

# WEALTH WARS: HOW PRODUCTIVITY GAPS PREDICT DEMOCRATIC EROSION IN ADVANCED ECONOMIES

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August 2019

Word Count: 10,672

## ABSTRACT

*Why are developed democracies backsliding? I contend that a large productivity gap between economic groups motivates those with low productivity to capture the state for rent-seeking. They assess their relative position as weak, both in the present and in the future, and become willing to sacrifice certain democratic guarantees in exchange for favorable policies. Erosion takes two forms. (1) In a high sectoral gap, ‘losing’ elites capture the state through a political opportunist, an outsider, who favors them economically. Once in office, the opportunist expands his executive power and attacks democratic institutions. (2) In a high factoral gap, a united economic elite coordinate to stop a populist candidate from taking power and upending the system. Political elites respond to the outsider’s threat with reinvigorated authoritarianism to preserve the status quo. I use both quantitative and case study evidence from the US and Spain to support my main hypotheses.*

## 1. INTRODUCTION

Democracy's expansion is over. The number of democracies in the world is the same today as in 2008.<sup>1</sup> Recent autocratic reversals in Venezuela and Turkey, coupled with the election of leaders like Donald Trump in the United States, have forced political scientists and the public in general to reevaluate the health, state and meaning of democracy in the twenty-first century. Why are developed democracies, which seemed unassailable just a few years ago, backsliding?

Among the many factors adduced in the literature as explanations for the recent trend toward democratic backsliding are the rise of populism, leadership agency, voter and political polarization, and economic downturns.<sup>2</sup> Without denying the importance of these accounts, I want to develop a more complete political economy theory of democratic erosion based on a factor that has gone largely unexplored: differences in productivity among economic groups, i.e. *economic* polarization.

To be sure, studies have shown that economic factors such as inequality and economic downturns are associated with democratic erosion.<sup>3</sup> Usually these factors are linked to a rise in populist movements that exploit discontent to obtain political power. Arguing more generally, I will show that productivity differences among economic groups drive the democratic erosion that we observe today. More specifically, I suggest that when the productivity gap is so large that groups no longer consider it reversible through new investments, forward-thinking *losing* groups seek to capture the state to maximize long-term rents. These long-run objectives clash with alternation of power, checks and balances and other democratic guarantees. When the gap is sufficiently large, economic groups are willing to sacrifice democratic guarantees in exchange for financial advantages.

From this broad framework, I identify two types of democratic erosion driven by productivity gaps across *sectors* and *factors*. First, when the gap among economic sectors is large, a political opportunist takes advantage of the divisions among the economic elite and offers low productivity

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<sup>1</sup>See Boix, Miller and Rosato, 2012. Expanded to 2015 by the authors of the original dataset. Expanded to 2018 by the author of this manuscript.

<sup>2</sup>Add citations here.

<sup>3</sup>Add citations here.

sectors state rents in exchange for political support. A large sectoral gap thus leads to greater regulatory conflict. Key institutions crucial to the democratic balance come under attack as the executive seeks greater control of the state. Second, when the productivity gap among factors is large, established elites/political parties create a united front to maintain hegemony with renewed authoritarianism. This leads to a more traditional form of cross-class redistributive conflict. Freedoms that aid collective action, such as speech or assembly, and certain political parties come under attack. Thus, the first type of democratic erosion is more damaging, as it entails an attack on institutions and the accumulation of power in the hands of a single individual who controls the executive branch. The second entails the strengthening of executive authority at the hands of a ruling or traditional party, which is damaging to freedoms in the short term but leaves other institutions relatively intact, improving prospects for reversal.

Consider the cases of Spain and the United States, two countries that have experienced some level of democratic erosion in the past few years. In Spain, leftist political party Podemos emerged in 2014 to channel the political discontent caused by the domestic housing crisis of 2007 and the global financial crash of 2008. Government spending cuts and labor market reform in the private sector targeted low productivity sectors and workers, who bore the brunt of the adjustment. Pablo Iglesias, Podemos' charismatic leader, shot up in the polls with promises of a large increase in minimum salaries, nationalization of utility companies, and a guaranteed universal monthly income. His anti-elite discourse crystallized in popular catchphrases such as *la casta*, a slight against individuals with 'pedigree' and influential family lineage. Given the historical roots of the conservative Popular Party (PP) party in Franco's Spain, most of the *casta* has direct or indirect ties to the PP. In Spain's case, the struggle for state control was between low productivity workers and a set of elites that remained fairly united –no sectors were particularly productive in comparison to others. These united elites gave the conservative Popular Party greater leeway to restrict the right to protest through the *ley*

