

THE EFFECTS OF POLITICAL REGIME TYPE ON INCOME INEQUALITY

A COMPARATIVE ANALYSIS OF CHINA AND BRAZIL

by

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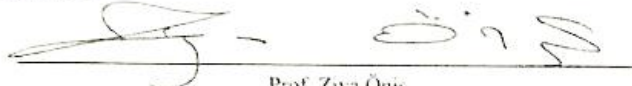
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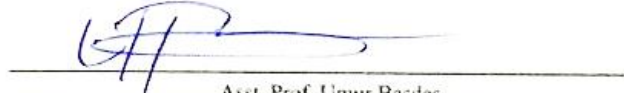
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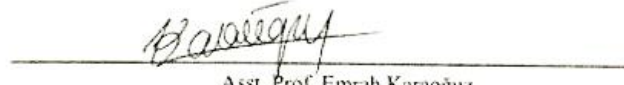
Eralp Yazar

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Abstract

This study aims to analyze the impact of political regime type on income inequality through a comparative case analysis of Brazil and China. While Brazil, as a democratic country, was on a path to reduce relative income inequality steadily since the regime transition, China, as an authoritarian country, exhibited a completely opposite trend during the same time period. Considering these two countries' different political regime types and relative income inequality transformation, the main question of this study has been come up: How and to what extent political regime types affected the income distribution in these two countries? It is anticipated by the relevant literature that democratic regimes would lead to more progressive redistribution and less inequality compared to authoritarian regimes. Reviewing the concepts of political regime type and income inequality separately and revisiting the main theoretical considerations about the relationship between these two variables, this thesis will try to answer to what extent and how political regime type affected income inequality in both countries.

SIYASI REJİM TÜRÜNÜN GELİR EŞİTSİZLİĞİNE ETKİSİ:

ÇİN VE BREZİLYA KARŞILAŞTIRMALI ANALİZİ

Eralp Yazar

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Özet

Bu çalışma, siyasi rejim türünün gelir eşitsizliği üzerindeki etkisini Brezilya ve Çin üzerinden karşılaştırmalı vaka analizi yöntemiyle incelemeyi amaçlamaktadır. Demokratik bir ülke olan Brezilya, rejim geçişinden bu yana istikrarlı bir şekilde göreceli gelir eşitsizliğini azaltma yolunda ilerlerken, otoriter bir ülke olan Çin, aynı dönemde tamamen karşıt bir eğilim sergilemiştir. Bu iki ülkenin farklı siyasi rejim türleri ve göreceli gelir eşitsizliği dönüşümleri göz önüne alındığında, bu çalışmanın ana sorusu ortaya çıkmaktadır: Siyasi rejim türleri bu iki ülkede gelir dağılımını nasıl ve ne ölçüde etkilemiştir? İlgili akademik yazın tarafından, demokratik rejimlerin otoriter rejimlere kıyasla daha ilerici yeniden dağıtım politikalarına ve daha az eşitsizliğe yol açacağı öngörülmektedir. Siyasi rejim türü ve gelir eşitsizliği kavramlarını ayrı ayrı gözden geçirerek ve bu iki değişken arasındaki ilişkiye dair temel teorik düşünceleri yeniden ele alarak, bu tez siyasi rejim türünün her iki ülkede gelir eşitsizliğini nasıl ve ne ölçüde etkilediğini cevaplamaya çalışacaktır.

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CHAPTER 1

INTRODUCTION

Economic inequality has become one of the defining global challenges of our time, and turned into a topic that social science literature and international organizations have increasingly paid attention in recent years (United Nations, 2016). Instead of generous welfare state policies of the post-World War II era, neoliberal policies (Smith, 2019) --which tend towards free-market capitalism and away from government spending, regulation, and public ownership by transferring the control of economic factors to the private sector and minimizing the state intervention in economic and social affairs-- have become the norm adopted by most developed countries across the western world since the late 1970s and early 1980s (French & Lymburner, 2017). Therefore, we have witnessed the fall of the welfare state, and later, the rise of economic inequalities in these developed countries for nearly four decades (Goda, 2016).

Prominent international organizations such as the World Bank, OECD, and Oxfam have published various in-depth reports on the increasing economic inequalities in recent years. Thomas Piketty's book *Capital in the Twenty-First Century* (Piketty, 2013) which focuses on wealth and income inequality in Europe and the United States since the 18th century, reached the status of a bestseller even though it is actually an academic work in nature. Moreover, some academics (Pastor & Veronesi, 2018; Piketty, 2018) have built a direct link between the recent wave of democratic recession in advanced democracies of the global north and the rising economic

inequalities, marking the fall of the existing global order (Buruma, 2016) and the rise of a new global order. All these developments prove that economic inequality is a significant issue that people increasingly pay attention to.

As developed countries of the West have been struggling with growing inequality levels and threats against the established liberal democratic order; emerging powers of the global south, on the other hand, have exhibited a more complex and diversified picture compared to advanced democracies of global north. Following the global financial crisis, emerging powers have intensified their efforts to translate their increased share in the distribution of economic resources to a higher share in the distribution of political power among countries. Thus, they aimed to reform global governance and change the existing global order for a more democratic system under the collective leadership of multiple actors (Wade, 2011; Narlikar & Kumar, 2012; Kahler, 2013).

Jim O'Neill (2001), who was then a global economist at Goldman Sachs, suggested the term "BRIC" to define four emerging countries - Brazil, Russia, India, and China - that can challenge the leading role of G-7 countries for the future of global governance and can take a major role in the transformation of the existing global order. Also, they were all developing countries and distinguished by their large, fast-growing economies and significant influence on regional and global affairs (Morazan et al., 2012). Giving common characteristics of the group, this acronym has gained major recognition in the academic literature.

Contrary to the homogeneity in the global north's developed countries, all of which have democratic regimes, the rising powers of the global south have an apparent diversity in terms of political regime typology. Among the BRICs, two countries drew my attention with their different political regime types and distinct opposite trends in terms of the evolution of income inequality levels based on the Gini coefficient, which measures relative differences between incomes, despite their similar economic development levels in terms of GDP per capita.¹

Since the relationship between economic development and income inequality is another major factor that academic studies have mostly focused on while researching on income inequality (Kuznets, 1955; Alesina & Rodrik, 1994; Persson & Tabellini, 1994), Brazil and China are convenient examples to analyze political regime type effect on income inequality with the fixed effect of economic development.

While Brazil, as a democratic country, was on a path to reduce relative income inequality steadily since the regime transition, China, as an authoritarian country, exhibited a completely opposite trend during the same time period. Considering these two countries' different political regime types and relative income inequality transformation, the main question of this study has been come up: How and to what extent political regime types affected the income distribution in these two countries?

¹ Based on the World Bank data in 2017, Brazil had \$9.821 GDP per capita and China had \$8.827 GDP per capita.

Brazil and China are two emerging countries which will be comparatively analyzed in this study. What makes these two cases, Brazil and China, interesting and convenient for a comparative analysis is their political regime types and income inequality trends that contradict each other.

Brazil was one of the most unequal societies prior to the democratization in 1985. The history of the country followed a very inconsistent route in terms of political regime type with military interventions, fragile democracies and authoritarian periods. Following the end of the military regime in 1985, the democratization process in Brazil went hand in hand with decreasing income inequality. According to the SWIID data, the Gini coefficient of income inequality in Brazil was more than 0.54 in the late 1980s. In the early 2010s, this rate reduced to 0.45 (Solt, 2019).

On the other hand, relative income inequality in Chinese society under the rule of an authoritarian regime has witnessed a massive increase during the same time period. Prior to the initiation of market economy reforms in 1978, China had one of the most equal societies in the world with a closed socialist economy. After the implementation of gradual economic liberalization reforms, economic inequalities in China have increased dramatically, especially beginning from the mid-1980s. The Gini coefficient of 0.28 in the early 1980s rose to 0.43 in the late 2000s, according to the SWIID data (Solt, 2019). This study suggests that such radical transformation in the distribution of income cannot be reduced only to the change of economic system, but the political regime type has been also effective, as it will be discussed in detail in this study.

The relationship between the political regime type and economic inequality has been a controversial topic that academic literature is far from reaching a consensus over. While some empirical studies reveal that democratization and democratic political regimes are associated with less inequality (Lindert 1994, 2004; Rodrik, 1998; Acemoglu and Robinson, 2000; Persson and Tabellini, 2003; Lapp, 2004), others could not find any significant relationship between democracy and the level of inequality (Perotti 1996; Gradstein and Milanovic, 2004; Scheve and Stasavage, 2009; Timmons, 2010). However, all these studies motivated from the same simple logic assuming that relatively equal distribution of political power in democracies compared to non-democratic regimes would lead to more equal distribution of economic resources.

Allan H. Meltzer and Scott F. Richard's seminal paper (1981) suggests a formal model based on the Median Voter Theorem which assumes that the median voter is the main actor who determines policies in democracies. Accordingly, the median voter in a democracy would demand more progressive redistribution if the initial level of income inequality is high. Therefore, the median voter would direct redistributive policies for a more equal distribution of income. Since Meltzer and Richard's pioneer work, many theoretical considerations have followed the same route by supporting the idea of democracy as a redistributive and equality promoting political regime (Wong, 2004; Huber and Stephens, 2012).

The core of this thesis rests on this assumption. Based on the hypothesis that suggests democratic political regimes have a negative effect on the level of income inequality, this thesis will try to answer to what extent and how political regime type affected income inequality in both countries.

Theoretical arguments this study is built on underline 'democracy effect' on income inequality. This study focuses on Brazil as the main case to test the impact of democratization and democratic political regime on income inequality. While the comparative analysis of China serves as a supportive case to understand the impact of democratic political regimes, it also provides an opportunity to analyze the impact of authoritarian political regimes on income inequality. In the comparative analysis of Brazil and China, fluctuations in the distribution of income will be analyzed from a historical perspective focusing on political developments in both countries and their reflections on economic and social policies, especially on redistributive policies.

In terms of methodology, cross-sectional regressions, time-series and panel data investigations with several different measures of the political regime type and income inequality are among various approaches that have been used in the previous literature which concentrated on the relevant issues. Comparing two specific cases in detailed case analyses with the standardized measurement tools, this thesis aims to make a further contribution to the existing literature by providing a different perspective on how and to what extent the different political regime types of these two countries affected redistributive policies and income inequality. In order to come up with a valuable answer to this question, I have conducted a comprehensive study that is based on the statistical data, the analysis of the secondary documents as well as the related literature review.

Income is a useful unit in the analysis of economic inequality, because the distribution of income reveals the effects of recent policies on the distribution of economic resources, unlike wealth inequality which has a snowballing effect that will be

explained later in the study. There are also many databases with large sets of data on income inequality with well-developed and standardized measurement methods. Considering all these factors that make income inequality a suitable indicator to measure the extent of economic inequalities in a society, it is not surprising that most academic studies on the issue have focused on income inequality.

Combining various disciplines in social sciences together and benefiting from statistical data and secondary documents, this thesis will build a causal mechanism between countries' political regime type and the evolution of income inequalities within the time period specified. Revisiting main theoretical arguments and testing them with empirical investigation, this thesis aims to make a further contribution to the academic literature.

This thesis is composed of six chapters. In order to conduct an explanatory and understandable research, it is very beneficial to clarify the meanings of the main concepts that will be used throughout the thesis. Thus, we can avert from misconceptions and misunderstandings. Therefore, this thesis' independent variable 'political regime type' will be explained in the first section of the second chapter. Because this thesis functions through the dichotomy of democracy and authoritarianism, this section will examine the characteristics of both regime types in subsequent categories. Moreover, this section will introduce two main datasets, namely the Freedom House and the Polity, in order to codify a country's political regime type.

In the second section of the second chapter, focusing on the concept of 'income inequality' as the dependent variable of the study, the characteristics and various dimensions of the concept will be explained. Moreover, the question of why income inequality is a problem that governments should tackle will be discussed. Based on this, this section will explore another important concept for this study, which is redistribution. Redistribution and redistributive policies are the main instruments that governments use to tackle economic inequalities. The last section of the chapter will introduce the basic methodology of income inequality measurement. The Standardized World Income Inequality Database (SWIID) is the main dataset that will be used in this study for a standardized and consistent measurement of income inequality in both countries.

In the third chapter, this thesis will revisit the main theoretical arguments and recent literature about the relationship between political regime type and economic inequality by emphasizing the impacts of the political regime type on economic inequality. This section will divide theoretical considerations into three different camps: Democracy as an equality-promoting and redistributive regime, Democracy as a failing political regime to reduce inequality, The approach of authoritarian regimes to income inequality and redistribution.

In the fourth and fifth chapters, this thesis will conduct an empirical investigation by analyzing the cases of Brazil and China using a comparative case study method. In the fourth chapter, the case of Brazil will be examined as an example of a democratic country which achieved to decrease income inequality following democratization. A brief description of the period before democratization will be followed by a historical

investigation to trace the evolution of income inequality in Brazil after the democratization. In the fifth chapter, the case of China will be examined as an example of an authoritarian country which has gone through a massive increase of income inequality in the same time frame.

Believing in the transparency of the boundaries between different branches of social sciences, I will try to adopt an interdisciplinary approach. Within the scope of this thesis, I will benefit from different sources from different social disciplines including political economy, international relations, political philosophy, economics, sociology, social policy and history to make a comprehensive study and strengthen my arguments. I hope that the diversity of the resources makes my thesis study both more informative and more explanatory by increasing its relevancy to the existing scholarly works.

CHAPTER 2

RETHINKING THE CONCEPTS OF POLITICAL REGIME TYPE AND INCOME INEQUALITY: CONCEPTUALIZATION AND MEASUREMENT

This thesis is basically built on the relationship between two variables: political regime type as the independent variable and income inequality as the dependent variable, based on the assumed link between the distribution of political power and of economic resources. Prior to the theoretical discussions trying to explain the relationship between these two variables and the empirical analysis trying to test the impact of political regime type on income inequality through the cases of Brazil and China, it is crucial to initially clarify the meanings of these variables for a more understandable and explanatory study. Providing a wider perspective about the concepts will provide more familiarity with further discussions and avert misconceptions for the rest of the study. To this end, this chapter defines the concepts of political regime type and income inequality separately. Also, measurement methodologies and the datasets that will be used in the study will be introduced in this chapter.

2.1 Rethinking the Concept of Political Regime Type

Political regime refers to the form of government or the set of political structures that makes up a state (Skaaning, 2006). Its most basic categorization divides political regimes into two types: democratic regimes and non-democratic or authoritarian regimes (Linz, 2000). Going beyond this binary categorization, some countries have ambiguous political regimes called hybrid regimes that cannot be simply described as democracy nor autocracy, stand in the grey zone between democracies and non-democracies (Diamond, 2002).

Regarding the issue of political regime typology, a country is generally classified according to how it is positioned on the spectrum of democracy. However, the main challenge of this classification is to explain what democracy is and what democracy is not. There is no consensus on what makes up a democracy and how to classify ambiguous political regimes (Diamond, 2002).

The simplest form of minimalist definitions of democracy designates it as an “institutionalized political contestation” or “electoral competition” (Dahl, 1971). According to this narrow institutionalist definition, which handles the issue of political regime type within the limits of democracy and non-democracy dichotomy, political contestation based on elections is the only criterion to be a democratic regime. However, more substantive definitions, such as the one that the Freedom House uses, offer more comprehensive criteria to meet.

The index of Freedom House, which is one of the most used sources in the academy for the codification of countries based on their political regimes, categorizes countries' political regimes depending on their freedom levels into three categories: free, partly free and not free referring to democracies, hybrid regimes or illiberal democracies and authoritarian regimes respectively.

Briefly touching upon broader categorizations including hybrid regimes under the subtitle of democratic regimes, the scope of this study's political regime typology focuses on the binary distinction of democracy and authoritarianism in the comparative analysis of Brazil and China as samples of democratic and authoritarian regime types respectively.

After explaining the characteristics of both political regime types and theoretical discussions about the concepts, this section provides details about the measurement methodology of Freedom House and Polity in classifying countries' political regime types. Finally, the political regime typologies of Brazil and China will be investigated under the spotlight of the measurement criteria provided by the Freedom House and Polity.

2.1.1 Democratic Regimes

Having its roots in the time of Ancient Greece and becoming the most universal regime type in the contemporary world, democracy simply means “rule by the people” (Coppedge et al., 2011: 248). Although democracy has become the most common system of government following the World War II in a global environment under the hegemony of liberal order led by the United States, recent global trends such as the rise of right-wing populism in consolidated democracies of the global north and the consolidation of illiberal practices under authoritarian populist leaders in the European periphery have triggered debates about a democratic backsliding on a world-wide scale. Academic literature has coined some phrases such as “the global recession of democracy” or “the process of democratic deconsolidation” to define this period of democratic backsliding (Diamond, 2015; Öniş, 2017; Waldner and Lust, 2018).

Since most indexes categorize countries’ political regime types according to their embracement of democratic criteria, as argued in the previous section, some countries with democratic institutions which have represented the contrarian characteristics to democratic principles and values during the recent wave of democratic recession have triggered the emergence of new terms such as “hybrid regime”, “illiberal democracy”, or “competitive authoritarianism” to define the political regime typology of such countries (Öniş, 2017: 18-20).

These definitions approach the concept of democracy from a broader substantive perspective suggesting that there are some core principles to meet for being a democracy rather than having only basic institutions. Accordingly, there are also

transition phases between democracy and autocracy. While substantive definitions of democracy offer a broader understanding with some core principles of democracy, institutional definitions of democracy present minimalist approaches which are generally limited to binary categorization as democracy and authoritarianism.

