2002; Bornschier & Ballmer-Cao 1979; McMichael 1996; Aitken, Harrison, & Lipsey 1996; Moran 2002), but there is relatively little research investigating the relationship between FDI and levels of income redistribution.

Much of the research investigating the relationship between FDI and redistributive policies has focused broadly on government spending. Garret and Mitchell (2001), for example, measure the impact of FDI on the welfare state in OECD countries. They find that FDI is not associated with lower levels of government spending on public programs. However, FDI is significantly positively associated with higher rates of capital taxation. Contrary to expectations that FDI would move to locations with lower tax rates, they argue that FDI tends to move to higher tax locations because taxes fund collective programs, such as education, from which foreign firms may benefit. Their findings consequently suggest that there may be a positive relationship between FDI and levels of income redistribution. However, other researchers have pointed to an insignificant relationship between FDI and particular types of welfare spending. Huber, Mustillo, and Stephens (2008), for example, find that FDI is not significantly associated with either social security and welfare spending or health and education spending in Latin American countries.

Economic Shocks

In contrast to theories that integration into global markets is a key driver of tax and transfer policies (see Bretschger & Hettich 2002; Rodrik 1997, 1998; Swank & Steinmo 2002; Cameron 1978; Katzenstein 1985; Garret 1995, 1998; Hicks & Swank 1992; Huber & Stephens 2001; Quinn 1997; Swank 1998), some scholars argue that tax and transfer policies are primarily driven by domestic economic factors (Kittel & Winner 2005; Kittel & Obhinger 2003; Castles 2001). Prasad & Gerecke (2010) analyze data from after the 2008-09 global financial crisis and find that the crisis played a key role in motivating governments to increase spending on social welfare in order to combat economic hardship. Park (2008) similarly finds that during the East-Asian financial crisis, Korea increased automatic stabilizers, extended pensions, and increased social assistance and health care benefits.

However, the effect of changes to the domestic economy may be somewhat dependent on development context. Many scholars have observed that developing countries typically implement procyclical fiscal policies, whereby countries cut taxes and spending on welfare benefits (Gavin & Perotti 1997; Ilzetski & Végh 2008; Kaminsky et al. 2004; Lane 2003; Lee & Sung 2007; Talvi & Végh 2005; Thornton 2008). The procyclical fiscal policies in developing countries may arise in part because unlike wealthier developed countries, developing countries cannot borrow to fund welfare programs in times of crisis (Prasad & Gerecke 2010, 229). In the post-communist context, it is therefore possible that economic shocks may lead to lower levels of income redistribution.

Data and Methods

Sample

I use longitudinal data from 26 former communist countries[2], which represent all former communist countries where data are available. The analysis covers the time period from 1992 to 2013, which represents the period following the Soviet Union's collapse until the most recent point at which data on levels of income redistribution are available. The sample includes countries with varying levels of democratization, economic development, and demographic characteristics, which is ideal for understanding what may account for varying levels of income redistribution. Due to data availability, the data set has an unbalanced panel structure, with a different number of observations over time for each country. It includes a total of 423 observations, with an average of 16 observations per country during the 22-year period.

Variables

The four hypotheses tested are that levels of income redistribution are associated with 1) democratization, 2) ethnic heterogeneity, 3) foreign direct investment, and 4) economic shocks. Table 1 summarizes the independent variables included in the analysis.

Table 1: List of variables included in the analysis

Variable	**Description**	**Mean (SD)**
Dependent Variable		
Level of Income Redistribution	The level of income redistribution is measured as the percent reduction in inequality after taxes and government transfers. It is calculated as the difference between net (post-tax, post-transfer) and market inequality (pre-tax, pre-transfer), divided by the market	18.498 (16.579)

[2] Countries include: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russian Federation, Slovakia, Slovenia, Serbia, Tajikistan, Ukraine, and Uzbekistan.