*mordaza*, limit free speech by censoring musicians and opposition figures, and crack down on the Catalan independence movement.<sup>4</sup>

In the United States, on the other hand, the productivity gap took the form of a pronounced sectoral cleavage, brought on by globalization and technological progress: high productivity sectors in technology and finance versus low productivity sectors in natural resource extraction, industry and, more specifically, manufacturing. The latter were against the reelection of the Obama-Clinton coalition, and eventually preferred to support Donald Trump rather than form a protective wall against a candidate with glaring non-democratic traits. Thus, in the US, polarization was most pronounced in the *economic* elite, as opposed to among voters<sup>5</sup> or the political elite.<sup>6</sup>

This article makes multiple contributions to the literature on democratic backsliding. First, it approaches backsliding from a structural political economy point of view. This is novel in a field where models built around voter attitudes, political institutions, and short-term economic conditions abound. Second, my model is dynamic in that it considers both the current as well as future situation of economic sectors and elites. Third, it adds evidence that democracy can be selectively bent and tweaked in ways that serve the interests of some groups over others in a manner that goes well beyond what is acceptable from changes in electoral cycles (this need not be elites vs. poor). Since our threshold for a democratic breakdown is high, there is much room for democracy to erode while retaining its classification. Leaders can push the limits of what is tolerable in democracy while incurring fewer costs than they thought –and they have been doing so to great success of late. Lastly, it combines elite and bottom-up dynamics in one theory.

## 2. DEMOCRATIC EROSION IN DEVELOPED ECONOMIES

Democratic breakdowns generated a great deal of scholarship in the late twentieth century, primarily as a response to the rise of military juntas in Latin America and a revisiting of European democracies before World War II.<sup>7</sup> Works on democratization have also included tests of factors that affect democratic breakdowns.<sup>8</sup> However, in recent years, democratic breakdowns have become rare. As Figure 5.1 shows, the number of democracies and autocracies has remained stable in the last decade. Conversely, most data indicate that democratic quality is decreasing around the world, a trend from which advanced economies are not immune.<sup>9</sup>

In democracies such as Poland or Hungary, incumbent executives are engaging in a concerted effort to reduce the independence of institutions such as the judiciary or the media. In Poland, Duda and Law and Justice Party (PiS) Chairman Jarosław Kaczyński have systematically attacked the country's Supreme Court in an effort to wean its powers and act with greater impunity. In July 2017, Parliament passed a law that effectively dismissed all justices on the constitutional court

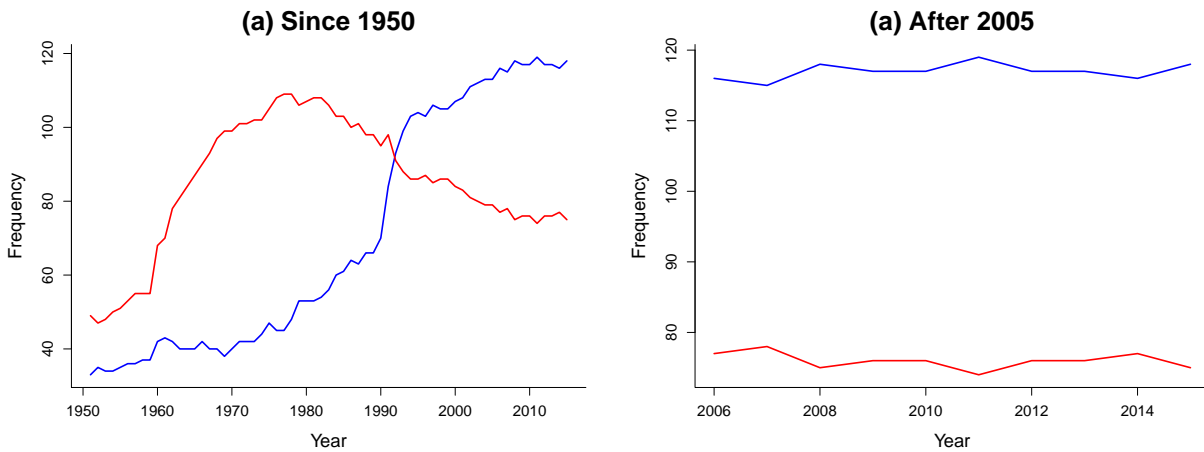


FIGURE 1. Evolution in the number of democracies from 1950 and 2005 and from 2006 until 2018.