When we look at the concept of democracy in detail, Coppedge et al. (2011) sum the key models for the concept of democracy under six titles. The first model refers to a minimalist or institutional definition entitled “electoral democracy” or “Schumpeterian conception of democracy” which refers to one of this definition’s pioneers, Joseph Schumpeter and his model (1942). This model defines democracy as a political regime in which rulers are elected through competitive elections. Therefore, it oversimplifies democracy as an electoral process. According to this definition, the existence of free, fair, and competitive elections is sufficient to be a democratic regime.

Przeworski et al. (2000) suggest one of these binary definitions. Their minimalist institutionalist definition proposes four operational rules to be classified as a democracy. According to these criteria, in order for a country to be regarded as a democratic one, the chief executive, and the legislature must be elected, there must be more than one political party, and there must be a leadership change through elections which applies to regimes that have passed the first three rules. Although this minimalist definition provides easy criteria for operationalization, it may oversimplify the concept of democracy by only focusing on institutional factors.

Looking at more substantive definitions of democracy, countries which cannot be categorized as a democratic regime do not necessarily have to be in the category of authoritarianism. As Epstein et al. (2006: 567) stated, “leaving autocracy is not the same as entering democracy” or vice versa.

That is to say, although the spectrum has two opposing ends, there are more categories in between these two major ones and a country can be positioned anywhere on the spectrum. While the presence of some democratic institutions prevents hybrid regimes to be in the category of authoritarianism, the failure in some democratic principles prevents them to be in the category of democracy.

2.1.2 Authoritarian Regimes

Authoritarian regimes simply stand for the opposite of what democracies represent. Juan Linz (2000) proposes four main characteristics to define authoritarian regimes: limited political pluralism, irrational legitimacy, low levels of political mobilization, and informally defined executive power.

Three institutional forms come to the forefront in the typology of authoritarian regimes: personalist, single-party, and military (Geddes, 1999). In personalist authoritarian regimes, the survival of the individual dictator is essential for the stability and sustainability of the regime. In single party regimes, the survival of the regime is more dependent on bureaucratic functioning rather than an individual. Finally, military regimes are generally temporary governments in which the military takes full control of the state.

No matter what kind of authoritarian regime, even the most consolidated authoritarian regimes face legitimacy challenges (Hanson, 2013). There is no political regime free from popular pressure and threats against their authority. Hanson (2013) uses the “carrots” and “sticks” metaphor in order to explain the methods of authoritarian regimes to hold their power against threats from the elite and pressure from the non-elite. Carrots mean rewards for the elite such as granting rents, providing access to state resources, appointing them to key positions, and defending their wealth from redistributive claims to gain their loyalty. Moreover, carrots refer to rewards for the non-elite such as social policies, public services, broad use of patronage, and economic development to build acquiescence. On the other hand, sticks refer to repressive measures to use against pressures and threats when authoritarian rulers perceive their authority in danger.

2.1.3 Measurement in the Classification of Political Regime Types

For a consistent definition of both democratic and authoritarian regimes with minimum measurement error, this study uses the indices of the Freedom House and Polity together. The measurement criteria of both the Freedom House and the Polity, two most used and widely acclaimed datasets about countries’ political regime types (Coppedge et al., 2011: 248), position their ranking system according to the level of democracy. Despite of their structural differences, both datasets analyze the level of democracy in a country in order to specify the regime type. While high match rates for the specific criteria represent a democratic regime, low scores mark an authoritarian regime.

Looking at the origins of these two datasets, the Freedom House is a Washington DC based non-governmental organization which describes itself as an independent organization that supports the expansion of freedom around the world. The Freedom House publishes its reports annually since 1972 (Steiner, 2016: 331).

Measuring the freedom level in a country, the survey of the Freedom House operates through two broad categories: political rights and civil liberties. The category of political rights basically evaluates to what extent people freely participate in the political process using three sub-categories: electoral process, political pluralism and participation, and functioning of government. On the other hand, the category of civil liberties evaluates the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state.

Assigning a numerical score for each country's political rights and civil liberties in the range of between 1 and 7, the survey determines the freedom score of countries by taking the average score of both categories. While the score of 1 indicates the highest degree of freedom, the score of 7 is the lowest level of freedom. These scores determine whether a country is classified as Free, Partly Free, or Not Free by the Freedom House index (Freedom House, 2019). Those whose ratings average 1.0 to 2.5 are considered Free which defines democratic regimes, 3.0 to 5.0 Partly Free which defines hybrid regimes, and 5.5 to 7.0 Not Free which defines authoritarian regimes. Despite the index aims to measure the freedom level, it is frequently used as an index of political regime type in academic literature (Acemoglu et al., 2015).

The Polity index (Jagers and Gurr, 1995) covers a large period of time beginning from 1800. Its latest version, Polity IV contains data until 2017. Its codebook includes five components: competitiveness of participation, regulation of participation, competitiveness of executive recruitment, openness of executive recruitment, and constraints on the executive. As seen in its codebook, the Polity mostly focuses on institutional structures of political regimes.

The Polity's score range is between -10 and +10, while the scores between 10 and 6 indicates democracies, the range between 5 and -5 indicates anocracies, and the range between -6 and -10 indicates authoritarian regimes or autocracies. While the score of 10 indicates the most consolidated democratic regimes, the score of -10 indicates the strictest authoritarian regimes.

When we analyze the political regime typology of selected cases, namely Brazil and China, under the spotlight of the Freedom House and the Polity datasets, these two cases provide us the opportunity to compare a democratic regime and an authoritarian regime.

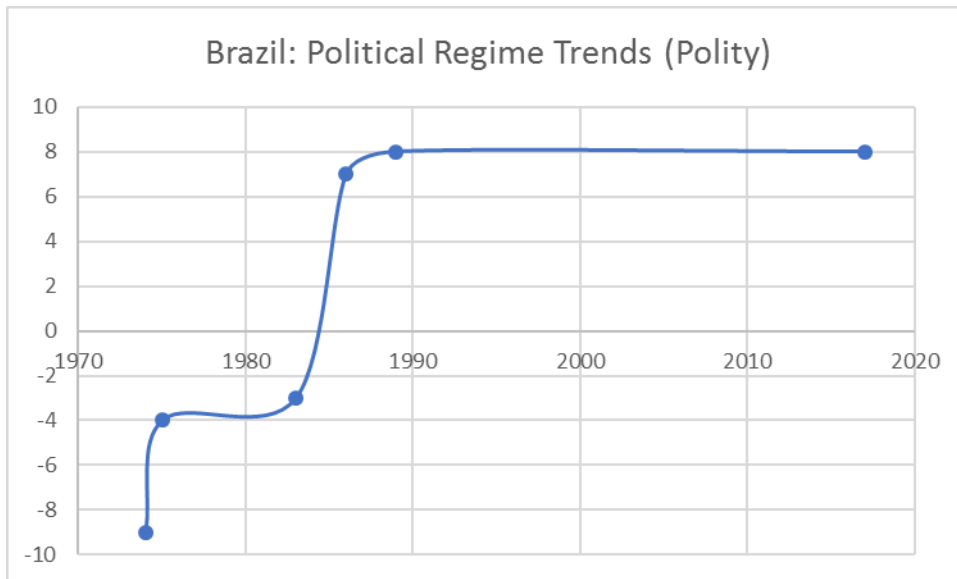


Figure 1: Political Regime Trends in Brazil (Polity)

Brazil, as the selected democratic case, had a military-ruled authoritarian regime between the years of 1964 and 1985. The end of the military regime and first indirect elections after the end of military regime mark the democratization in 1985. Focusing on institutional elements as explained above, the Polity identifies this institutional transformation as a regime transition to democracy (Figure 1).

The ratification of the democratic constitution in 1988 and the first direct elections in 1989 following the collapse of the military regime mark other significant steps in the path of the democratic consolidation process of Brazil. Reaching the democracy score of 8 out of 10 in 1989, Brazil has kept its democracy level since then according to the data provided by the Polity index (Figure 1).

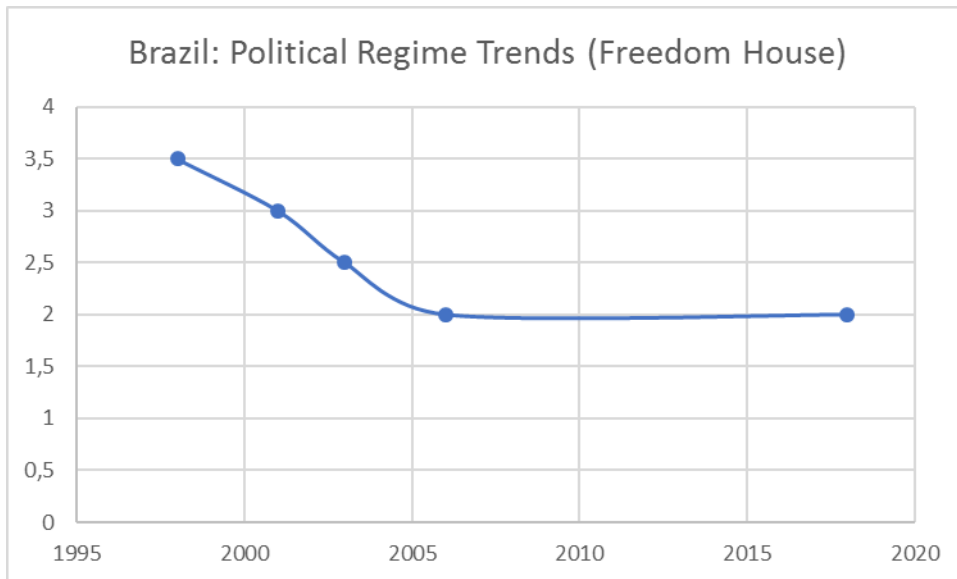


Figure 2: Political Regime Trends in Brazil (Freedom House)

On the other hand, the Freedom House, which focuses on more substantial criteria, coded Brazil as a partly free hybrid regime following the democratization until 2002. Since 2003, Brazil has exhibited the characteristics of a democratic regime based on the Freedom House's democracy criteria (Figure 2).

The Freedom House's approach from a broader perspective reveals that it took 18 years for Brazil to establish a consolidated democracy following the democratic regime transition in 1985. The Freedom House data displays ups and downs of Brazil through the democratization and consolidation periods. While Brazil's democratic transformation was exhibiting a steady development since 2006, it has reached its peak level in 2006 with a democracy score of 2 out of 7 (Figure 2). However, recent years have witnessed a democratic backsliding in Brazil as occurred in many democracies across the world. These developments have caused Brazil's aggregate freedom score to drop from 81 in 2016 to 75 in 2019 as the Freedom House index measures (Freedom House, 2019).

This course of the recent anti-democratization trend in Brazil may result in a transition from a democratic regime to a hybrid regime as opposed to the steady democratization trend Brazil followed for years, proving that democratization is not a one-way road; it is a reversible process.

Theoretical arguments about the democratic consolidation offers the phrase of 'the only game in town' to refer to the situation in which no political actors seek to overthrow democracy when it is consolidated. Moreover, Linz and Stepan (1996) list five reinforcing arenas for the consolidation of democracy: a free civil society, an autonomous political society, the rule of law, a usable bureaucracy, and an economic society in which institutions and regulations mediate the relationship between the market and the state.

The simplest definition of democratic consolidation refers to the acceptance of the legitimacy of democracy by political actors. Accordingly, no political actor seeks to act outside democratic institutions in a consolidated democracy (Gorokhovskaia, 2017). Another explanation suggests that if democracy is consolidated, no political actor can take advantage of acting outside democratic norms and values. Time is an important factor in empirical studies which tries to define and measure the concept of democratic consolidation. There is a parallel relationship between the survival of democracy and the consolidation of democracy. Long-lasting democracies seem more prone to be in the category of consolidated democracies. However, recent global developments mentioned above have triggered heated discussions about the deconsolidation of democracy even in advanced Western democracies (Öniş, 2017).

Analyzing China, both indexes assert that China has been an authoritarian regime since the foundation in 1949. As demonstrated by both indexes again, despite some ups and downs within the range of an authoritarian regime, there has not been a breaking point marking a regime transition for China. In this regard, China as an authoritarian regime will be analyzed as a contrasting case to Brazil in the same time frame.

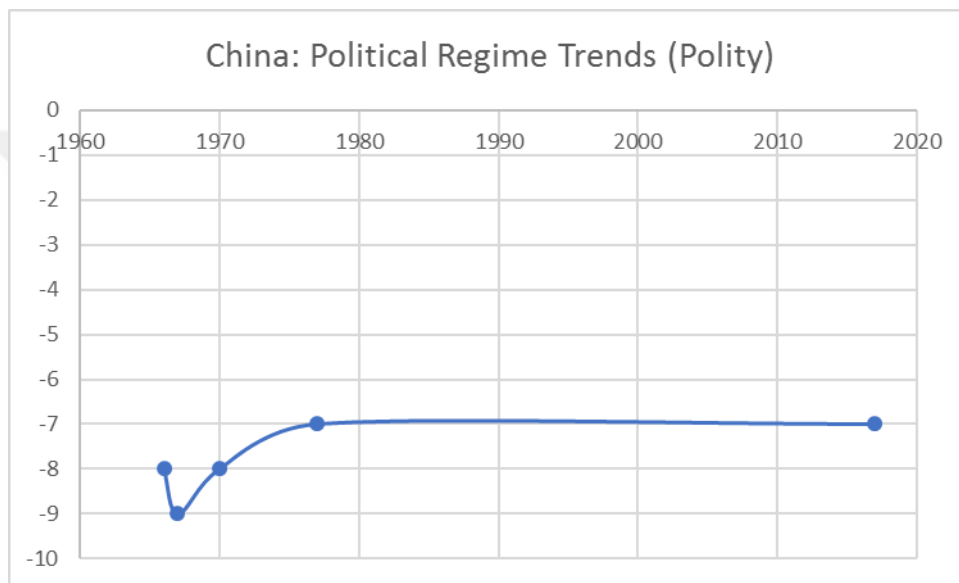


Figure 3: Political Regime Trends in China (Polity)

As the graph by the Polity demonstrates (Figure 3), China has been always in the category of authoritarian regime since the foundation. Between the years of 1966-69, The Cultural Revolution led to a slight decrease in already very limited political rights. Following the economic liberalization and transformation reforms in 1978, China stepped up to the level of -7 out of -10. Up to now, China has maintained its status as an authoritarian regime.

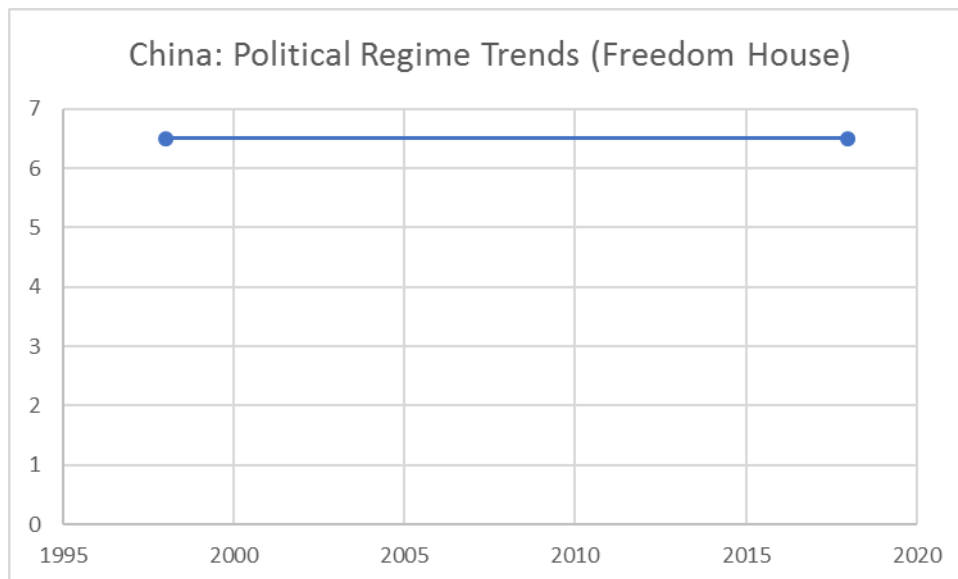


Figure 4: Political Regime Trends in China (Freedom House)

According to the data by the Freedom House (Figure 4), China's freedom score is 6,5, which refers to a consolidated authoritarian regime.

2.2 Rethinking the Concept of Income Inequality

Before discussing the concept of income inequality, the first thing to do is to briefly define the broader concept of inequality. Inequality basically refers to disparities in the distribution of resources or opportunities (Atkinson, 2015). There are various dimensions of inequality such as political, social, and economic inequalities. Considering the hypothetical link between the distribution of political power and of economic resources, this study focuses on income inequality as one of the most tangible indicators about the distribution of economic resources in a society. The scope of this study is limited to income inequality within national boundaries,

inequality among countries and global inequality across all individuals in the world represent other important scales of inequality to analyze (Milanovic, 2016).

This section first discusses why inequality is a significant problem that governments should worry about. Then, the distinction between inequality of opportunities and outcomes will be explained. The next step serves as an introductory guidebook about redistribution and redistributive policies to make the reader familiar with these policies which will take an important role in further chapters. Finally, this section will introduce methodologies and main datasets in the measurement of income inequality.

2.2.1 Why Inequality Matters: The Significance of the Issue

In recent years, increasing levels of income inequality in advanced economies of the global north have induced academics to pay more attention to the issue (Stiglitz, 2012; Piketty, 2013; Atkinson, 2015; Milanovic, 2016), in contrast to relatively low attention paid for decades. There are various reasons that increased the awareness on the problem of income inequality such as widening gap within society in advanced economies after the dominance of globalization and neoliberalism, the decline of welfare state, race to the bottom in terms of social provisions, debates about the increasing power of top 1 percent, and emerging disparities after the economic liberalization of countries with huge population such as China and India (Salverda et al., 2011: 5).