	level and multiplied by 100. The data come from Frederick Solt's (2009) Standardized World Income Inequality Database (SWIID), which records both the level of market inequality (pre-tax, pre-transfer) and net inequality (post-tax, post-transfer). Solt standardizes inequality data from several major cross-national inequality databases, the national statistical offices of countries around the world, and dozens of scholarly articles to ensure that data are comparable both across countries and over time. The coverage and comparability of the SWIID far exceeds those of other databases, making the SWIID ideal for this analysis (see Solt forthcoming).	
Independent Variables		
Democratization	Democratization is measured as the Polity IV Project's revised combined Polity score. A country's Polity score for a given year is the difference between its Democracy and its Autocracy score. The Polity IV Project conceives of democracy through three interdependent elements: 1) the presence of institutions and procedures trough which citizens express preferences about policies and leaders, 2) the existence of institutionalized constraints on executive power, and 3) the guarantee of civil liberties. Democracy is then operationalized on an eleven-point scale (0-10) that measures the degree of competitiveness of political participation, the openness and competitiveness of executive recruitment, and constraints on the chief executive. Autocracy is conceived as a regime that sharply restricts or suppresses competitive political participation and that has a chief executive chosen from the political elite that exercises power with few institutional constraints. It is operationalized on an eleven point scale (0-10) that measures the competitiveness and openness of executive recruitment, constraints on executive power, regulation of participation, and competitiveness of participation (see Marshall et al. 2013).	4.5 (6.257)
Ethnic Heterogeneity	Ethnic heterogeneity is operationalized as the size of a country's ethnic minority population. It is measured as the percent of a country's population that are non-national minorities. Data come from the Ethnic Power relations (EPR) Core Dataset, which tracks the size of politically relevant ethnic groups over time. An ethnic group is politically relevant if either 1) one significant political actor claims to represent the interest of that group in the national political arena or 2) group	20.639 (13.269)

	members are systematically and intentionally discriminated against in the domain of public politics[3] (see Vogt et al. 2015).	
FDI	FDI is measured as the size of a country's FDI inflow as a percentage of GDP. Data are reported by the World Bank.	4.885 (6.108)
Economic Growth	Economic growth is measured as the percent change in GDP from the prior year. Negative values reflect economic decline. Data are reported by the World Bank.	2.441 (7.966)
Unemployment	Unemployment is measured as the share f the labor force that is without work, but is available for work and is seeking employment. Data are based on the International Labor Organization (ILO) estimates, as reported by the World Bank (2016).	11.624 (6.205)
Controls[4]		
GDP per capita	GDP per capita is measured in constant prices (2005) and constant exchange rates (2005). Data come from UNCTAD (2016).	5030.604 (5451.347)
Education	Education is measured as the percent of the youth population of corresponding ages enrolled in secondary education. Data are from the World Bank.	91.327 (8.474)
Female labor force participation	Female labor force participation is the proportion of the working-age female population that is economically active. Data are based on ILO estimates, as reported by the World Bank.	51.910 (5.690)
Age dependency ratio	The age dependency ratio is measured as the ratio of dependents (people younger than 15 or older than 64) to the working age population (those between 15-65). Data are reported by the World Bank.	51.058 (10.403)
Market inequality	The market level of inequality is the pre-tax, pre-transfer level of inequality. Data come from the SWIID.	40.461 (7.644)
Violent Conflict	The presence of violent conflict is measured as a binary variable indicating whether there were at least 30 battle deaths in a country in a given year. Data are reported by the World Bank.	.094 (.292)

[3] A significant political actor refers to a political organization that is active in the national political arena (not necessarily a party). Discrimination is defined as political exclusion directly targeted at an ethnic community.

[4] Control variables come from Bradley et al's (2003) research on factors affecting income redistribution in OECD countries. Several of the control variables from Bradley et al. were omitted due to lack of data availability in former communist countries. These include vocational education, industrial employment, net migration, and single-mother families. Bradley et al. also control for several indicators of globalization, which I take into account by including FDI in the model, wage dispersion, which I take into consideration by including the market level of inequality as a control, and size of the youth population, which I take into consideration by including the age dependency ratio. Neither the time trend nor presence of conflict are controlled for in Bradley et al.

Time	A time trend is included to de-trend the data and correct for non-stationarity. The trend is measured so that 1992=1, 1993=2, etc.	11.034 (5.932)

Pooled cross-sectional time series analysis

To examine what accounts for variations in levels of income redistribution across countries and over time, it is necessary to pool the individual countries' time series. However, pooling the data leads to coefficient standard errors that are smaller than those that would be obtained with independent data. There are several econometric techniques to correct for the biased standard error. In political science, one common approach is to use panel corrected standard errors (PCSE) (see Beck and Katz 1995; Beck 2001). In sociology, many scholars using time series cross-sectional data use either random effects (RE) or fixed effects (FE) model specifications (Halaby 2004). The fixed effects model is particularly conservative because it controls for all cross-country variation that is not included in the model.