<sup>4</sup>Gomez-Reino and Llamazares 2015, Orriols and Cordero 2016, Sola and Rendueles 2018.

<sup>5</sup>Svolik 2018.

<sup>6</sup>Bermeo 2003; Linz and Stepan 1972.

<sup>7</sup>Linz and Stepan 1978, Valenzuela 1978, Bermeo 2003.

<sup>8</sup>Boix 2003, Epstein et al. 2006, Houle 2009.

<sup>9</sup>Bermeo 2016, Lust and Waldner 2015. See also the Varieties of Democracy (V-Dem) and Polity datasets.

not appointed by Duda. Met with fierce public protests, Duda vetoed the bill, but a new one was introduced in December 2017 lowering the justices retirement age to 65 from 70, forcing 21 members, including its Chief Justice, to leave. It also created a disciplinary committee to oversee the actions of the Constitutional Court and allow the PiS to intimidate judges. Orban's government in Hungary has focused on attacking media independence: 500 media titles now belong to Orban and his cronies, when only 23 did in 2015.<sup>10</sup>

Other countries in Western Europe and the United States are also showing worrying signs of erosion. In France, the fight against terrorism by French nationals who joined ISIS prompted the state to surveil its own citizens, often with weak or no evidence of wrongdoing. EU states have responded to the new influx of immigrants fleeing conflict in Africa, the Middle East and Central America with solutions of questionable democratic quality that contravene various international treaties. Free speech is becoming less free. In Spain, in a rather comical twist, two puppeteers were jailed for invoking the name of defunct Basque terrorist group ETA in a 2015 show. A rapper was recently given a 3 year prison term for inflammatory lyrics against the Crown –he subsequently fled to Belgium, where he now resides after a judge declined Spain's extradition request.<sup>11</sup> Also in Spain, freedom of association was curbed through a 2015 gag law under the conservative Popular Party's executive control and absolute majority in the Spanish legislative –and the help of sympathetic Supreme Court justices with fixed, renewable terms who had been formal members of the party.

Figure 2 confirms this pattern. It shows the evolution of V-Dem's continuous measure of liberal democracy for five developed countries. Democracy kept on its slow but steady progress until around 2012, when a decline begins.<sup>12</sup> Most countries' scores have since decreased to unprecedented levels, and some to historical lows, as in Spain and Poland. The US score is the lowest since Nixon's presidency.

<sup>10</sup><https://www.nytimes.com/2018/11/01/opinion/hungary-viktor-orban-press-freedom.html>

<sup>11</sup><https://www.dbalears.cat/horitzons/2018/07/05/317141/valtonyc-viu-gant-frandes-feina-lliure.html>; <https://www.bbc.com/news/world-europe-45550944>.

<sup>12</sup>There may be a certain degree of coder bias in the V-Dem measures, which are scored retrospectively by experts. Broad patterns can be identified that match those captured by other measures of democracy.

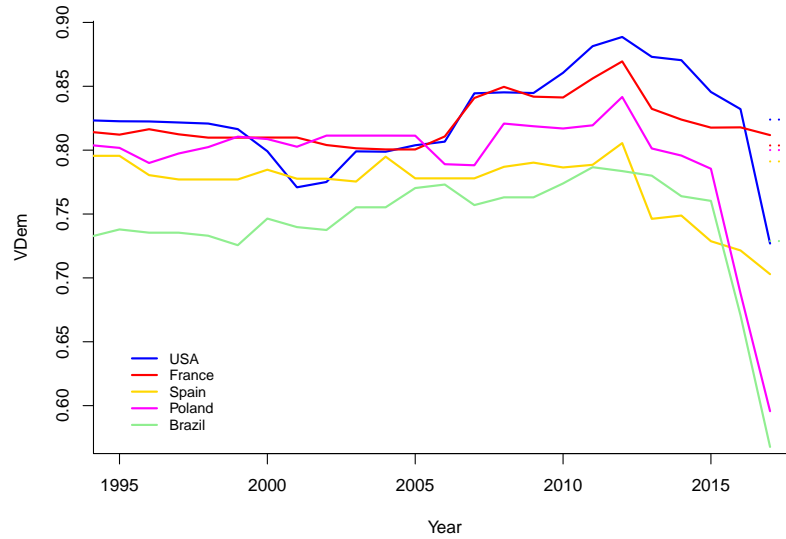


FIGURE 2. Evolution of V-Dem scores by country since 1995.

