

# Inclusive Institutions, Unequal Outcomes: Democracy, State Infrastructural Power, and Inequality 1970-2015

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- What's the *overtime* relationship between **inequality**, **state capacity** and **democracy**?

**Argue** When democracy and state institutions are strong, investment climate should be better, fostering inequality via FDIs.

## Democracy

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## High State Capacity

fosters a **market economy** via **legal institutions**, enhancing private contracting among economic elites.

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- **Higher FDIs:**
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  2. turn domestic elites into more relevant political and economic actors.

When **property rights** are protected and when **state institutions** provide good-enough legal systems throughout the territory, investment climate should be better, fostering **inequality** via FDI.

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- $X_1$  **Democracy:** Polity.
- $X_2$  **State Capacity:** the “infrastructural power of the state” to penetrate its territory (Mann), by observing whether the state is able to conduct regular censuses.

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- We're interested in the *combined* effects of a state being **democratic** *and* with **high capacity**.
- Hence, we should use an **interaction term** ( $\rho$ ). More formally, we estimate:

$$\begin{aligned}\Delta \text{Inequality}_{i,t} = & \alpha_0 + \\ & \alpha_1 \text{Inequality}_{i,t-1} + \\ & \rho (\text{Democracy}_{i,t-1} \times \text{State Capacity}_{i,t-1}) + \\ & \beta_1 (\Delta \text{Democracy}_{i,t} \times \text{State Capacity}_{i,t-1}) + \\ & \beta_n \text{Control Variables}_n + \\ & \gamma_i + \lambda_t + \mu_{i,t}\end{aligned}\tag{1}$$

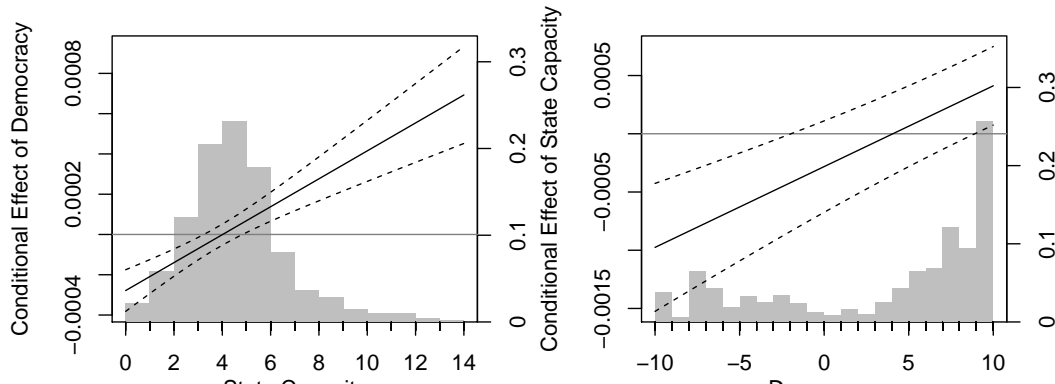
where  $\gamma_i$  and  $\lambda_t$  are the country and year fixed effects, respectively,  $\mu_{i,t}$  the estimated residuals, and *Control Variables* a matrix of length  $n_{i,t}$  relevant control variables.