To test the robustness of my results, I report both a PCSE model specification (with AR (1) correlation to capture the autoregressive process) and a fixed effects model specification. I do not report results from a random effects specification because a Hausman test suggests that the random effects model is inappropriate for the data. The analyses were conducted using the Stata 13 statistical package.

Results

The findings from the pooled cross-sectional time series analysis are reported in Table 1. Some variables' association with income redistribution depends on the modeling techniques. FDI, for example, is significantly and negatively associated with levels of income redistribution under the PCSE model, but it does not have a significant relationship under the FE model. While FDI may be negatively associated with levels of redistribution, it is ambiguous whether the relationship is significant.

Table 2. Factors predicting levels of income redistribution

Variable	Model 1 PCSE	Model 2 FE
Independent Variables		
Democracy	.414**	.160*
	(.099)	(.082)
FDI	-.058*	-.020
	(.025)	(.038)
Ethnic Heterogeneity	-.209**	N/A
	(.030)	
Unemployment	-.118	.053
	(.070)	(.067)
Economic Growth	-.022	.006
	(.028)	(.027)
Controls		
GDP per capita	.0009**	.0001
	(.000)	(.000)
Education	.079	-.020
	(.047)	(.038)
Female labor force participation	-.196**	.159*
	(.073)	(.072)
Age dependency ratio	-.141*	-.118
	(.072)	(.065)
Market inequality	.773**	.430**
	(.065)	(.054)
Violent Conflict	-.407	1.624
	(.793)	(.861)
Time	-.717	-.110
	(.144)	(.085)
Constant	4.269	1.314
	(8.680)	(6.262)
R^2	0.602	0.519

* $p \leq .05$; ** $p \leq .01$

Both the PCSE and FE models yield similar results for the effect of economic shocks on levels of redistribution. Under both models, unemployment and economic growth are not significantly associated with levels of income redistribution. The sample includes data from two key periods of economic crisis in former communist countries—the economic crisis following communism's collapse and the 2008 global financial crisis. These findings suggest that the level of redistribution is not associated with economic cycles and that the economic downturns of the early 1990s and late 2000s did not significantly shape redistributive policies.

Because the level of ethnic heterogeneity did not change from year-to-year in almost all of the countries, it is not possible to include ethnic heterogeneity in the fixed effects model. Doing so would result in nearly perfect collinearity with the country fixed effects. However, the relationship between ethnic heterogeneity and levels of income redistribution reaches a very high level of statistical significance under the PCSE model, suggesting that there is a significant negative association between ethnic heterogeneity and income redistribution. The significant negative relationship implies that ethnic minorities may be disadvantaged in receiving social welfare benefits in many post-communist societies, even when controlling for the effect of democracy. Although democracy may ensure that ethnic minorities have the same rights to receive social welfare benefits as members of the dominant ethnic group, democracy does not appear to eliminate ethnic minorities' vulnerabilities. If members of the dominant ethnic group do not demand redistributive policies from the government because they believe that much of the redistribution would benefit ethnic minorities, then it is unlikely that governments will implement redistributive policies. Thus, it appears that while democracy can ensure equality and legal protections for ethnic minorities, it is not sufficient in guaranteeing protection from economic inequality.

Finally, the models demonstrate consistent results on the association between democracy and income redistribution. In both the fixed effect and the PCSE model, democracy is a significant predictor of higher levels of income redistribution. This finding lends support to the "politics matters" literature, showing that while economic conditions are not significantly associated with levels of income redistribution, democratic political institutions are significantly associated with higher levels.

Although the results from Table 2 show a clear relationship between democratization and levels of redistribution, the mechanisms through which democracy may affect levels of redistribution are unclear. Marshall et al. (2013) define a mature democracy as one in which "a) political participation is unrestricted, open, and fully competitive[5]; b) executive recruitment is elective[6]; and c) constraints on the chief executive are substantial[7]."[8] In constructing the Polity index, they identify three components of democracy: 1) competitiveness of political participation, 2) the openness and competitiveness of executive recruitment, and 3) constraints on executive power. Which of these three regime components plays the strongest role in affecting levels of income redistribution?