Although inequality has come to the forefront of public debate in recent years, it has always been a problem against the well-functioning of societies. The reasons can be broken down into two separate groups: instrumental reasons having to do with economic growth (Milanovic, 2016) and sociopolitical reasons (Milanovic, 2017).

The relationship between inequality and economic growth is one of the oldest interest areas that triggered academics, particularly economists, to study on the subject of inequality. Simon Kuznets (1955), one of the pioneers who examined the relationship, suggested an inverted U shape model in which economic growth leads to more inequality at the beginning phase of industrialization. Inequality is then expected to decrease when a certain level of economic growth is reached.

When we look at the reverse direction of the relationship, empirical studies suggest that high level of inequality discourages people for taking initiative for entrepreneurship, innovation, and hard-work if people believe that social mobility is hard to achieve in such levels of inequality (Milanovic, 2003; Wade, 2013), harms the pace and sustainability of economic growth (Ostry et al., 2014), results in the loss of economic efficiency (Perotti, 1996), motivates upper classes to rest on rents rather than taking initiatives as a result of their secured privileged status (Stiglitz, 2012), reduces the access of lower classes to health care and education services that results in the loss of human capital, wasted potentials and low labor productivity (Ostry et al., 2014), and triggers economic or political instability leading to economic crises (Ostry et al., 2014).

Regarding sociopolitical reasons, high level of inequality drives social exclusion and threatens security by fueling social conflict and instability; hinders social mobility and damages people's belief in the fairness of the system by threatening social cohesion (Ostry et al., 2014). High level of inequality also causes political instability that can make way for extremist political movements (Jain-Chandra et al., 2016), threatens the functioning of democracy and capitalism, because the concentration of economic power in the hands of few may cause the concentration of political power in the hands of these people (Przeworski, 2010), undermines the democratic principles and converts the equality-based system of "one person, one vote" to "one dollar, one vote" (Stiglitz, 2012). Therefore, high level of inequality threatens political freedom by giving political power to the hands of a narrow segment in society. Relative income inequality is also associated with the feeling of relative deprivation and social strains, both which foster violent crimes (Hagan and Peterson, 1995).

Taking all these factors into consideration, it can be easily said that inequality is a significant problem that governments have to tackle via the instruments they have.

2.2.2 The Distinction between Inequality of Opportunities and Outcomes

A major distinction about the concept of inequality divides it into two groups: inequality of opportunities and inequality of outcomes. While inequality of opportunity refers to the differences in circumstances beyond the individual's control, such as gender, ethnicity, location of birth, or family background; inequality of outcome arises from a combination of differences in opportunities and individual's

efforts and talent such as income, wealth, and access to services like health and education (Atkinson, 2015; Dabla-Norris et al., 2015)

Although inequality of opportunities and of outcomes are categorized in opposite groups, the relationship between these two exhibits a more complex picture. They are interdependent concepts which affect each other. Since the equality of opportunities specifies the starting point in the pursuit of outcomes, equal opportunities are a precondition for achieving equality of outcomes. However, equal opportunities do not always lead to the equality of outcomes.

Beside the impact of opportunities on outcomes, outcomes can also affect opportunities. Considering the inheritable nature of inequalities, there must be total equality in the distribution of outcomes among one generation in order to achieve total equality in the distribution of opportunities for the next generation. High levels of inequality in the distribution of outcomes in a generation make social mobility and equality of opportunities impossible for the next generation. Atkinson states that if 'circumstances' do not take any role in determining outcomes, then someone can talk about the existence of equal opportunities (Atkinson, 2015).

This relationship clearly shows the interdependent relationship between the distribution of opportunities and of outcomes. Equality of opportunities can only remain a politically correct term if there are unfair disparities in the distribution of outcomes. Based on the logic explained, Stiglitz (2012) describes this situation as the myth of equality of opportunities in a very unequal system of outcomes.

For example, let's assume that there is a young person who comes from a lower-class family. In a country where the equality of opportunity is supported by governmental and private initiatives, this young person can get a good education with her own efforts. At the end, she may convert this cultural capital to economic capital. But there is no guarantee for this result even if she really tries. On the other hand, another young person coming from a wealthy family obtains economic power by birth. Also, she can get better education even if she does not spend much effort. At the end, it will be easier for her to convert this cultural capital to economic capital again by using her own economic and social power.

The research from the Economic Mobility Project and the Economic Policy Institute demonstrate that academically successful kids from poor families are less likely to graduate from college than richer kids who exhibit bad academic performance; even if they graduate from college, the children from lower class families are still worse-off than low achieving children from rich families (Chait, 2011).

Considering the scope of this study, which is dealing with the distribution of economic resources, the main focus is about the inequality of outcomes. As justified above, the distribution of outcomes is a more comprehensive indicator of people's well-being in a society. Moreover, major databases measuring outcomes provide more accurate and concrete data compared to normative and vague nature of opportunities.

Wealth and income are the two most commonly used units in the measurement of economic resources. Wealth is a more explanatory indicator of an individual's well-being and life standards (Brandolini and Smeeding, 2011). However, measuring wealth poses major problems in determining the value of assets. Also, wealth

ownership has a 'snowballing' characteristic with its accumulative and inheritable properties. The accumulation of wealth tends to create higher disparities over time because different forms of wealth produce income streams including pensions via financial and property markets. It does not purely reflect today's political and economic preferences. On the other hand, income inequality provides us a more measurable indicator with the availability of standardized, reliable, and comparable high-quality datasets.

2.2.3 Governments' Role on Income Inequality: Redistribution

As explained in earlier sections, high economic inequality has detrimental effects on different aspects of societal life. That's why governments have to use available measures to tackle inequalities. Redistributive measures are the most efficient tools that governments have against economic inequality. Prior to the explanation of redistributive measures, it would be beneficial to distinguish before-tax and after-tax income inequalities.

Before-tax income inequality, which is mostly determined by factors related to the market, means the distribution of income among people before the implementation of transfers and taxes by the government. Total income from earnings, capital income, and private transfers determine the before-tax income inequality (Atkinson, 2015: 311).

Redistributive measures of governments basically consist of taxes and transfers. The distribution of income following the implementation of transfers and taxes determines the level of after-tax inequality (Atkinson, 2015).

Redistributive policies are the most efficient tools for governments to restrain high levels of inequality. The difference between before-tax and after-tax inequalities in a country gives an insight about to what extent redistributive policies of a state effective are (Roser and Ortiz-Ospina, 2019).

Taxing and spending are the basic mechanism that makes a state redistributive. All welfare provisions of a state can be defined redistributive (Esping-Andersen and Myles, 2013: 639). Welfare and social policy are two important terms to underline here in regard to redistribution. Welfare basically means people's well-being. In addition, the word 'welfare' is used interchangeable with the word 'social protection' to indicate services and assistance for improving citizens' well-being. The social policy basically refers to the policies implemented by governments for welfare and social protection (Spicker, 2019).

'Welfare state' is an important term to understand the nature of redistributive policies. The Welfare state is a governmental concept in which the state or set of institutions ensure the social and economic well-being of citizens via social protection, or health care and education provisions of social services. Due to its taxation and spending mechanism, the welfare state is by definition redistributive (Atkinson, 2015).

Although redistributive policies of government mostly have a progressive character, some redistributive policies may have a regressive character. Regressive redistribution transfers income or wealth from the poor to the rich, leading to more inequality. Indirect taxes based on consumption and contributory (everyone benefits depending on what they contribute) social policies such as social insurance are the

most observed sources of regressive redistribution. On the other hand, progressive redistribution transfers income or wealth from the rich to the poor, leading to less inequality. Direct taxes and cash transfers are the most efficient ways of progressive redistribution (Roser and Ortiz-Ospina, 2019).

Redistribution also can be divided into two different forms as cash and non-cash redistribution (Brandolini and Smeeding, 2011). Cash redistribution refers to direct inequality reducing policies primarily include direct taxes and social protection programs in the form of cash transfers from rich segments of the society to the poor. Non-cash redistribution refers to social spending on institutional structures and public services such as health care, education, and social security which create a positive impact on income equality in the long run. The combination of these social welfare policies determines the equalizing impact of redistribution. As mentioned before, the difference between before-tax inequality and after-tax inequality gives a crude result about the effectiveness of redistribution.

In his famous work about the welfare state, Esping-Andersen (1990) states three different types of welfare state by focusing on Western countries. Without examining the details of this categorization and looking at the part relevant to this study's scope, most welfare state policies in Western countries tend to prefer universal social policies which cover all segments of society. This type of social policies mostly has an expensive, non-cash, and productive characteristics compared to developing countries' mostly targeted social policies, which cover a specific segment of society, with limited budgets, cash benefits, and protective characteristics.

Developing countries in the global south do not copy the welfare state institutions of developed countries in the global north and present new alternative models of welfare state. In the emergence of new welfare state models in the global south, social assistance programs deserve special attention. Barrientos (2013: 13) defines 'social assistance' as social protection policies in the form of direct cash transfer that targets poverty and vulnerability. Targeting the most disadvantaged socio-economic groups in society, social assistance policies first aim to diminish poverty rates and provide better life standards. Moreover, conditional social assistance programs increase the number of people who access to education and health care services, thus making investment in long-term human capital for productive ends in addition to protective ends (Rudra, 2007).

2.2.4 Measurement of Income Inequality

In order to measure the distribution of economic resources, income is the most useful and popular indicator as discussed before. For the definition, income represents the sum of all earnings including market earnings, return on capital, private and public transfers in the form of cash gained by an individual in a specific period of time (Jenkins and Van Kerm, 2011).

Income inequality is "the scalar numerical representation of the interpersonal differences in income within a given population" (Cowell, 2011: 7). Income inequality can be measured in absolute monetary terms or focusing on relative differences (Goda, 2016). The Gini index is the most widely used unit for measuring relative

income inequality. In this study, the Gini index is the main tool to measure income inequality, by focusing on the average disproportionality of income in a country.

The calculation of the Gini index is based on the Lorenz curve, which is a graphical representation of income distribution or wealth distribution. The graph plots percentiles of the population according to income or wealth on the horizontal axis; and, cumulative income or wealth on the vertical axis. If we assume an x-value of 45 and a y-value of 20 would mean that the bottom 45% of the population controls 20% of the total income or wealth (Roser and Ortiz-Ospina, 2019).

In the graphical representation of the Gini index, a straight diagonal line with a slope of 1 refers to the perfect equality in the distribution of income or wealth; the Lorenz curve lies beneath the straight diagonal line, demonstrating the actual distribution. The area between these two lines, expressed as a ratio of the area under the straight line, is the Gini coefficient that measures the level of inequality. The higher Gini coefficient means higher inequality. So, while 1 Gini coefficient indicates the maximum inequality in which a unit owns all the income or wealth, 0 Gini coefficient indicates the perfect inequality in which every unit shares all the income or wealth equally (Atkinson, 2015).

There are many different sources such as The Chartbook of Economic Inequality, Luxembourg Income Study (LIS), World Bank (PovcalNet), University of Texas Inequality Project – EHII, World Income Inequality Database (WIID), OECD, The Standardized World Income Inequality Database (SWIID), that provide Gini data about economic inequalities within countries and among countries. As discussed before, measuring income inequality is a tough job to do. Accuracy and reliability of

the collected data generally arouse suspicion and this suspicion increases with different sources' different estimations.

In this study, the main criterion in the selection of the data source was the availability of reliable, consistent, and comparable data for both cases in order to follow a certain standard. In this regard, the study will use the SWIID as the main source for Gini scores for a standardized measurement. As remarkable differences between different sources' income inequality measurements raise doubts on the construction and standardization of inequality measures, particularly Gini coefficients, across countries, the SWIID's comprehensive cross-national panel of Gini coefficients benefiting from various datasets offers consistent and standardized measures. Also, the SWIID provides data for both the net Gini after taxes and transfers, and the gross Gini coefficients as well as redistribution.

The SWIID dataset developed by Frederick Solt (2019) incorporates data from the OECD Income Distribution Database, the Socio-Economic Database for Latin America and the Caribbean generated by CEDLAS and the World Bank, Eurostat, the World Bank's PovcalNet, the UN Economic Commission for Latin America and the Caribbean, national statistical offices around the world, and academic studies by taking the data collected by the Luxembourg Income Study as the standard. Its coverage includes comparable Gini indices of income inequality for 192 countries for as many years as possible from 1960 to the present (Solt, 2019). The SWIID provides comprehensive and consistent data about the cases that will be used in the study.

Moreover, this study will benefit from the data provided by academic studies, which will be used in relevant sections, to reach the best possible information with wide coverage. This study's aim is to compare historical change and development of income inequality in Brazil and China within a specific time span. All the data provided by various datasets confirm opposite patterns that Brazil and China have displayed.



2.3 Conclusion

This chapter explained the concepts of political regime type and income inequality in detail for a more explanatory and understandable study. As explained in the first main section of the chapter, political regime typology is basically divided into two opposite categories as democratic regimes and authoritarian regimes. More substantive definitions of political regime typology suggest a third category which is hybrid regimes. Hybrid regimes refer to countries whose political regimes are difficult to categorize within the binary categorization of democracy vs non-democracy. After explaining the characteristics of political regime types, the section finally introduced two major indexes, the Freedom House and Polity, and their methodologies to classify a country's political regime type.

Both measurement tools measure a country's political regime type based on to what extent that country embraces democratic criteria. While the Freedom House focuses on more substantive criteria including civil liberties and social rights, the Polity focuses on institutional arrangements in the functioning of the government.

While both indexes categorize China as an authoritarian regime since the foundation, Brazil has been coded as a democratic regime since the regime transition in 1985 according to the Polity's institutional criteria. On the other hand, the Freedom House categorized Brazil as a hybrid regime until 2002. The Freedom House's measurement reveals that Brazil spent 17 years to consolidate its democracy following the initial democratization period. However, the recent global trend of democratic recession

has triggered discussions that whether democratic consolidation is a reversible process.

In the second main section of the chapter, the concept of income inequality was explained from a broader perspective focusing on discussions about the nature of economic inequalities. First answering the question of why inequality is a significant concern for governments and societies, this section then discussed the distinction between inequalities of opportunities and outcomes. In order to fight inequalities, redistributive policies are the main instrument that governments have. Explaining the methodology of measuring income inequality, the chapter finally introduced the SWIID as the study's selected database to measure relative income inequality in terms of the Gini coefficient.

In sum, this chapter clarified the main concepts and variables used in the study as well as measurement tools and their methodologies. In the next chapter, the relationship between these concepts will be revisited through a review of relevant academic literature and main theoretical considerations.

CHAPTER 3

THE IMPACT OF POLITICAL REGIME TYPE ON INCOME INEQUALITY:

A REVIEW OF THE LITERATURE

The linkage between the political system and the distribution of economic resources constitutes one of the most controversial and interesting areas in social sciences literature. Although the distribution of assets and income is affected by many factors in a market economy, any market system is embedded in a larger political system (Acemoglu et al., 2015). Thus, the political system has a superior position to explain related factors that affect economic distribution.

The general assumption on the impact of the political system on the distribution of economic resources suggests that the concentration of political power within a narrow segment of the population leads to an unequal distribution of economic resources; on the other hand, the diffusion of political power among large segments leads to more equal distribution (Acemoglu et al., 2015). Considering this basic logic, it is expected that democracy as a political regime distributing political power relatively equal among citizens in society should lead to more economic and social equality.

Especially during the late 19th century and early 20th century when democratic political regimes started to spread across the world, the economic elite of old non-democratic regimes feared that previously excluded poor majority would use their new political rights for their own economic interests by threatening the privileged status of rich elites (Gradstein and Milanovic, 2004: 5). That's why, the fear of

expected redistribution in favor of poor has been one of the major motivations for the rich elite to oppose democracy. Because of the assumed progressive nature of democracy, the economic elite in a nondemocratic regime would resist against the possibility of democratization as a rational behavior (Boix, 2003; Acemoglu and Robinson, 2006). These fears of upper socio-economic classes had a theoretical background that flourished in the 19th century with the writings of political thinkers such as Karl Marx and David Ricardo (Knutsen and Wegmann, 2016: 166).

As democracy became the most universal political regime type in the world, it is debatable to what extent these assumptions have turned into the reality, but the perspective which assumes more political equality leads to more social and economic equality has created a productive platform for many theoretical arguments and empirical studies to test these assumptions since then.

Far from a consensus, the literature has produced several theoretical arguments and many empirical studies with different results and findings. While some arguments supporting the basic assumption of democracy as an equality promoting political regime have built theoretical mechanisms of this relationship, others have investigated the theoretical framework of why democratic regimes fail to decrease inequality. Moreover, there are various theoretical assumptions on the authoritarian regimes' approach to inequality and redistribution. This chapter will examine the main theoretical arguments about the effects of political regime type on inequality, particularly income inequality, categorizing them into three different groups.

First, under the sub-title of 'Democracy as an equality-promoting and redistributive regime', this chapter will revisit theoretical assumptions suggesting democracy to increase progressive redistribution and reduce income inequality. Meltzer and Richard's seminal paper (1981) deserves special attention building the first formal model for the equalizing effect of democracy. While Meltzer and Richard model constitutes the basis of the hypothesis that democracy should increase taxation and progressive redistribution and reduce income inequality, several other theoretical mechanisms, going beyond basic tax and redistribution mechanism, try to explain how such an impact operates will be reviewed. Moreover, various policy instruments that democratic regimes use to reduce the extent of income inequality will be investigated via recent empirical studies in the relevant literature.

Second, this chapter will revisit the major theoretical reasonings to explain why democracy fails to reduce inequality based on the pattern suggested by Acemoglu et al. (2015) under the sub-title of 'Democracy as a failing political regime to reduce inequality'. They outline three possible factors: Captured Democracy and Constraints on Redistribution, Inequality-Increasing Market Opportunities, and The Middle-Class Bias.