	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)
GDP $_{\Delta}$	-0.00000*	-0.00000*	-0.00000	-0.00000*	-0.00000*	-0.00000	-0.00000
	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)
Inflation $_{t-1}$	0.00000***	0.00000***	0.00000***	0.00000***	0.00000***	0.00000***	0.00000
	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)
Inflation $_{\Delta}$	0.00000**	0.00000**	0.00000**	0.00000**	0.00000**	0.00000**	0.00000
	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)
FDI $_{t-1}$	-0.00000	-0.00000	0.00001	-0.00001	-0.00001	-0.00001	0.00000
	(0.00002)	(0.00002)	(0.00002)	(0.00002)	(0.00002)	(0.00002)	(0.00002)
FDI $_{\Delta}$	-0.00000	0.00000	0.00000	-0.00001	-0.00001	-0.00000	0.00000
	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)
Trade $_{t-1}$	0.00001*	0.00001	0.00001*	-0.00000	0.00000	0.00000	0.00000
	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)
Trade $_{\Delta}$	0.00000	0.00000	0.00000	-0.00000	-0.00000	-0.00000	-0.00000
	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)	(0.00001)
Agriculture $_{t-1}$	-0.00013***	-0.00013***	-0.00014***	-0.00013***	-0.00014***	-0.00013***	-0.00014
	(0.00002)	(0.00002)	(0.00002)	(0.00002)	(0.00002)	(0.00002)	(0.00002)
Agriculture $_{\Delta}$	-0.00014***	-0.00014***	-0.00014***	-0.00015***	-0.00014***	-0.00014***	-0.00014
	(0.00004)	(0.00004)	(0.00003)	(0.00004)	(0.00004)	(0.00004)	(0.00004)
Pop. Age $_{t-1}$	0.00006	0.00008*	0.00005	0.00003	0.00001	0.00009**	0.00005
	(0.00004)	(0.00004)	(0.00004)	(0.00005)	(0.00005)	(0.00005)	(0.00005)
Pop. Age $_{\Delta}$	0.00048	0.00062*	0.00063*	0.00082*	0.00077*	0.00109***	0.00104
	(0.00037)	(0.00036)	(0.00035)	(0.00042)	(0.00041)	(0.00039)	(0.00038)
Urban Pop. $_{t-1}$	0.00003	0.00004	0.00004	0.00007**	0.00006*	0.00006*	0.00006
	(0.00003)	(0.00003)	(0.00003)	(0.00003)	(0.00003)	(0.00003)	(0.00003)
Urban Pop. $_{\Delta}$	0.00073**	0.00078**	0.00077**	0.00109***	0.00104***	0.00094***	0.00090
	(0.00033)	(0.00033)	(0.00032)	(0.00038)	(0.00038)	(0.00035)	(0.00035)

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```
##  
## The downloaded binary packages are in  
## /var/folders/6p/rskc7qs56hd1r90gy1684bgc0000gn/T//RtmpRUt1iE/downloaded_packages
```

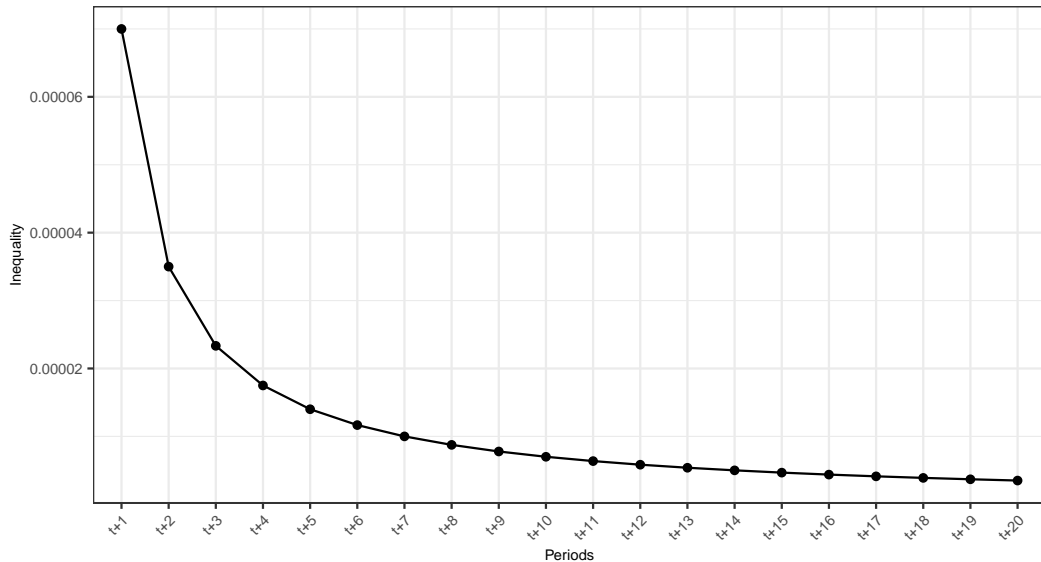




## Computing Long-Run Effects

- We also compute the **long-run effect** =  $\text{LRM} \times \text{ECR} = 0.00007$  (DeBoef et al., 2008).
- Substantively, inequality increases *immediately* in  $t + 1 = 0.00007$ , and continues increasing 0.00003 the next period.
- The LRM ( $\frac{\rho}{\beta_1} = \frac{0.00007}{-0.02055} = -0.0034$ ) “is the cumulative effect of a covariate on the outcome” (Keele et al 2016) that “spread[s] over future time periods” (Haber et al, 2011).
- The ECR ( $\rho = -0.02055$ ) is the “speed of adjustment” (Keele et al, 2016) or the “short-run effects” (DeBoef et al 2008).

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  - making economic elites (*even*) more politically influent: **pressures to liberalize labor protection policies**.

**This is why we believe that democracy and state capacity increase inequality overtime.**

Thank you!

**More info:**

`www.HectorBahamonde.com`