To answer this question, Table 3 reports results from a residual analysis, which helps to determine how much individual variables contribute to the overall explained variance in levels of income redistribution across the sample. First, models are analyzed with each of the three regime components included, in addition to the other variables included in the analyses for Table 2. Second, one of the regime characteristic variables is removed from the model and the predicted level of redistribution without it is estimated. Third, the difference between the observed level of income redistribution and the predicted is estimated for all cases. The values for the differences

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[5] Political competition is measured by "1) the degree of institutionalization or "regulation" of political participation and 2) by the extent of government restriction on political competition." (Marshal et al. 2013, 23)

[6] Elective executive recruitment is measured as whether the recruitment of the chief executive is open to the politically active population, whether candidates for executive office have equal opportunities, and whether there are established modes for selecting the chief executive.

[7] Constraints on the executive refers to "the extent of institutionalized constraints on the decision-making powers of chief executives, whether individuals or collectives. Such limitations may be imposed by any "accountability groups." (Marshal et al. 2013, 22)

[8] Marshall et al. note that there may be other characteristics of plural democracy, such as the rule of law, systems of checks and balances, freedom of the press, etc. However, these are either means to or specific manifestations of competitive political participation, open executive recruitment, and constraints on the chief executive.

are then squared and summed to a value showing the error of omitting the regime characteristic from the model. Greater values consequently indicate greater error in omitting the variable and a greater contribution in explaining levels of income redistribution.

Table 3. Residual analysis

Variable	PCSE Model	FE Model
Political competitiveness	27816.13	82845.41
Elective executive recruitment	29111.59	85601.51
Executive power constraints	28679.66	84353.51

Results from the residual analysis suggest that the degree to which executive recruitment is elective is the most important democratic regime characteristic in shaping levels of income redistribution. I suspect that elective executive recruitment may be particularly important for producing high levels of redistribution because the threat of losing executive office may motivate executives to implement redistributive policies. If executive recruitment is elective, then executives will face electoral incentives to respond to popular demands for redistributive policies to reduce inequality. By contrast, if there are few electoral constraints on executives, then they will not face considerable incentives to implement redistributive policies. Holding executives accountable for redistributive policies may consequently be a key mechanism through which citizens in democratic states are able to secure relatively high levels of redistribution.

Conclusion

This paper aims to contribute knowledge on what accounts for varying levels of income redistribution in the post-communist context. Although some scholars have linked economic crises to high levels of social welfare spending, I find that fluctuations in levels of economic growth or unemployment are not significantly associated with levels of income redistribution.

Economic shocks therefore do not appear to be a key factor driving redistributive policies. I find some support to suggest that integration into global financial markets affects levels of redistribution. Using a PCSE model, I find that the level of FDI is significantly and negatively associated with income redistribution. Governments aiming to attract FDI may adopt lower corporate tax rates, which may then reduce the revenue needed to implement social welfare policies. However, these findings are not robust and should be subject to further research; a fixed effects model shows no significant association between levels of income redistribution and FDI. The relationship between ethnic heterogeneity and income redistribution further appears to be ambiguous. While a PCSE model suggests that an ethnically heterogeneous population is significantly associated with low levels of redistribution, a fixed effects model suggests that there is no significant relationship.

Across both model specifications, democratization is positively and significantly associated with income redistribution. The relationship appears to be particularly robust, as it maintains its significance even when controlling for all cross-country variation. In investigating the mechanisms through which democracy may affect levels of redistribution, I find that the degree of elective executive recruitment is particularly important. I argue that elective recruitment may be particularly important because electoral incentives may motivate executives to implement redistributive policies. Thus, in democratic countries, executives may be more likely to respond to popular demands for redistribution because they can be removed from office.

These findings contribute to the literature on “politics matters” by demonstrating that political institutions are a key factor explaining varying levels of income redistribution. Democratic political institutions appear to be the most important factor in shaping the level of income redistribution across former communist countries. This is particularly important as redistributive policies have important implications for the level of economic inequality. If democratization is associated with higher levels of redistribution across former communist countries, then it is likely that democracy may also be linked to lower levels of economic inequality. Thus, it is important for future research to consider how the transition to political democracy has shaped economic inequalities in Eastern Europe and Eurasia since communism's collapse.

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