Finally, this chapter will analyze theoretical arguments on the relationship of authoritarian regimes with inequality and redistribution under the sub-title of 'The approach of authoritarian regimes to inequality and redistribution'.

3.1 Democracy as an equality-promoting and redistributive regime

Building on earlier research by Romer (1975) and Roberts (1977), Meltzer and Richard's seminal paper (1981) first formally emphasized the standard "equalizing effect" of democracy (Acemoglu et al., 2015). Based on the median-voter theorem (Downs, 1957), the model proposed by Meltzer and Richard approaches the relationship between democracy and redistribution as a game theoretical model.

The choice of political regime is a product of cost-benefit analysis (Dahl, 1971). Accordingly, democracy emerges as the rational choice for actors to maximize their outcomes (Boix, 2003: 8). Following the democratization, citizens of the democratic regime represent rational actors who want to maximize their interests through democratic channels. According to the Meltzer-Richard model, a democratic regime presents us a game theoretical model based on median voter theorem which assigns the median voter as the decisive actor for determining the country's policies; so, political decisions are carried out by choices of the median voter. The median voter, who wants to maximize its own economic interests, would demand more progressive redistribution to take from the rich.

If the initial level of income inequality is high, the scale of progressive redistribution would be higher in the median voter setup because high inequality would harm the median voter's relatively well-being (Alesina and Rodrik, 1994; Persson and Tabellini, 1994). As a response, the median voter will demand more redistributive policies in order to reduce inequality and maximize its own interests as a result of the rational choice process. Looking at the mathematical logic of the model, high inequality would

widen the gap between the median voter and rich segment of the population. Therefore, economic conditions of the median voter would be much below the mean level and get closer to the poor segment of the population. The median voter, who desires to close the gap and to be better off, will demand more progressive redistribution and consequently more equality.

There is a large camp that criticizes the logic of the median-voter model but supports the proposition that high inequality triggers more redistributive and pro-equality demands in democracies (Milanovic, 2000; Scervini, 2012; Houle, 2017). Criticisms about the model include overestimation of the impact of median voter on political decisions, the conceptualization of democracy within narrow institutionalist terms, and oversimplification of voters' electoral choice procedures by limiting it to the borders of economic factors.

Another criticism about the median voter model concentrates on the model's assumption based on the equal distribution of political power among citizens in a democratic regime. In this regard, the median-voter model is being naïve by assuming that all citizens have an equal impact on determining national policies and non-elite majority use democratic practices for pro-poor policies, even if the political regime is democratic. This criticism constitutes the basis of another theoretical assumption based on the Power Resources Theory.

Power Resources Theory assumes that there is an uneven and hierarchical distribution of political power among citizens in a country (Stephens, 1979; Korpi, 1983). Accordingly, the elite segment of the population is the decisive actor to determine national policies thanks to having more power and resources. Therefore,

the non-elite should organize in order to translate their demands into actual policies. Huber and Stephens' model (2012) based on Power Resources Theory states that democracy provides an opportunity for the underprivileged to organize and makes gradual movement in the direction of progressive redistribution and egalitarian social policies possible. It is not realistic to expect democratic practices and principles to penetrate the other aspects of social life immediately after the democratization. Democracy needs to be consolidated to show equalizing effects on society. Because, it takes time for social groups to organize, civil society to strengthen, and left parties to be able to mobilize people.

A similar view about the delayed effect of democracy on inequality belongs to Muller who claimed that it takes twenty years for democratization to be effective on inequality (Muller, 1988). According to Huber and Stephens, left-wing political parties as the representatives of lower classes play the key role during this process. Even if they cannot be the ruling power, they have the potential to direct general political spectrum to more left policies. At the end, democratization triggers more progressive redistribution and more spending on social welfare policies including education, health, and social security. In sum, democracy does not guarantee equality but makes gradual movement in that direction highly possible.

Despite of the general assumption that perceives the Median Voter Theorem and the Power Resources Theory contradictory, they are complementary theories to explain the egalitarian effects of democracy. On the one hand, the Median Voter Theorem provides an explanation about voters' strategic choices and electoral behaviors; on the other hand, the Power Resources Theory emphasizes how political parties,

groups, and organizations behave in democracies from a perspective based on partisan politics. Accordingly, the median voter who represents preferences of the majority in democracies make their political choices in favor of more progressive redistribution due to economic interests. Therefore, the median voter should prefer the political party which supports redistributive policies in favor of lower socio-economic classes. According to the Power Resources Theory, the capability of political parties favoring progressive redistribution to organize and mobilize people would lead to more redistribution and social welfare policies, and consequently less income inequality.

As theoretical considerations mentioned above touch upon the consequences of bottom-up pressure based on the political participation of non-elite in democracies, an institutionalist approach assigns the key role to the state as the most important actor for determining political decisions (Evans et al., 1985). In this regard, top-down reforms of state officials to preempt bottom-up pressure for reform and to increase their autonomy from the elite who had privileged status under the old authoritarian regime becomes the main driver of progressive redistribution and inequality reducing policies (Weyland, 1996).

The meaning of development in a democratic regime compared to an authoritarian regime may also drive both people and state to adopt more progressive social policies leading to less income inequality. Joseph Wong (2004) focuses on the transformative effect of democratization on state and society's perceptions about development. This transformative effect creates a new understanding connecting the concept of democracy to socioeconomic justice and welfare. Using the cases of Taiwan and

South Korea, he reminds that former authoritarian regimes of both countries conceptualized development in very narrow definitions by giving priority to economic growth. Social welfare policies were very limited, selective and mostly perceived as incompatible with economic development. However, democratization has triggered a new understanding about the meaning of social and economic development with its transformative effect on public attitude and mentality. Thus, democratization has led to universal social welfare policies that resulted in declining socioeconomic inequalities. In sum, his theory stresses the transformative impact of democracy on the development mentality of public and state.

All these theories agree on one common point that democratic political regimes lead to more progressive redistribution and less income inequality compared to authoritarian regimes. Looking at recent empirical studies using specific historical episodes or cross-national studies, it is possible to see various instruments that political regimes use for less income inequality. Aidt and Jensen's (2009) historical investigation focusing on early democratization wave among Western countries found that there is a positive effect of democracy on government expenditure as a percentage of GDP and also tax revenues as a percentage of GDP. The change is not only limited to the total amount of tax revenues, but democracies also tend to use tax revenues for a more progressive taxation (Acemoglu et al., 2015). Lindert (1994, 2004) suggests that democratization among OECD countries led to more public spending, particularly on education and health care as it is supported by other cross-national studies (Saint-Paul and Verdier 1993; Przeworski et al., 2000; Lake and Baum, 2001; Persson and Tabellini, 2003; Lindert, 2004). In their analysis on developing countries, Dodlova and Giolbas (2015) claim that there are more

progressive social transfers in democratic developing countries than non-democratic ones. Moreover, democracies tend to pay higher real wages resulting in a higher share of income for labor as presented in Rodrik's (1998) study on a panel of countries. Finally, democratic regimes provide more protection for freedom of association (Møller and Skaaning, 2013), providing employees opportunities to organize and bargain for higher wages compared to authoritarian regimes (Deyo, 1998).

3.2 Democracy as a Failing Political Regime to Reduce Inequality

After reviewing the main theoretical arguments that explain how a democratic political regime leads to more progressive redistribution and equal distribution of income and supportive empirical studies that reveal various policy instruments used through the equalizing effect of democratic regimes, this section will revisit the theoretical arguments that explain why some democratic regimes fail to achieve its inequality reducing function. This section will follow the categorization pattern used by Acemoglu et al. (2015) and look at theoretical arguments under three different categories: 'Captured Democracy and Constraints on Redistribution', 'Inequality-Increasing Market Opportunities', and 'The Middle-Class Bias'.

3.2.1 Captured Democracy and Constraints on Redistribution

Democratization does not always lead to the equal distribution of political power in practice among all groups within a society. Even in a democracy, the wealthy elite may keep political power under control via their influence over political parties and media by using their economic power and resources. Thus, they direct political decisions in favor of the rich elite, against the interests of the non-elite majority in order to maintain their privileged status against the non-elite. This response of the elite to the democratization by increasing their de facto power to compensate for their reduced de jure power in the new regime refers to a captured democratic regime (Acemoglu and Robinson, 2008).

Moreover, a democratic regime may be built on institutions and laws that serve the interests of the elite, following the transition from an authoritarian regime to democracy. This type of democratic regime is called 'elite-biased democracy' (Albertus and Menaldo, 2014) or 'constrained democracy' (Acemoglu et al., 2015). The main foundations of a political system could create constraints that reduce the potential impact of democracy on inequality. These factors may include constitutional restrictions, the threat of a military coup, the threat of capital flight, and etc.

3.2.2 Inequality-Increasing Market Opportunities

A democratic transition of the political regime may bring the opening up of new economic opportunities causing an additional source of inequality among society. As it was witnessed following the collapse of the Soviet Union, the transition from a socialist economic model to a capitalist economy with less regulation and state intervention on the market led to new opportunities for individuals and resulted in a higher level of income inequality initially (Gradstein and Milanovic, 2004).

3.2.3 The Middle-Class Bias

In the setting of median voter theorem, the median voter can be from the middle class. As Richard and Meltzer model suggested, high levels of inequality would drive the median voter to demand more progressive redistribution and less income inequality. However, if the middle classes are much richer than the poor in a setting where the median voter is from the middle class, additional tax instruments and redistribution would have a regressive character by empowering the middle class against the interests of the poor.

In this case, democracy again increases taxes and redistribution, but because the additional revenue is used for the middle class, it may not reduce inequality or even increase it (Acemoglu et al., 2015).

3.3 The Approach of Authoritarian Regimes to Inequality and Redistribution

As the standard political economic model suggests that the concentration of political power within a narrow segment of the population and the exclusion of a larger population from the political decision mechanism would lead to a more unequal distribution of economic resources and assets in a society compared to democratic regimes, the actual situation exhibits a more complex picture.

Regardless of the political regime typology, all kinds of ruler and regime face legitimacy challenges and threats against their power (Hanson, 2013). Authoritarian regimes and rulers basically face two types of threat against their power: one is the horizontal pressure stemming from the political and economic elite within the system, the other is the vertical pressure stemming from popular uprisings (Gandhi and Przeworski, 2007).

Although citizens in authoritarian regimes are deprived of democratic channels, they can create pressure on the rulers for redistributive demands. In authoritarian regimes, there is not a direct channel for citizens to realize their redistributive demands as in the median voter model. However, this does not mean that the authoritarian regimes do not heed what their citizens demand.

As explained before, Hanson (2013) explains the functioning of policies in authoritarian regimes using the metaphor of carrots and sticks in order to refer to the balance between rewards and repression driven by the ruling elite. Redistribution is one of the most influential tools within the category of carrots. Redistribution can be used as a rewarding mechanism that authoritarian regimes

offer masses in order to buy their loyalty and acquiescence. While authoritarian regimes use regressive redistribution to gain the loyalty of the elite, they use progressive redistribution to gain the acquiescence of the masses.

Authoritarian regimes can use progressive redistribution and pro-equality policies to provide the stability of the regime, to prevent the possibility of revolutionary movements, and to become autonomous from societal elites through buying people's loyalty (Acemoglu and Robinson, 2001; Mejia and Posada, 2007; Haggard and Kaufman, 2008; Albertus and Menaldo, 2012).

On the other hand, the competition between the political elite and the economic elite constitutes the key factor for national economic policies in authoritarian regimes (Menaldo, 2016). Accordingly, the political elite can use redistribution as a political tool in the form of selective redistribution in order to gain support from the economic elite and to strengthen the economic elite close to the regime; or, they can block redistributive reforms demanded by lower classes to protect the interest of the economic elite against the non-elite (Knutsen and Rasmussen, 2014).

Finally, another factor is up to the political ideology of the ruling party or authoritarian leader. It is more likely for left-wing authoritarian regimes to redistribute more for the interests of lower classes; on the other hand, it is very unlikely for right-wing authoritarian regimes to take equality enhancing measures. In this case, it is all about the political ideology that the ruling elite embraces (Hanson, 2013).

3.4 Conclusion

In this chapter, the impact of political regime type on income inequality was reviewed through the academic literature under three subtitles. Redistributive policies are the most prominent instruments in politics of income inequality. The general assumption says that the diffusion of political power in democratic regimes results in more progressive redistribution and less inequality as a result of the realization of popular demand via democratic channels.

Meltzer and Richard suggested a prominent model that explains this impact by using Median Voter Theorem. Following theoretical considerations suggested various mechanisms that equalizing effect of democracy operates through. Moreover, recent empirical studies revealed redistributive instruments that democratic regimes use for more progressive redistribution and less inequality.

In contrast to the general assumption, democratic regimes may not always bring a decline in income inequality. The first reason is that the economic elite can capture the political system by increasing or maintaining their de facto power. Thus, they can control political agents and media for their own interests. Also, the democratic regime may have flaws in its foundations such as constitutional restrictions or coup threats that serve the interests of the rich segment of the population by blocking redistributive policies. The second reason is that further democratization may create for new economic opportunities causing an additional source of inequality. The third reason is that the democratic regime may redistribute in favor of the middle class, not lower classes.

Finally, the literature on the authoritarian regimes suggests that authoritarian rulers use redistribution as a political tool for regime legitimacy and political stability. If the regime wants to satisfy upper classes, they use regressive redistribution. On the other hand, progressive redistribution is the main instrument to curb the pressure stemming from lower classes. Moreover, authoritarian regimes which rule through strict ideological roots, would implement redistributive policies according to their political ideologies.

After building conceptual, theoretical and methodological foundations of the thesis in the first part, the next part will provide a detailed analysis of the selected two cases in a comparative method.

CHAPTER 4

EXAMINATION OF THE DEMOCRATIC REGIME IMPACT ON INCOME INEQUALITY:

THE CASE OF BRAZIL

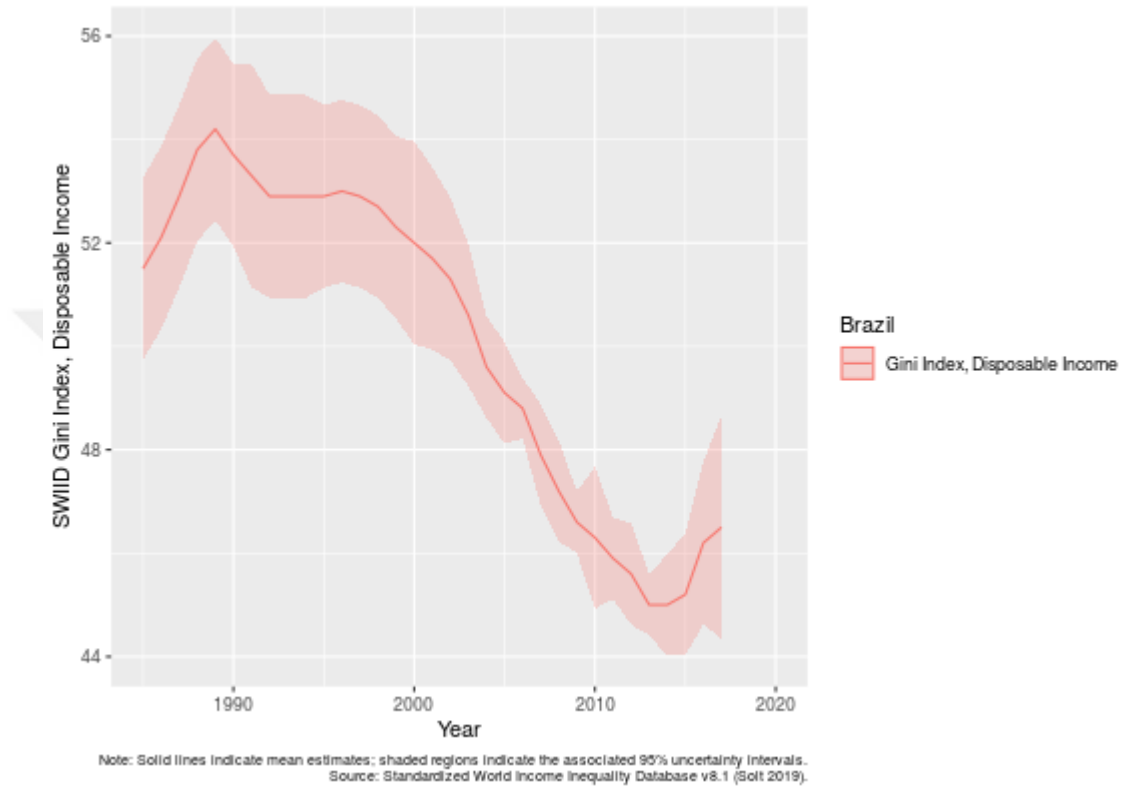


Figure 5: Gini Coefficient in Brazil

Brazil had been one of the most unequal countries in the world for a long time. Its colonial past and racial diversities are some of the main factors that lie behind the historical legacy of high inequality. Moreover, elites' dominance on politics, capital market imperfections, inequality of opportunities, and labor market segmentation constitute some other reasons (Lustig et al., 2013; Schneider, 2013). For decades, Brazil could not achieve to address its inequality problem. Also, high rates of poverty and inflation had been among characteristic features of the Brazilian economy.

On November 14th, 2009, the Economist published its new issue with the title of 'Brazil takes off' on its cover (Economist, 2009). They were referring to the successful economic performance of Brazil despite negative impacts of the global financial crisis, and the completion of this performance with democratic consensus unlike China, diversity in export goods unlike Russia and, without ethnic, religious or border conflicts unlike India. Moreover, becoming the fourth most attractive destination for foreign direct investments had contributed to this moderate but stable economic growth in recent years (Ban, 2012: 2). However, the most important point of Brazil's success story was its inclusionary characteristic. Socially inclusive economic development made Brazil the only member among BRICs that achieved economic growth with lower inequality.

Particularly, the years between 2003 and 2010 under the leadership of Luiz Inácio Lula da Silva marked a turning point in Brazil's history with economic growth, low inflation, higher minimum wages, better life standards for lower classes and massive achievement in terms of inequality and poverty reduction. Brazil's inclusionary

growth triggered discussions about the emergence of a new social democratic model in the global south.

The most important factor for this paradigm change was the consolidation of democracy following the democratization period. Meltzer and Richard (1981) emphasized the median voter's effect on redistributive policies in democracies, especially in countries with high levels of inequality. Huber and Stephens (2012) underlined the development of left parties, unions, and civil society to mobilize people for more redistributive demands after the democratization period. In addition, they agreed with the argument that the democratization effect on socio-economic policies takes time as democratic practices and institutions need to be consolidated (Muller, 1988). Wong (2004) focused on the transformative effect of democratization on people's perception of development. As democracy penetrates people's minds, they no longer perceive economic development without social development sufficient. Finally, Weyland (1996) emphasized the state's leading role for an egalitarian democracy. I think that they are not conflicting arguments; in fact, they complete each other as in the case of Brazil.

This chapter will analyze Brazil by dividing into four time periods in chronological order:

- 1- Democratization and New Constitution: 1985-1994
- 2- Cardoso Period: 1995-2002
- 3- Lula Period: 2003-2010
- 4- Post-Lula Period: 2011-

4.1 Democratization and New Constitution: 1985-1994

Building on the historical legacy of colonialism and slavery, Brazil had a very unequal social and economic structure since the foundation. Until the democratization in 1985, Brazil had experienced short periods of fragile democracies which were frequently interrupted by coups. The last military coup resulted in a military dictatorship from 1964 to 1985.

Ricz (2017) describes the long period between 1930 and 1985 the era of the import substitution industrialization (ISI) or the “old developmental state”. The main aim of this regime was to reduce foreign dependency for protecting the interests of the national economy. The meaning of development was limited to economic growth. On the one hand, the ISI era led to relatively successful industrialization with high growth. On the other hand, huge foreign debt, increasing inequalities, recurrent fiscal and balance-of-payment crises, and repressive politics were the negative aspects of the regime (Ban, 2012: 24).

Poor and ineffective are the words that sum the social policies of the ISI period. As a result of industrialization and urbanization, protective social insurance was provided for urban workers under a ‘Bismarckian style corporatist model’ which refers to an employment-based contributory welfare system (Santos, 2013; Hall, 2013). Apart from that, the redistributive system was highly regressive, and the state had a very limited role and vision for social development.

After successful years under the military regime in terms of economic growth, stagnation period with high inflation and external debts combining with bad performance in social development increased pressure for a political change. Consequently, Brazil initiated its gradual democratization period with indirect elections in 1985. During the democratization period, the critical point was the new democratic constitution that came into force in 1988. As a response to Brazil's poor performance in terms of social development and equality, the new constitution strongly emphasized the role of the state for social development and welfare.

Based on the data by The Polity index (Figure 1), which focuses on institutional arrangements, the gradual movement through democratization since 1975 can be seen, and 1985 was the year when the transition from a military dictatorship to democracy (within the definition of institutional terms) took place with indirect elections. Between the years 1988 and 1989, the ratification of the democratic constitution and the direct elections upgraded the level of democracy to its final level. As the rest of the chapter will show, the Freedom House's substantive approach gives a more changeable picture for the following years.

Looking at the economic model that Brazil followed during that period, Brazil adopted the principles of the Washington Consensus as many other fellow Latin American countries did under external pressures. This orientation to the market under the guidance of neoliberal reforms was defined as "state-led governance by the market" (Ricz, 2014). However, these neoliberal prescriptions imposed by external forces to Latin American countries for development could not solve their economic and social problems. On the contrary, they led to the process resulted in economic crises.

The constitution of 1988 recognized state's responsibility for providing social welfare to its citizens by focusing on the concepts of 'social citizenship' and 'social justice' (Santos, 2013: 137). After long years under the ISI regime with limited protective policies for urban workers and very poor initiatives for the rest, huge disparities and poverty created demands for broader and more effective social policies. As a result, unions, social movements, middle classes, and liberal professions reached a consensus towards an institutional redistributive model. The new constitution included four innovations in that direction: the inclusion of social assistance, ensuring care for all who need, the introduction of non-contributory benefits, and decentralization for implementing these policies (Hall, 2013: 167-8). Still, putting the provisions that the new constitution supported into practice had to wait under the dominance of neoliberal policies with unfavorable economic conditions and the lack of democratic principles and practices (Santos, 2013: 138).

In sum, this new period in Brazil had three milestones: democratization, the new democratic constitution, and the constitution's emphasis on social development and justice. However, the efforts to turn these expectations into reality almost did not exist. In this regard, it can be said that democracy needed to be consolidated in Brazil to to show its effects on social aspects. Political democratization with popular pressure, economic neo-liberalization with external pressure, and no significant social process briefly explain the first decade of Brazil following the end of the military regime.

When Kurt Weyland (1996) wrote the book "Democracy Without Equity: Failures of Reform in Brazil" in 1996, he was questioning the reasons why democracy resulted

in failure to promote social and economic equality in Brazil. Almost a decade passed after the transition to democracy, the failure of democracy in meeting equality-enhancing expectations had triggered doubts. Kurt Weyland had stressed on the lack of three elements for Brazilian democracy's failure in reducing inequality: encompassing interest associations and social movements, universalist and programmatic political parties, and a cohesive state which became more ineffective with the impact of neoliberal reforms and fiscal crises.

4.2 Cardoso Period: 1995-2002

Under the effect of neoliberal reforms, like many Latin American countries, Brazil experienced financial crises and hyperinflation. This reminded of the importance of social development for a strong and sustainable economic development (Midgley, 2013: 18). Especially high inflation very negatively affected the lives of millions of those who live in poverty. In order to find a solution for inflation problem and economic instability, 'the Real Plan' was initiated under the guidance of Cardoso, who was then the minister of economy, in 1994. The fight against inflation and poverty created a domestic consensus which supported the Real Plan for macroeconomic stabilization. This momentum carried Cardoso to the presidency in 1995.

Cardoso maintained the neoliberal economic regime with some regulatory reforms focusing on macroeconomic discipline. In the short term, Cardoso's anti-inflation plan became so successful by reducing the number of people living below the poverty line by 18.5 percent (Pereira, 2015: 1687). The annual inflation rate was above 2,075

percent in 1994. After the implementation of the Real Plan, this rate reduced to 66 percent in 1995, 15.8 percent in 1996, and single digits during the following years (World Bank, 2019).

Reducing both inflation and poverty with a more disciplined economic structure created an optimistic environment for Brazil. However, the good mood left its place to an alarming situation during the second term of Cardoso. The GDP per capita reduced from \$5,271 by the end of 1997 to \$2,819 by the end of 2002 with low growth rates and the depreciation of the Brazilian real against the dollar (World Bank, 2019).

In terms of social development, the Cardoso era was very important for Brazil's history. The gradual decline in the level of income inequality began during this period at a slow pace. According to the data by the SWIID (Figure 5), the eight-year period between 1994 and 2002 brought a decline in Gini from 0.525 to under 0.51.

The Cardoso era created a political heritage that will be extended and developed during the Lula era such as macroeconomic discipline, poverty reduction, first effective national social policies including conditional cash transfers, and the implementation of the constitution's social welfare provisions. This period triggered the transformation of the meaning of democracy for taking social development into consideration.

Looking at the redistributive policies of the period, optimistic economic performance during Cardoso's first term prepared the ideal environment for increasing social spending at a moderate level. This expansion in social spending was mostly driven by constitutional provisions in a relatively favorable economic and political environment

(Santos, 2013: 141). During the second term of Cardoso's rule, while unfavorable economic conditions and double agreement with the IMF pushed the government for deduction in social expenditures. These restrictions triggered the efforts of redistributive measures with limited budgets. Conditional cash transfers, which will become the most important tool for the Lula era, has transformed into efficient policies nationwide during this period (Santos, 2013: 141). Instead of costly universal policies as mostly seen in developed countries, targeted redistributive policies also fit into neoliberal agenda's targets about poverty reduction with low government spending.

Taking a close look at conditional cash transfer programs, they were being implemented by local governments in a limited scope before and the central government started to use these policies at the national level in 1996. Bolsa Escola (conditional on regular school attendance) and Bolsa Alimentacao (conditional on regular attendance for health checks and nutrition activities for mothers and children), which are considered as the first broad and effective conditional cash transfer programs in Brazil, began in 2001. These programs aimed to reduce inequality and poverty in the short-term and their conditional structure invested in both health and education to develop human capital for the next generations in the long-term (Britto and Soares, 2011: 1 quoted in Santos, 2013: 141). At the end of 2001, one year before Cardoso handed over of his presidential duty to Lula, there were seven different social assistance programs controlled by the central government, each focusing on different areas with different criteria (Santos, 2013: 141).

Statistical data about social expenditure during the Cardoso era shows that despite the implementation of macroeconomic policies in accordance with neoliberal agenda, total social spending rose 32 percent by increasing from 11 percent of GDP to 13 percent of GDP. The spending on social assistance expanded six times with the effect of conditional cash transfer programs. Still, total spending on social assistance only took 0.6 percent of GNP thanks to their low costs. All in all, the constitution's social welfare provisions with the impact of democratization and popular demands played the key role in that direction against the dominance of neoliberal policies (Santos, 2013: 142).

To conclude, the period under the political dominance of Cardoso that started during the last year of his role as the minister of economy and continued during his presidency for two successive terms had two milestones: macroeconomic disciplinary reforms against high inflation, and the implementation of the constitution's welfare provisions particularly with conditional cash transfers on a nation-wide scale.

A democratic national consensus around the reduction in both inflation and poverty constituted popular support for Cardoso's initiatives by making him the first president who was elected for two successive terms during the new democratic experience of Brazil. The development of democracy included the non-elite from lower classes into political and social life, the participation of masses affected politics with their redistributive demands. Thus, it shows that democracy, going beyond only an institutional arrangement, began to create a new mentality supporting more equal distribution of resources in all aspects of social life.

Although its ratification in 1988, the constitution's social provisions were not implemented during the first years of Brazil's democracy. During the Cardoso era, we see a tendency to practice the constitution's social aspects with limited coverage under the effect of the neoliberal agenda. The roots of the concept of neo-developmentalism can be found here. From the perspectives of people and politicians, the meaning of development was no longer limited to economic growth with the increasing effect of democratization. An inclusionary development should have been the next step for more democracy and more development in Brazil.

Considering all these developments, the Cardoso era can be considered a preparatory transition period before the golden age of Brazil during the Lula era. Lula mostly copied Cardoso's neoliberal economic policy with a special focus on macroeconomic discipline. Moreover, social policies that Cardoso initiated, particularly conditional cash transfer programs, were developed in terms of their coverage and budget during the Lula era and started to show their inequality reducing impacts by becoming the milestone of the period. Redistributive demands of the people going hand in hand with democratization process in a reciprocal relationship led to an institutional change in the politics of Brazil by becoming the crucial factor in the election of a candidate like Lula who came from a left-wing political background and gave priority to redistributive policies.

4.3 Lula Period: 2003-2010

After three unsuccessful runs for the presidency since 1989, the Workers' Party leader Lula announced his candidacy for the 2002 general elections. As the polls started to show Lula as the favorite candidate, global neoliberal markets reacted negatively against the possibility of an orthodox leftist candidate from a labor movement background to be the next president of Brazil where was a popular destination for foreign investments. In addition to the recent recession, speculative shocks over the exchange rate and withdrawal of some foreign investments caused damage for the economy of Brazil. In response, Lula's commitment to neoliberal policies and IMF agreements following a moderate-left route achieved to gain trust from global markets. As this section will discuss later, the policies of the Lula era were socially reformed version of the policies of his predecessor. The outlook of the political economic regime during the period can be summed as a moderate left, a socially inclusive development model that followed the neoliberal agenda with macroeconomic discipline and a special focus on social policy reforms.

The election of Lula was a turning point for Brazil's democracy in every aspect. In a country which historically suffered from high inequality, poverty, and poor social development, it was the first time that a politician from the non-elite section of the society came to the power with redistributive promises (Wiltse, 2013: 313). Until that time, the control of politics in Brazil belonged to a narrow elite, and lower classes in Brazil voted directly through their own interests for the first time (Wiltse, 2013: 313).

Thus, Lula's very early speeches after the election were about ending hunger and redistributing more.

Throughout his presidency, Lula achieved to form a direct relationship with lower social classes while delivering his redistributive promises. One of the distinctive characteristics of this inclusionary development was to be shaped around a democratic consensus. In such a country where redistributive policies and social development were insufficient for decades, the redistributive moderate left regime created cross-cutting alliances. When Lula left the presidency after two successive terms, his approval rating of 88 percent provided him the opportunity to point out his successor (Ricz, 2017: 101). As a result, redistributive social assistance programs have become a milestone in the political spectrum by creating a political heritage. Even the opponents of the Workers' Party had to add this type of policies into their party programs for electoral reasons (Hall, 2008: 813).

During that period, Brazil experienced both economic growth and inequality reduction. This again brings us to the reciprocal relationship between further democratization and inclusionary policies. As democracy matured in Brazil, new social citizenship provided the inclusion of lower classes to politics by realizing their redistributive demands; as lower classes participated the politics with inclusive social and economic policies, democracy became more consolidated.

According to the Freedom House data (Figure 2), political rights were rated as 2 out of 7, which refers to one level below the best rate of 1 between the years of 2003 and 2010 when Lula was the president. Moreover, civil liberties improved during the Lula era upgrading from 3 to 2. All these indicators prove that Brazil was a democratic

and free country during the Lula era with some improvements throughout the course according to the Freedom House index which gives credit to the areas that Linz and Stepan (1996) underline their importance for the democratic consolidation.

Looking at the economic policies of the period, Lula falsified expectations by continuing Cardoso's neoliberal heritage concentrating on the macroeconomic discipline with central bank independence and inflation targeting (Vernengo, 2006; 2008). In addition, he extended the coverage and effectiveness of social policies, particularly social assistance programs. After eluding economic problems during the first year, 2004 was the year when the economy started to recover, and social expenditures started to expand. Also, with the contribution of the optimistic global environment, Brazil was finally implementing the constitution's state protectionism provision with redistributive policies. Despite of the global financial crisis' negative effects, the economy of Brazil grew annually at an average rate of 4.1 percent between the years of 2003-2010 and became the 6th largest economy in the world at the end of 2011 (Inman, 2011).

Although it was a moderate economic growth, its redistributive and inclusionary characteristic triggered discussions about the emergence of an alternative social democratic model for the global south. In addition to Brazil, wide spreading social democratic administrations all over Latin America fueled hopes about the region to be dubbed as the new fortress of social democracy. Moreover, the Brazil model falsified the arguments claiming that developing countries had to sacrifice equality for the sake of economic development.

Various theories have been suggested about the model that Brazil displayed during this period. Ban asserts that Brazil did not copy the prescriptions imposed by the neoliberal institutions of the West. On the other hand, Brazil did not follow a completely different strategy from the Washington Consensus suggested. Accordingly, Brazil's political-economic model was a 'hybrid socioeconomic policy regime made out of liberal and developmentalist policy goals and instruments' that can be titled as 'Liberal Neo-Developmentalism' (Ban, 2012). Ricz (2017) describes this model with the term 'Social Developmental State' which represents a moderate leftist model aiming socially inclusive development based on redistributive growth. Riesco (2009) calls it 'New Developmental Welfare State' with its progressive direction in terms of development and redistribution.

What makes the concept of new developmentalism which Ban and Riesco underline distinctive from the concept of old developmentalism is its focus on social development rather than only focusing on economic growth. This difference between old developmentalism and new developmentalism points out an ideational shift in terms of the meaning of development. New discourse for development invited larger parts of the society to the journey of development with a more participatory and more consultative approach (Wong, 2004).

Summing the general outlook of the period before analyzing the details of inequality-reducing redistributive policies: moderate economic growth, tight and conservative monetary policies and a low-inflation regime, higher minimum wages, extended social policies resulted in poverty and inequality reduction are the main characteristics of so-called 'Lulismo' (Wylde, 2012; Amann and Barrientos; 2014)

Conditional cash transfer programs and improvements in minimum wages were the crucial factors that upgraded the life standards of lower classes and included them to the journey of Brazil's economic development (Evans and Heller, 2015).

During the Lula era, Brazil achieved to be the only case among the BRICs that reduced its income inequality by giving priority to redistributive social policies. Between the years of 2002-2009, the bottom 10 percent of the population grew at almost 7 percent per year, while the top 10 percent grew only at 1.1 percent a year (Lustig et al., 2012: 6). For income inequality in terms of Gini coefficient, different databases give different scores; but, one thing is common that the Lula era brought a massive decline for eight years with a linear trend.

The data by SWIID (Figure 5) shows a steady decline in Gini coefficient from above 50 to almost 46 between the years 2003 and 2010. Investigating the underlying reasons for the recent decline in inequality rates, analyses discover three main factors: (1) the improvement in labor markets due to market responses and higher minimum wages (2) cash transfer programs implemented by the government, and (3) the expansion of progressive social expenditure.

4.3.1 Improvement in labor markets due to market responses and higher minimum wages

The impact of higher minimum wages was lower for the reduction of inequality compared to the impact of cash transfer programs (Barros et al., 2010). However, increasing minimum wages played a crucial role in boosting household consumption among lower classes which led to healthier economic growth, especially during the global crisis. Also, they created a positive impact on social security benefits.

Throughout the Lula era, minimum wages increased more than 50 percent (Santos: 2013, 144). Considering low inflation rates of the period, the real increase in minimum wages was about 35 percent which expanded consumption among domestic markets (Barros et al, 2010: 33).

Esping-Andersen (1990) suggested that social policies in any country determine and are determined by economic and political structure. The underlying reasons behind this massive increase in minimum wages had both. The one political reason was the 1988 Constitution's emphasis on income safety as a social right for citizens. Another reason was about the Workers' Party's labor-influenced ideological roots. Finally, favorable economic conditions made these wage increases possible.

4.3.2 Cash transfer programs implemented by the government

Social assistance policies based on conditional cash transfers had the lion's share in the decline of inequality with their direct relation to political dimensions of social development, particularly the Bolsa Familia which was the largest conditional cash transfer program in the world. The Bolsa Familia was built on the earlier social assistance programs of the Cardoso era and merged them under one major title. Like many others, the Bolsa Familia functions through a mechanism involving 'cash transfer, targeted beneficiaries, and conditionality' (Pereira, 2015: 1682). It provides non-contributory monthly cash assistance to poor families on the condition that recipient families should meet the basic educational and health care requirements for their children. Through this mechanism, the Bolsa Familia aims to fight both short-term and long-term disparities. In the short-term, cash transfer to lower classes have

a direct effect in terms of progressive redistribution; in the long-term, its conditional structure makes an investment in the human capital of lower classes.

Targeting the most disadvantaged section of the population, social policies can have both protective and productive functions (Tillin and Duckett, 2017: 257). The Bolsa Familia serves both purposes. Its cash transfer mechanism functions as a protective policy against poverty and inequality; on the other hand, its conditional structure provides development both in education and health by investing on human capital for a more productive society in the long-term. Therefore, it is beneficial for both economic and social development.

The most striking point about the Bolsa Familia was its large coverage. After its initiation during late 2003, it reached almost 6.5 million families by 2004. With a steady increase, its coverage exceeded 13 million families by the end of 2012 (Santos, 2013: 142-3). These numbers represent almost 25 percent of the population (Paiva, 2016: 48). With its very limited burden on the national budget, costing only 0.4 percent of GDP, the Bolsa Familia was very effective for a progressive redistribution (Santos, 2013: 143). Different estimations about the impact of the Bolsa Familia on inequality give different results; but, one thing is common that all of them agree with its huge impact compared to its low burden on the budget, thanks to its well-targeted design. The recent research by Sergei Soares (2013) calculate that the Bolsa Familia and its ancestors were responsible for 14 percent of the fall in inequality between the years 1995 and 2009.

Tracing the development of social expenditures from the beginning of Cardoso's presidency to the end of Lula's presidency, there was a real growth rate of 172 percent, and an increase in social spending of 4.3 percentage points of GDP. Moreover, the total budget of social assistance rose from 0.6 percent of GDP to 1.1 percent of GDP during the Lula era (Santos, 2013: 144).

Lula's redistributive policies' large coverage and high efficiency made them very popular among the people of Brazil following their redistributive demands. Hall claims that the expansion in conditional cash transfer programs was the main reason for Lula's second election victory by forming an alliance between different political spectrums (Hall, 2008; Zucco, 2013). Midgley (2013) suggests several goals of such policies: welfare, economic, and political. In the case of Brazil, political goals were the most prominent factors. The historical origins of poor social development and expectations after the democratization created the basis of this political background. The use of conditional cash transfers for electoral purposes and consequential 'path dependence' and 'policy lock-in across the political spectrum' due to their huge popularity among the people constitute political factors of these policies (Hall, 2013). Accordingly, large support for the Bolsa Familia among voters made redistributive social policies a necessity for electoral success in Brazil. Some scholars define this situation as 'universalised clientelism' (Wiltse, 2013). Ignoring ideological and partisan differences, all political parties had to embrace social assistance policies for electoral purposes after Lula's success.

In addition, Brazil's new social policy outlook had two dimensions: electoral and distributional (Hall, 2013: 179-180). In terms of electoral dimensions, the Workers' Party used these policies as one of the main tools for their electoral success. Thus, they created a heritage in the political spectrum of Brazil. In terms of distributional dimensions, there are both positive and negative consequences. The negative aspect is that some parts of the society get depended on these policies economically to take care of their lives; also, they do not take part in economic production actively because having a wage may result in the termination of social assistance. The general assumption is that targeted social assistance programs should be temporary solutions to help people improve their human capital by supporting social development and to make their participation in economic life possible (Hall, 2008). However, their popular and electoral structure may cause populist approaches resulting in such a dependency and lack of social infrastructure investments. On the other hand, the path dependency of such policies may open a permanent space for redistributive policies in the political tradition of Brazil which suffered from chronic lack of social development for decades.

As a result, the Bolsa Familia was one of the clearest responses to people's redistributive demands. The process, starting with gradual democratization and continuing with the constitution's social welfare characteristic as "renewed social contract" (Barrientos et al, 2013) reached its peak point with the policies of the Lula era. Hall interprets the Bolsa Familia as the first step in a long journey to tackle the problem of inequality and poverty, instead of an absolute solution (Hall, 2013: 180). However, its reciprocal relationship with democratization cannot be ignored. Bolsa Família raised political awareness and democratized access to social services such as

health and education by contributing to a more empowered and engaged citizenry (Hall, 2008). Moreover, the Brazilian case shows that targeted redistributive efforts may lead to greater trust, more effective citizenship, the recognition of social benefits as a right, and enhanced democracy, on the contrary to general negative belief about this kind of policies.

4.3.3 Expansion of progressive social expenditure

Looking at the evolution of social expenditures which started to expand during the 1990s with the introduction of social citizenship due to the democratization process, there is a parallel relationship between the decline in inequality and the expansion of social expenditure since the mid-1990s. Between the mid-1990s and 2009, social expenditures rose from 12 percent of GDP to 16 percent of GDP. In parallel with this, the tax burden rose from 27 percent to 34 percent during the same period (Ban, 2012: 19). Such a tax burden also triggered some discussions about the capability of a developing country to handle it. Moreover, Brazil's tax system still has some regressive characteristics with its reliance on indirect taxes (Goes and Karpowicz, 2017). On the other hand, direct income taxes have gained a very progressive function during the Lula era with their contribution to reducing the Gini of after-tax incomes by 1.9 percent based on the data in 2009 (Lustig et al, 2013).

Soares (2013) makes a distinction among social expenditures in his analysis by dividing them into opposite groups: progressive expenditures and regressive expenditures. Based on his analysis, regressive transfers declined from 36 percent of all these transfers to 29 percent between the years of 2001 and 2009; on the other

hand, progressive ones doubled in the same period. This data shows that the change in redistribution had also the development of quality in addition to quantity.

4.3.4 Conclusion

In conclusion, the election of Lula as the president was a translation of Brazilian people's expectations from democracy as equality promoting political regime. In a country where many people had suffered from poverty and socio-economic inequalities for decades, the electoral choice in 2002 reflected a clear message about redistributive demands.

During the period, Brazil exhibited very good performance in terms of economic and social development that can be an example for other developing countries in the global south. The combination of a neoliberal economic regime with a disciplined macroeconomic policy against the inflation risk and effective social policies, Brazil achieved to enlarge economy, reduce inequality, and boost domestic consumption with a larger middle class. Moreover, all of these changes followed a democratic consensus with the mentality of 'new developmentalism'. Almost two decades passed following the democratization, Brazilian people's redistributive demands led to an alternative social democratic model by triggering new discussions about social policies and development models in the global south.

Nearly two decades after the transition to democracy, the organization of democratic actors and institutions provided the opportunity for a left political party to mobilize people for progressive redistribution. While conditional cash transfers and higher minimum wages upgraded the life standards of lower classes, this inclusionary

development received positive reactions from different segments of the society. Therefore, redistributive social policies were very likely to bring a radical change in the political tradition of Brazil in favor of more progressive redistribution. The Lula era represented how the more equal distribution of political power leads to more equal distribution of economic resources in the case of Brazil.

In addition to the positive aspects of the period, some points need to be addressed. Favorable economic conditions and international environment made it possible for Brazil to distribute the benefits of the economic development to broad segments of society through social policies and inclusive development models (Öniş and Gençer, 2018). A sustainable effective redistribution in developing countries seems to be heavily dependent on a favorable domestic and international environment. Also, Brazil continued to be one of the most unequal countries despite the substantial decrease in poverty and relative inequality. In a period when Brazil seemed to offer a new social democratic model for the global south, most countries in the global north under the effect of neoliberal policies had still higher budget shares for social welfare policies. This once again proves that countries with high democracy levels and stronger economic prosperity are more likely to implement large-scale of redistributive programs.

4.4 Post-Lula Period: 2011-

After the end of Lula's second term, he was not able to run for another term due to the constitutional limit. Lula's Chief of Staff Dilma Rousseff became the Workers' Party's candidate for the presidential election in 2010 with the support of Lula. During her five and a half years in the rule, Rousseff's period can be seen as the continuation of Lula's period in terms of major policies. However, the results were very different. In 2016, the Senate impeached Rousseff and removed from the office due to breaking budgetary laws.

After the favorable global environment of the early 2000s, post global crisis created harsh conditions for developing countries. Brazil's economic growth slowed down between the years of 2011 and 2014. With the effect of increasing dollar against real resulted in the decline of GDP based on the dollar. After 2014, the economy of Brazil began to shrink (World Bank, 2019).

The protests of 2013 and 2015 were among the most striking events of the period. There were different observations about these mass protests against the government. Some claimed that the protests exhibited the exhaustion of a model of social inclusion based on consumption and access to private goods. Instead, people demanded a new model based on universal rights in terms of social citizenship and access to public goods (Pereira, 2015: 1693). On the other hand, some interpreted them a step in the long journey through 'the parliamentary coup' (Santos and Guarnieri, 2016). According to this perspective, mass protests, anti-corruption charges, and the involvement of external forces were an alliance of opponents

against the moderate-left regime of the Workers' Party in favor of a neo-liberal regime.

Following the removal of Rousseff, the appointment of Michel Temer who is a supporter of neo-liberalism supports some of these claims. Vernengo's (2018) analysis implies that this 'democratic deconsolidation' process was resulted by the judiciary, which has been always a branch of oligarchic structure throughout the history of Brazil, in favor of oligarchic distribution of economic and political power.

One thing is clear that people did not react positively to these recent developments imposed without their will. The approval rate of Temer was very low (Bloomberg, 2017). Also, a potential candidacy of Lula for the next elections would have made him the favorite candidate again (Reuters, 2018). However, this possibility was eliminated by the judiciary decision.

At the end of this so-called 'democratic deconsolidation' process, a far-right candidate Jair Bolsonaro, who was also a supporter of the military regime in Brazil, has been elected as the new president of Brazil. The Brazilian people's choice can be interpreted as a response to recent political and economic instabilities and a reaction to the establishment (Fishman, 2018).

During the period, the decline in inequality has stopped after the first years of Rousseff rule with the effects of unfavorable economic conditions and political instability (Figure 5). Looking at the protests of 2013 and 2015 from the perspective of social development, although the conditional cash transfers upgraded the life conditions of lower classes, public services and social infrastructure did not improve correspondingly. For example, the Bolsa Familia increased access to health and

education services in terms of quantity; however, the quality of these services did not improve (Pereira, 2015: 1693-4).

This dilemma brings us again the discussion about the conflict between universal and targeted social policies. Recent developments proved that new socially inclusive developmentalism was not institutionalized enough in Brazil (Ricz, 2017: 1). In such a developing country, high tax burden which is still regressive to some extent and the inability to transform short-term solution targeted policies to universal policies caused the questioning of the model's sustainability while exhibiting the limits of social democracy in the global south. These questions, which are outside the scope of this thesis, need to be analyzed in further studies.

4.5 Conclusion

Prior to the democratization in 1985, political instability and poor social development sums the long years in the history of Brazil. High levels of inequalities within the society became one of the driving forces for democratization after the long-lasting military regime. Three years after the regime transition, the new democratic constitution emphasized the state's responsibility for social welfare and the concept of social citizenship in accordance with the popular spirit among society. Nevertheless, it is obvious that these redistributive demands were not translated into actual policies immediately during the period following the democratization. High levels of inequality, poverty, and inflation maintained their status as the major

problems for the Washington Consensus period during the first decade of the democracy.

The period under the political dominance of Cardoso took the first steps of democratic solution against major problems. While the people of Brazil support Cardoso's fight against high inflation, partial efforts for social policies in accordance with the constitutional provisions set the stage for the next period under the rule of Lula. Moreover, the Cardoso era achieved to reduce both poverty and inequality to a lesser extent.

The Brazilian people's demands for a more egalitarian and redistributive democracy resulted in the election of Lula. Building on the political heritage of his predecessor, Lula continued Cardoso's macroeconomic policies with more progressive redistribution. In addition to successful economic performance, effective social policies brought important success in declining inequality and poverty. Conditional cash transfers, namely the Bolsa Familia became the milestone of the period. Its targeted structure made the Bolsa Familia a very effective tool to reach its aims for social development. Moreover, higher minimum wages and partial improvements in basic universalism such as education and health services included many people from lower classes to the middle class. The case of Brazil inspired academics about the emergence of a new alternative model for developing countries.

The 2010s in Brazil have witnessed political instability, mass protests, and economic recession. After the impeachment of the president Rousseff, there have been discussions about a democratic reversal in Brazil. Accordingly, the social democratic model that Brazil followed during the Workers' Party rule is reversed by

conservatives. Recent developments in Brazil have already triggered doubts about the limits of social democracy in the global south.

The recent developments in Brazil reveal that redistributive social policies in the global south are very fragile with their heavy reliance on favorable economic conditions and democratic stability. The gradual but steady democratization process in Brazil since the regime transition faced serious constraints due to political instability and economic problems in the 2010s. The Bolsonaro era has signified an anti-democratic backlash and the resurgence of the right with its neoliberal features.

As the recent anti-democratic backlash in Brazil has shown, sustainable redistribution is one problem that democracies in the global south struggle to handle. In parallel with decreasing democracy level, redistribution has been falling and relative income inequality has been rising again. The recent neo-liberal and anti-democratic backlash in Brazil once again proves the reciprocal relationship between the triangle of democracy, redistribution and relative income inequality.

Theoretically, the case of Brazil confirms the positive effects of democracy on more socioeconomic equality and redistribution. The electoral success of Lula and Rousseff shows the median voter effect for more redistribution (Meltzer and Richard, 1981). In a country with high levels of inequality such as Brazil, the median voter preferred more progressive redistribution through their interests. The embodiment of this effect in successive electoral successes forced other political parties to add redistributive policies into their political agendas. Moreover, Brazil presents a concrete example of Huber and Stephens' (2012) claim that democracy makes the gradual movement for more equality possible by providing the opportunity for

underprivileged to organize with the development of political parties, groups, and social movements. Wong's theory (2004) about the mentality changing effect of democracy can be found in the concept of neo-developmentalism. Finally, Weyland (1996) emphasized the importance of political associations and social movements, political parties, and a cohesive state for an egalitarian democracy. In the course of events following the democratization, Brazil's journey for a more egalitarian democracy confirms all these factors. As told before, I think that all these theories complete each other to explain the positive relationship between democracy and equality.

CHAPTER 5

EXAMINATION OF THE AUTHORITARIAN REGIME IMPACT ON INCOME

INEQUALITY:

THE CASE OF CHINA

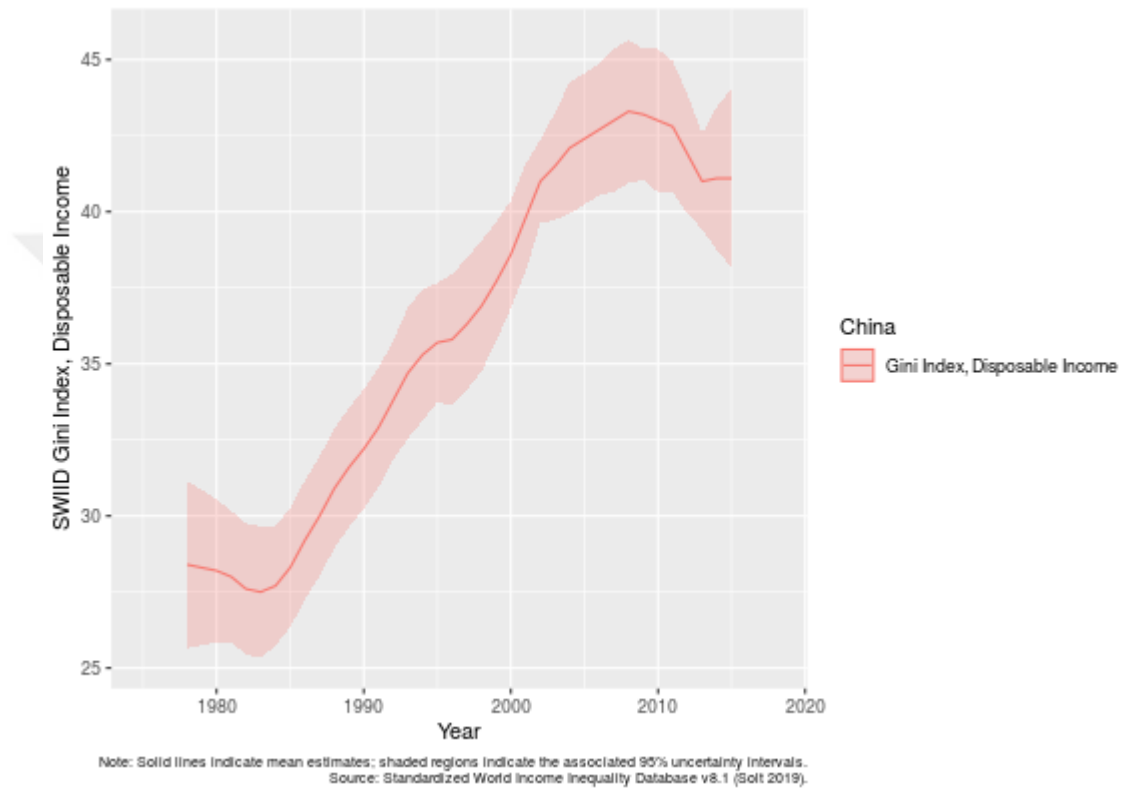


Figure 6: Gini Coefficient in China

The People's Republic of China was founded building on the socialist egalitarian ideology under the leadership of Mao Zedong. During the years dominated by the rule of Mao, China was a low-income country which mostly had an agrarian society. After the death of Mao, China has undergone a radical transformation process with the implementation of economic liberalization reforms. Economic liberalization and opening up to the world have brought massive success in terms of economic development and absolute poverty alleviation. According to the World Bank data, the GDP per capita was \$156 in 1978 when economic liberalization reforms began; the data from 2017 points out \$8.827 for GDP per capita (World Bank, 2019).

However, one significant consequence of the authoritarian Chinese regime's rapid economic development strategy was to sacrifice relative equality in society. During the late 1970s and early 1980s, the Gini coefficient in China was below 0.30 (Figure 6). Social development was going ahead of economic development in accordance with the egalitarian and socialist ideology of the country. As the main welfare provider, the state was taking the full responsibility of health care, education, and other social services to fulfill the basic needs of its citizens. On the contrary, contemporary Chinese society has huge disparities in the distribution of economic resources and basic public services. Within the scope of the study, this chapter will analyze the evolution of inequality in China since the economic liberalization reforms in order to investigate the effects of authoritarian political regime on income inequality.

This chapter will analyze the case of China by dividing into three time periods in chronological order:

- 1- Beginning Phase of Economic Liberalization Reforms: 1978-1992
- 2- Deepening of Economic Liberalization Reforms: 1992-2002
- 3- Return of Welfare State: 2002-

After the beginning phase of the economic liberalization reforms led by Deng Xiaoping will be investigated, the next chapter will focus on the most intense period of the transformation period in terms of increasing inequalities and changing social structure during the 1990s. Before the concluding remarks, this chapter will discuss the authoritarian regime's social policy reforms through the goals of social stability and economic sustainability to maintain political stability and regime legitimacy during the 2000s.

5.1 Beginning Phase of Economic Liberalization Reforms: 1978-1992

Since the foundation in 1949, China has been an authoritarian regime under the rule of the Communist Party in a single party structure. Until the death of the founding leader Mao, China represented the characteristics of a personal dictatorship that was shaped around the personality cult of Mao. Since the end of the Mao era, China has represented the characteristics of a bureaucratic authoritarian regime that is tied to the decisions and operations of the Communist Party.

During the Mao era, the state had almost full control over the economy with the public ownership of resources. The Communist Party managed the economy by preparing five-year plans based on a Soviet-style centrally controlled economy. Mao's priority was to make an extensive land reform in favor of poor/landless peasants in an agrarian society. Moreover, the first steps through industrialization were realized during this period. The Great Leap Forward was the most important campaign to rapidly transform the country from an agrarian economy to a socialist society through rapid industrialization and collectivization (Oktay, 2017: 48-51). At the end of industrialization efforts, industrial production constituted 48 percent of the Chinese economy in 1978, while agricultural production was equal to 28 percent of the economy. However, the consequences of The Great Leap Forward are still controversial (Oktay, 2017: 56).

Due to Mao's egalitarian vision based on the Marxist political ideology, China's first aim was to create a harmonious equal society. Through this vision, the state took the role of the main welfare provider. Despite of being a low-income country, China achieved to provide high levels of social welfare for its citizens (Lee, 2017). The combination of public ownership, organized distribution of resources, and collective social protection made Chinese welfare system developed and relatively equal (Ngok, 2013: 30-32).

In the areas of social protection and welfare, the government had the domination and monopoly within a rigid egalitarian state (Lee, 2017). Social policies were organized based on a collective dualistic system due to Hukou² system. In this

² Hukou is the household registration system. Official records register citizens based on their residential area as urban resident or rural resident. Social programs provide different benefits to

dualistic structure, urban workers were the most advantageous recipients. State Owned Enterprises (SOE) were the main units that provided generous welfare benefits for urban workers. In rural areas, rural communes were the main units for the distribution of welfare benefits which included very limited assistance and support compared to what urban workers received (Ngok, 2013: 30-31).

In sum, China was a rigid egalitarian state that adhered to the Marxist ideology during the rule of Mao. The state had full control over a centrally planned economy. Public ownership and organized distribution of economic resources created a relatively equal and monotonous social structure. State-dominated social protection system functioned through two separate channels: while SOEs were the main welfare provider for urban workers, rural communes were the welfare units for rural residents. Despite of urban-rural distinction in the functioning of the social welfare system, regional disparities were low. Although China had very limited economic resources, social development achieved to meet the basic needs of citizens.

Following Mao's death, the power struggle within the party resulted in the defacto leadership of Deng Xiaoping who was accused of being a 'reformist' during the Cultural Revolution and became a victim of the political campaign led by Mao. China under the guidance of Deng Xiaoping experienced gradual reforms for economic liberalization instead of dogmatic adherence to Maoist ideology, which is called 'Socialism with Chinese characteristics' (Oktay, 2017: 387). In terms of political regime characteristics, China has transformed to a bureaucratic authoritarian regime instead of a personalistic leadership cult with the implementation of precautionary

urban and rural citizens. Moreover, Hukou serves to limit the migration from rural areas to urban areas.

measures against the possibility of a new personalistic cult in the future (Oktay, 2017: 60). Decisions were determined and carried out by top officials in a bureaucratic structure within the party. While this structure blocked the rise of certain leaders as dictators, some leaders still stepped up as more prominent figures as Deng Xiaoping did during the economic and social transformation period.

The party meeting in December 1978 initiated a gradual process in economic liberalization and opening up to the world. The main aim of economic reforms was to achieve rapid and aggressive economic growth. For the sake of this economic growth strategy, egalitarian philosophy that inherited from the Mao era was sacrificed. Economic reforms and opening up policy brought the large scale of economic and social transformation. Putting economic growth at the top of its agenda, China's new strategy took social development in hand to an extent that it served economic development (Ngok, 2013: 32).

At the beginning of the economic liberalization period in 1978, Deng Xiaoping had declared the route of a new economic model: "We should let some people get rich first, both in the countryside and in the urban areas" (Cevik and Correa-Caro, 2015: 3). Deng Xiaoping's speech perfectly sums the new understanding of development in China under his rule. Coastal regions were the main beneficiaries of this industrialization strategy. While coastal regions were developing rapidly, inner regions stayed behind. Thus, regional inequality has reached very high levels since then, causing one of the most important problems in contemporary China (Wei, 2002). China's economic development model initiated by Deng Xiaoping solely

focused on quantity rather than quality, being much more beneficial for a narrow segment at the top of income distribution.

Economic reforms have followed a gradual process. The open market has been tested step by step, and some claim that China's economy does not still represent an entirely capitalist economy (Piketty et al., 2017). In the first ten years of economic liberalization reforms, building basic structures of a market economy, China achieved to increase GDP over 2 times at 10 percent growth rate annually and the amount of exported goods increased five times (Oktay, 2017: 77). Moreover, GDP per capita rose from \$156 to \$283 during the same period (World Bank, 2019).

Social equality was sacrificed for the sake of rapid economic growth. While the priority in investments was making coastal China rich, left inner China behind in poverty. Moreover, the Hukou system's restrictions against internal migration contributed to disparities between rural residents and urban residents. As China's economic development was very productive for a few, large sections were excluded from such benefits. All of these factors resulted in a steady rise in economic inequality.

According to the data by SWIID, the Gini coefficient in China increased from nearly 0.29 to 0.31 during the first decade of market reforms (Figure 6). This rise indicates that the first decade of market reforms was just a starting phase with a relatively moderate increase in the Gini coefficient.

Looking at the changes in social policies, the state initiated its withdrawal from its traditional role as the main welfare provider thus leading to the decline of the collective-based social protection system. Economic development strategy aimed to

intensify competition. In rural, de-collectivization was the main strategy for intensified competition; in urban, non-state enterprises forced SOEs for being more competitive. While de-collectivization created incentives for agricultural production in rural, it also announced the death of the commune system. The already limited social protection and welfare in rural completely collapsed and abandoned rural residents to take care of their own welfare. Non-state enterprises' impact on SOEs was to make them more competitive and profitable. However, competitive market-oriented economy led to reforms in the rigid employment and wage system of the socialist tradition and finally left its place to the labor contract system in 1986. These reforms in a competitive market economy caused job security threat for urban workers (Ngok, 2013: 32).

The transition from a system in which the state was the main welfare provider through the goal of an egalitarian society to a system in which authoritarian regime made aggressive economic growth the top priority brought some consequences leading to disparities within the society. In the absence of democratic checks, Deng Xiaoping proposed a new social contract which consolidated the dominance of the Communist Party over all aspects of the life and offered rapid economic growth in return for not demanding political rights and freedom (Atlı, 2013).

5.2 Deepening of Economic Liberalization Reforms: 1992-2002

The great economic and social transformation that China started out during the rule of Deng Xiaoping also led to many concerns such as increasing socio-economic inequalities, environmental problems, rampant corruption, and widespread unemployment due to the changing nature of state-owned enterprises. Threatening both social and political stability, these developments caused anger and resentment among the people and resulted in mass protests also known as 1989 People's Movement.

During the protests, students were the leading actors who rebelled against corruption and negative impacts of reforms and stood up for political liberalization. They were joined by other groups, particularly urban workers who were victimized by structural reforms in SOEs (Oktay, 2017: 79). The authoritarian regime did not welcome these protests and claimed that external forces created the turmoil to destabilize China (Wasserstrom and Wu, 2017). Using brutal force, the government put down demonstrations.

The Tiananmen Protests sealed the social contract that intensified the authoritarian consolidation in exchange for aggressive economic growth and prosperity. While political and social demands of the citizens were suppressed, economic and social reforms entered a new phase.

The period between 1978 and 1988 was the beginning stage of economic reforms. After the Tiananmen protests, the second and more radical stage was initiated. After the relatively smooth first stage, the 1990s have experienced a radical transition to a market economy. The first decade of reforms represented rough transition efforts to

a market economy which still had central planning, SOE's as the main producer of goods, and higher public properties than private properties (Oktay, 2017: 77). The second stage witnessed rapid privatizations, new arrangements about labor relations, and integration to the outside world with the accession to the World Trade Organization (Oktay, 2017: 60). The goal of the Communist Party was to create a socialist market economy without any opposition. Through this aim, China tried to adapt the institutions and organizations that advanced Western market economies have in a completely different political climate (Oktay, 2017: 83-4).

After Deng Xiaoping's retirement in 1989, Jiang Zemin furthered Deng's vision for "Socialism with Chinese Characteristics". GDP per capita rose from \$283 in 1988 to \$1148 in 2002 (World Bank, 2019). However, this growth came at the cost of new sacrifices, especially in social welfare policies. While the 1980s were the decline of collective-based social protection, the 1990s witnessed the dramatic change with the collapse of the work unit welfare system and the formation of a new social protection system based on social insurance programs. Reducing welfare expenses and benefits, the state minimized the welfare commitments of SOEs and privatized public services (Ngok, 2013: 33-4).

Under the effect of rapid privatization, the state withdrew from most of the social services. China's old egalitarian socialist model had put emphasis on health, education, housing, and other social policy areas because of the protectionist role of the state for the whole society. After the state withdrew from its traditional role as the welfare provider, these areas have been left to the hands of the private market.

Therefore, the disparities in access to social services caused more inequalities within society.

Through the aim of profitability, SOEs were also radically reformed. As unprofitable SOE's were closed, unemployment skyrocketed (Ngok, 2013: 34). While economic growth strategy in China targeted SOE's for more profit and competition, urban workers suffered from increasing risk and uncertainty for employment and reducing benefits and welfare packages. Old work unit welfare system left its place to a social insurance-based system. Via this reform, the government aimed to deepen the reform of the SOEs, minimizing the state's financial responsibility, and providing social stability (Ngok, 2013: 35).

According to the data by SWIID, the Gini coefficient rose from 0.31 to 0.41 between the years of 1988 and 2002 (Figure 6). Especially after the end of Tiananmen Protests, 'GDPism' was the main policy of China (Ngok, 2013: 34). Through this policy, GDP growth was the only vision of the government for the legitimacy of the regime as social welfare policies were highly ignored.

For a competitive and profitable market economy, privatization gained acceleration. Consequently, GDP grew rapidly at the expense of reducing welfare expenditures, withdrawal of the state from social services, declining role of SOE's and increasing disparities led to further social unrest.

5.3 Return of Welfare State: 2002-Present

As social problems caused by the radical economic and social transformation in China reached their peak level, led to increasing social pressure and unrest during the late 1990s and early 2000s (Özkan, 2017: 270). Due to increasing social pressure and unrest, the authoritarian Chinese regime perceived polarization as a threat to prosperity, unity, and stability; thus, adopted a new outlook to the concept of social development during the twenty-first century. Regarding the need for social development, the Chinese government took relevant issues and policies into their agenda within the content of party meetings and five-year plans.

In 2003, the Chinese Communist Party announced a new concept called 'Scientific Outlook to Development'. In 2004, the party suggested the idea of building a 'harmonious society'. In 2005, listing social development as a major task for the party to meet, the government issued the decision on building a socialist harmonious society in 2006. Accordingly, the government aimed to reverse the trend of increasing disparities within the society and create a more fair and comprehensive social protection and public services systems (Ngok, 2013: 37). In this regard, a transformation in the mentality of development was clear.

In the case of China, different factors and motivations play the decisive roles in deciding and implementing policies, in contrast to democratic regimes. There are different paradigms needed than democracies in order to explain the mentality transformation in China (Tillin and Duckett, 2017). In a democratic setting, politicians act through popular demands to attract voters. Moreover, non-state actors have a major influence on political decisions. On the other hand, non-state actors almost

have no influence on politics in China. Political decisions are entirely taken and carried out by the political elite of the authoritarian regime within a bureaucratic party-state structure.³

In the lack of democratic institutions and principles, reforms and policies have evolved through the goals of the authoritarian regime. Focusing on social development during the twenty-first century, the Chinese government had two different sets of motivation: political and economic (Atli, 2013: 295; Huang, 2013: 75; Tillin and Duckett, 2017; Manor and Duckett, 2017; Özkan, 2017).

As the social consequences of the economic reforms in China intensified, 'losers' of this transformation became a threat against social stability. While the authoritarian regime put much more emphasis on social fairness and development since the beginning of the new century, one of the leading motivations was due to their concern about social stability. Because discontent among masses fueling protests threatens social stability. Authoritarian regimes need to provide social stability in order to maintain the political stability of the regime. Therefore, the Communist Party implemented social policies favoring losers of the system during this period (Ngok, 2013; Özkan, 2017; Duckett and Wang, 2017).

³ In China, bureaucratic party structure was strengthened after the death of Mao in order to avoid the rise of a new personal leadership cult. In this structure, high-level leaders operated on the principle of collective leadership. The most obvious example was the collective leadership of Hu Jintao as the General Secretary and Wen Jiabao as the Premier during the 2000s, with neither man playing a dominant role. They were careful to portray party-state policy decisions as collectively produced in consensus (Manor and Duckett, 2017). On the other hand, Xi Jinping has changed this tradition in recent years and headed for an authoritarian consolidation in the direction of his own personal leadership cult (Economy, 2018).

In terms of political motivations, the party aimed to eliminate the possibility of intensified social unrest that can cause serious threats against the legitimacy of the regime, thus the political stability. In order to maintain political stability, the government should have strengthened their legitimacy by satisfying people's expectations about social development. However, these reforms and developments in social policies, which will be explained later, have been taken in the context of favor by the government to people rather than universal social rights in the context of social citizenship.

Between the years 2002-2017, China has become the second largest economy in the world while its GDP per capita rose from \$1.148 to \$8.827 (World Bank, 2019). While the advanced economies of the western world were really struggling during the global crisis, China maintained its exceptional growth rates. Correspondingly, China was the leading actor that triggered discussions about changing dynamics in the distribution of economic resources among countries could lead to the changing distribution of power in the international order.

However, the surprising fact during the period was the statements by the political elite in China about the vulnerability of the economic model of China and the necessity for structural reforms. While China was exhibiting a very successful economic performance and attracting the attention of the whole world, Chinese leaders were confessing the flaws of the model. Accordingly, the China model could not be sustained in that way. Instead of pursuing aggressive growth, the new model should have focused on more sustainable and solid growth by combining social development with economic growth. This transformation can be summed that the

Chinese government began to focus on quality over quantity in terms of economic development. The twelfth five-year plan of China issued in 2011 was the clearest indicator of the new route by addressing rising inequalities and aiming a more sustainable growth, fair distribution of wealth, increased domestic consumption, and improved social services and policies (Atlı, 2013).

Due to the reasons explained above, the Chinese government began the new century with a new outlook in terms of social policy. This section will examine the trend of increasing inequalities focusing on five different factors listed below and explain the social policy reforms during the period.

- 1- Unequal distribution of income due to the nature of economic policies and politics
- 2- Regional disparities
- 3- Urban-Rural disparity
- 4- Unequal access to social services and policies
- 5- Fiscal policies and social expenditures

Looking at the evolution of the Gini coefficient, income inequality in China reached its peak level just before the global financial crisis. The data by the SWIID points out a Gini value over 0.43 in 2008 (Figure 6). Following the Global Financial Crisis, we see a slight decline as a result of precautionary measures.

5.3.1 Unequal distribution of income due to the nature of economic policies and politics

In terms of economic policies, China followed a strategy based on aggressive economic growth by making some people rich first. While this development strategy was very productive for a few, large sections could not get high shares from this prosperity. In 1978, the top 10 percent owned 27 percent of the total national income, this rate reached 41 percent in 2015 despite of some improvement after the global financial crisis (Piketty et al., 2017). Another example clearly shows the huge difference between the top and the below. Between the years of 2002 and 2007, incomes of the top 10 percent grew 100 percent; on the other hand, below 10 percent grew only 50 percent (Oktay: 2017, 388-9).

Another reason is about the authoritarian Chinese regime's political choices (White, McAllister and Munro, 2017). Holding absolute control over the economy, the regime provides disproportionate benefits in the distribution of economic resources in favor of political elites and sections close to the regime. Thus, the regime maintains the stability of the authoritarian regime against the possible rise of a challenging elite who may be a threat to the regime. The political distribution mechanism operates at two different levels: the political elite financially supports their inner circle to keep the regime strong by forming a bond between the political elite and the economic elite (inclusive), thus preventing the rise of a new economic elite that may politically challenge the existing regime in the future (exclusive).

It is debatable to what extent political elite can waive their economic privileges. They need to keep themselves and their allies financially strong to prevent the rise of a new elite that may threaten the existing regime. On the other hand, China has been following a new direction in terms of economic policies since the global financial crisis. Instead of export-led model based on low-cost production, high savings, and investments; new model focuses on increased domestic consumption with a strengthened the middle class. In order to include large segments as strong consumers in the domestic market, the government aims to increase their purchasing power. This is the point where welfare state policies take a role in the transformation of economic policies.

5.3.2 Regional disparities

The economic development policies that China initiated in 1978 favored eastern and coastal regions. Benefiting from the advantage of competition, the concentration of investments in the region made these areas prosperous. On the other hand, western and inner China could not benefit from early economic development that much. The Chinese government's favorable approach to the eastern and coastal regions caused big disparities in terms of household income and consumption, government revenue and expenditure, and public services delivery among different regions (Li, Wan and Zhuang, 2014). Taking the problem onto the top of their agenda, the Chinese government created incentives to encourage investments in western China. For this purpose, they initiated the Western Development Strategy that includes improvement of infrastructure, incentives for foreign investments, and promotion of

public services in the west. Moreover, the government increased fiscal transfers to the western regions. Consequently, disparities among different regions have narrowed during the 2000s. As the western regions developed faster than the national average, their share in the national GDP rose from 17 percent to 18.5 percent between the years of 2000 and 2009 (Li, Wan and Zhuang, 2014).

5.3.3 Urban-Rural disparity

According to the Asian Development Bank, the disparities between urban and rural have become the biggest concern for high inequality after the improvement achieved in regional inequality (Li, Wan and Zhuang, 2014). The difference between urban and rural in terms of the distribution of income was 2.5 to 1 in the mid-1980s, this ratio increased to 4 to 1 in 2007 (Whyte, 2012). One of the most important factors for the huge difference between urban and rural is the Hukou system. The social welfare system in China favors urban residents. On the other hand, rural residents have very limited access to public services in terms of both quality and quantity. Education and health services do not offer sufficient opportunities. The lack of infrastructural investments in rural contributes to the growing disparities. Serving the government's efforts to control the frequency of immigration from the rural to the urban, the Hukou system also blocks the access of already migrated people to the public services provided in cities. Despite of still being the number one reason for economic inequalities in the Chinese society, there is an improvement in reducing urban-rural disparities, too. The central government abolished the agricultural tax in 2006 and

has dramatically increased its expenditures on rural areas during the new period (Ngok, 2013: 37-8).

5.3.4 Unequal access to social services and policies

Another important reason for massive increase of inequalities is unequal access to social services and policies. While the regime's aggressive growth strategy favored urban workers in industrial regions to rural residents, the political mentality of the regime also distributed disproportionate benefits to party cadres. This system created its own 'insiders' and 'outsiders' (Özkan, 2017). In the distribution of public services and expenditures, this dualistic structure caused new disparities.

Education is the most prominent factor that the disparities within reproduce more disparities in the long-term. In China, where university entrance is determined by a single national exam called the gaokao, many families from rural regions expect their children to take a good education in a prestigious college. However, almost all prestigious colleges are located in industrial cities of eastern China and most of their students come from upper classes of urban residences. Because they have the advantageous conditions to get a good education to be successful in the national exam and to afford college expenses. This cycle of inequality causes resentment among the rural population. Although a single national exam system was designed to enhance social mobility, it has the opposite effect igniting the conflict between social classes and urban-rural (Hernandez, 2016). In the new welfare state scheme, the government tries to favor rural students' entrance to prestigious universities.

Analyzing the healthcare system, China was very successful to provide a comprehensive healthcare system to its citizens in terms of both coverage and equality during the Mao era. According to the report by the World Health Organization in 2000, China ranked 188th out of 191 countries in terms of equal access to health services and ranked 144th in terms of quality of health services (Oktay, 2017: 108-9). Before the economic transformation reforms, communes in rural and SOEs in urban provided free healthcare services. After the transformation, rural residents had to take care of their own health expenses and urban residents depended on their medical insurance, mostly with very limited coverage, offered by the companies they work. In 2003, almost 10 percent of rural residents and 40 percent of urban residents had covered by medical insurance (Oktay, 2017: 110). Rest of the population had to afford all their health expenses. Due to high health costs in China, most people could not afford their health expenses. Moreover, those who migrated from rural to urban, could not benefit from urban health services due to the restrictions of the Hukou system. As a response, the government made radical improvements in medical assistance system. By 2013, almost every citizen in China had medical insurance, even though the quality of health services is still low.

5.3.5 Fiscal policies and social expenditures

China's fiscal policy is defined as regressive and social policies are defined as exclusive (Cevik and Correa-Caro, 2015). Looking at the tax system in the urban, it is somewhat progressive. However, its impact is very limited. Analyzing the urban household data between 1994-2009, the difference between the net Gini coefficient and the pre-tax

Gini coefficient was 0.01 (Li and Sicular, 2014). On the other hand, rural tax system had a very regressive character. The tax rate of the bottom decile was five times higher than that of the top decile in 1995 (Li and Sicular, 2014).

Analyzing the impact of fiscal redistribution, fiscal policies between 2000-13 increased net inequality by the Gini coefficient of 0.11 (Cevik and Correa-Caro, 2015). Therefore, China's fiscal policy had a regressive character overall. Moreover, China's tax-to-GDP ratio is almost half of the OECD average of about 35 percent. This low rate limits the extent of public expenditures, including redistributive measures. Also, most of the tax revenues come from indirect taxes, which is a feature of regressive tax systems of developing countries.

Although government spending has grown from 18 percent of GDP in 1990 to 29 percent in 2013, it is still relatively low compared to the OECD average (Cevik and Correa-Caro, 2015). The biggest share of this increase in government spending comes from infrastructural investments, while social protection expenditures have remained low. While the social protection budget covers 15 percent of GDP in an average OECD country, this rate is 6 percent in China. Moreover, most of public transfers and services favor urban residents from high-income groups. For example, the top quartile of households received about 80 percent of pension spending, compared with only 2 percent for the bottom quartile (Cevik and Correa-Caro, 2015).

For the goals of 'scientific development' and 'harmonious society', the central government in China implemented many social welfare reforms. However, most of these initiatives had limited coverage and could not reach the best targets. Thus, their impacts on inequality remained insufficient.

One of the most important reforms in China's social protection system was the implementation of the minimum income guarantee system called Dibao. As we see in the case of Brazil, this social protection program was first initiated by a local administration, namely Shanghai in 1993. Then, it became a national policy for urban residents in 1999. The expansion of its coverage to the rural waited until 2007. Empirical studies show that Dibao could not achieve to reach most of the poorest (Maiorano and Manor, 2017). Therefore, its impact on inequality has been very limited. On the other hand, it achieved to reduce poverty rates.

Explaining the dynamics behind the social assistance schemes in Brazil and China, we see that the demands of people using their voting power via democratic channels were the decisive factor in Brazil. In China the authoritarian regime's motivation to maintain social stability and economic sustainability were the decisive factors to legitimize the party's authoritarian rule.

5.4 Conclusion

China, where the state provided an equitable order by taking absolute responsibility in terms of social services and protection during the Mao era, has determined aggressive economic growth as the main target after the advent of market economy reforms. In this respect, while the authoritarian regime ignored social equality for the sake of economic efficiency, relative socio-economic inequalities in society emerged rapidly. As the growing social and economic problems and the demands for political freedom caused the Tiananmen Protests, the authoritarian regime's response was

harsh. As a result of lessons learned from the Tiananmen Protests and the collapse of the Soviet Bloc, the authoritarian Chinese administration further tightened the political control in the 1990s, while the market economy reforms got intensified. During the period, the state withdrew from its social role and left its place to private market mechanisms. Radical economic and social transformation in an exclusive political regime created its own dualistic social structure: while the political elite with their cadres and urban population in industrial cities of the developed regions were the 'winners' of the system, others were excluded from the benefits of the system and formed the 'losers'.

During the late 90s and early 2000s, the growing inequalities led to unrest in the society, causing protests, triggered the worries of the regime about social stability. Moreover, the economic development model that China followed was not sustainable anymore. Seeing this problem, China has shifted from the excessive emphasis on economic growth to a balanced development of economic growth and social equality. Concerns about social stability and economic sustainability led the Chinese regime to implement social welfare policies for social development and equality during the last decades.

Despite of recent efforts, there is not an inclusive and comprehensive system in today's China. The combination of politics and socio-economic policies continue to create large disadvantaged groups that are excluded from the benefits of the system. Big disparities in the access to social services still exist and the quality of these services is not enough.

The case of China demonstrates that even rigid authoritarian regimes are not exempted from popular pressure. For political stability and legitimacy, the regime should satisfy the needs and demands of the large masses. The Communist Party in China achieved to legitimize its rule with high rates of economic growth on a sustained basis and poverty reduction for long years. However, social development and relative equality with more redistributive policies is another level that people would demand to reach following a certain level of economic development. Understanding this necessity, China initiated social policy reforms in the 21st century. However, the mechanism of satisfying popular demands operates as government favors in response to periodic crises rather than universal social rights of citizens. The social contract prepared by the authoritarian regime proposes prosperity or welfare in exchange for political loyalty of citizens giving up their political freedom and rights. Another debate emphasizes on political liberalization as the next step of development in China. Accordingly, the middle class empowered by economic and social development will demand political liberalization as a natural process of evolution in China. High levels of relative income inequality may pose problems for China in the future by undermining the legitimacy of the authoritarian rule, paving for a possible democratic opening. Also, the Chinese government which aims to be a superpower in the world will need to make political reforms (Atli, 2013). However, the authoritarian consolidation of Xi Jinping, decreasing numbers of social protests in China and the global recession of democracy point out a different direction.

CHAPTER 6

CONCLUSION

This study aimed to analyze the impact of political regime type on income inequality, focusing on two emerging countries of the global south instead of developed countries of the global north, all of which have consolidated democratic regimes.

Reviewing the concepts of political regime type and income inequality separately and revisiting the main theoretical considerations about the relationship between these two variables, this thesis investigated the effects of political regime type on relative income inequality through a comparative case analysis of Brazil and China.

As previously mentioned, it is anticipated by the relevant literature that democratic regimes would lead to more progressive redistribution and less inequality. Brazil is a significant case among BRICs to test theoretical considerations about the relationship between democracy and income inequality, since it has been the only BRICs member that achieved to reduce relative income inequality to an extent. In the analysis of Brazil's process of further democratization and less income inequality, this study comes up with some findings listed below.

First, the case of Brazil confirms the positive relationship between democracy and equality. The historical analysis of the case shows that redistributive and egalitarian demands of the people followed the democratization process in Brazil. These popular demands turned into actual policies through democratic channels. Therefore, we can conclude that a democratic political regime is more responsive and sensitive to income inequality as a result of popular pressure coming from the direct political participation of people. To put it another way, democratic political regimes are under

great pressure to reduce relative income inequality compared to authoritarian political regimes, especially if the initial level of inequality is high. It is proved that people demand more redistribution and less inequality by building pressure on the government through democratic channels.

Second, democratization did not immediately show its effects on the level of income inequality in Brazil. In this regard, democracy had to be consolidated and internalized by all actors in Brazilian society. In the case of Brazil, the ratification of a new constitution based on democratic and egalitarian principles was the breaking point.

As democratization process reached further levels, the non-elite had the opportunity to realize their redistributive demands through political agents with democratic channels.

Third, it is visible that favorable economic conditions and the international environment were beneficial for the democratic government to be able to implement redistributive policies. Thus, the government could allocate budget for public expenditures and social protection programs.

This also exposes the limits of social democracy in the global south, which is an issue that deserves more attention in future studies. Developing countries of the global south, which Brazil is a part of, are heavily dependent on favorable economic conditions and international environment to implement sustainable redistributive social policies and resist against the pressure coming from the economic elite and political agents representing the interests of the economic elite. Brazil has recently faced major problems of sustaining effective redistribution, especially in an environment of declining economic growth, the unstable global economy and political instability.

Finally, another result taken from the recent democratic recession in Brazil, is the fact that democratization is not a one-way process. While it was discussed whether Brazil could be the new model of social democracy in the global south during the country's stable democratization period, the process of democratic backsliding in the 2010s has triggered questioning of the limits of social democracy in the global south's developing countries. The cause of the recent democratic backsliding is an issue that needs to be analyzed in further studies specifically, but it can be interpreted beforehand that de-democratization negatively affected progressive redistribution and income equality.

The anti-democratic backlash beginning with the impeachment of Rousseff and continuing with the election of Bolsonaro proved that sustainable redistribution is one problem that democracies in the global south struggle to handle. In parallel with decreasing democracy level in Brazil, redistribution has been falling and income inequality has been rising again.

Theoretically, the case of Brazil confirms the hypothesis that democracy has positive effects on further socioeconomic equality and redistribution. The electoral success of Lula and Rousseff shows the median voter effect for more redistribution. In a country with high levels of inequality such as Brazil, the median voter preferred more progressive redistribution through their interests. The embodiment of this effect in successive electoral successes forced other political parties to add redistributive policies into their political agendas. Moreover, Brazil presents a concrete example that democracy makes the gradual movement for more equality possible by providing the opportunity for the underprivileged to organize with the development of political parties, groups, and social movements.

On the other hand, China, another important global actor among emerging countries, followed the opposite trend in terms of relative income inequality. In this regard, the case of China provides an understanding of authoritarian regimes' approach to the issue, compared to democratic regimes.

First of all, we see that if the authoritarian regime has strict ideological roots, as in the case of China during the Mao era, policies likely to be shaped by the regime's political ideology. Following the end of the Mao era, economic and social policies in China were shaped by the regime's ambitions for rapid economic growth. For this purpose, egalitarian social policies were abandoned. The benefits of aggressive economic growth created a legitimacy source for the regime to some extent. That is to say, an authoritarian regime would follow its ambitions as long as maintaining regime legitimacy and political stability.

Second, the analysis of China case also reveals that authoritarian regimes can be less sensitive to the issue of rising income inequality as long as they achieve high economic growth and use the proceeds of growth for significant poverty alleviation. The legitimacy of the authoritarian regimes rests on their ability to achieve rapid and sustained growth and utilize this for poverty reduction on a sustained basis, as seen in the case of China.

Third, social development with more redistributive policies is another level that people would demand to reach following a certain level of economic development. The recent transformation of China toward grasping more social policies and building a sensitivity to the issues related to social development and equality is a response to these popular demands and economic necessities in order to maintain political stability and economic sustainability.

That is to say, all political regimes are actually subjected to political pressure and threats against their rule. In order to achieve political stability and legitimacy, we see that a regime should satisfy the needs and demands of the large masses. Redistribution is a political tool for authoritarian regimes to gain loyalty and acquiescence. When masses start to threaten the authoritarian regime's survival, rulers can use progressive redistribution as a tool to strengthen the regime legitimacy and political stability. This type of redistribution usually operates in the form of government favor rather than universal citizenship rights. The social contract prepared by the authoritarian regime proposes prosperity or welfare in exchange for political loyalty of citizens giving up their political freedom and rights.

Finally, another debate emphasizes on political liberalization as the next step of development in China. Accordingly, the middle class empowered by economic and social development will demand political liberalization as a natural process of evolution in China. High levels of relative income inequality may pose problems for China in the future by undermining the legitimacy of the authoritarian rule, paving for a possible democratic opening. This discussion is beyond the scope of this thesis and needs to be answered in further studies.

The previous studies focusing on the relationship between these two variables have used several different approaches such as cross-sectional regressions, time-series, and panel data investigations and several different measures of political regime typology and income inequality. These studies have mostly looked for an answer to the question of whether political regime type affects the distribution of income in a country.

This thesis instead conducts a detailed comparative analysis of Brazil and China in a historical process by benefiting from various social disciplines including history, economics, sociology, and social policy. This study primarily concentrates on the questions of how and to what extent in its empirical analysis, also considering other factors that can affect the distribution of income in society.

As conclusion, I can confidently say that this thesis differentiates itself from the previous ones by first and foremost being a qualitative study that takes the cases of Brazil and China in order to prove the hypothesis of as democracy level increases, the redistribution also rises while the inequality decreases. Thus, it can be said that the thesis contributes to the literature by including the side issues that most large N studies excluded on the topic and conducting a historical analysis that is based on the qualitative method unlike its similar predecessors. It would also be fair to say that this inclusion of the mostly overlooked relatively minor factors also opened a brand-new window for further studies to explore. Especially when it comes to the questions of how and to what extent these factors were influential on income inequality, it can be said that further analysis is needed in future studies to have a more comprehensive understanding on the issue.

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