Lust and Waldner define democratic erosion as “a change in a combination of competitive electoral procedures, civil and political liberties, and accountability.”<sup>13</sup> From the examples above, we see that erosion includes, but is not limited to, attacks on judicial independence, media freedom, freedom of speech and association, as well as civil society organizations. To understand why these changes are occurring, and why certain political and economic groups are pushing for weaker democracy in advanced democracies, we need a basic model of domestic politics and the economy.

### 3. SIMPLE MODELS OF DOMESTIC POLITICS, THE ECONOMY, AND THE RISE OF POLITICAL ENTREPRENEURS

I make three assumptions of domestic politics. (1) Those who benefit from changes in productivity seek to accelerate them, while the victims work to halt or reverse them. (2) The winners of productivity shocks, who enjoy rapid increases in wealth, are *forward-thinking* and endeavor to expand their political influence as well. (3) Political elites are agents of both voters and economic

<sup>13</sup>Lust and Waldner 2015.

interests.<sup>14</sup> Thus, high-productivity groups invest their resources in becoming more productive and attempt to influence government to produce favorable policies toward that goal. Low-productivity groups, to the contrary, will reinvest their capital toward more productive activities if they reasonably expect the productivity gap to shrink in time. If not, they will accelerate rent-seeking from the state in a way that is proportionate to their expected future losses. Note that there is a dynamic component to these assumptions, namely, that individuals are as concerned about their current position as they are about their future position.

Economically, I assume that the interaction between factors and sectors produces relevant political outcomes. I simplify the traditional three-factor model of capital, labor and land to only capital and labor, on the justification that the economies of advanced democracies are dominated by these two factors.<sup>15</sup> As for sectors, I consider the three main sectors –primary, secondary, and tertiary– as well as subsectors within each of these. For instance, mining, agriculture and natural resources extraction (not refined) are in the primary sector; manufacturing and industry in the secondary sector; and banking, finance, e-commerce, social media and software companies, among others, in the tertiary.

Within a Ricardo-Viner framework, capital is immobile and tied to specific sectors while labor is mobile. After an economic shock, unemployment surges among low skilled workers and overall worker productivity decreases. Capital, for its part, is locked within sectors and those with low productivity have little room for improvement through new investment. Thus, both within-class and cross-class coalitions are possible, and two are particularly salient: (1) a cross-class coalition between low productivity capital and low productivity workers within these sectors who cannot be

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<sup>14</sup>See Rogowski 1987, Becker 1983.

<sup>15</sup>Admittedly, agricultural production remains important in countries like the US and Spain, object of this essay's empirical section. However, political conflict rarely emerges from land disputes or pressure from landed elites, as used to happen during modernization. Agriculture, in this theory, is a sector, but land is not included as a factor for simplicity.



absorbed into other sectors due to an unemployment shock; (2) and a within-labor coalition pitted against a within-sector coalition.<sup>16</sup>

Politically, the key tension is that government cannot always produce policy that is compatible across sectors or factors. Too much redistribution to the lower (higher) classes, and government antagonizes economic elites (the poor). Similarly, too great a focus on a given set of policies, and government risks antagonizing one set of economic elites against another set—for instance, strong pro-environment policies may raise eyebrows among traditional non-renewable energy industries. Democracy survives in balancing out these interests, at least to the extent that no group has sufficient collective action capacity to take power unilaterally and impose its will on the rest.

Furthermore, in democracy, economic elites do not rule. Neither does the super elite (or ‘oligarchs’, in Winters’ terminology).<sup>17</sup> Rather, these groups influence politics through the power of their wealth. Their resources allow them to hire armies of professionals in law, economics, and policy that help them obtain the outcomes they crave: (1) preservation of wealth and (2) preservation of income. Winters argues that democracy preserves wealth through the rule of law, and that our two actors, the elite and the super elite (or ‘oligarchs’), focus solely on reducing their income tax burden through favorable government policy.<sup>18</sup> However, this is true only if long-term property preservation is unquestioned. If economic elites perceive a threat to their wealth, their instinctive reaction will be to pursue policies that further secure their wealth—not only their income. I contend that democracy is most at risk when economic groups are concerned with *wealth preservation* and not solely income preservation.

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<sup>16</sup>Even if we adopt a less rigid mobility structure for capital, as in the Heckscher-Ohlin model, a large productivity gap will still produce the political consequences I describe below. The reason is that high productivity gaps will increase sectoral conflict even if capital is mobile. The threshold to seek to capture state rents may be higher, but it will nonetheless exist.

<sup>17</sup>Winters 2011.

<sup>18</sup>Winters 2011.

There are two manifestations of this switch to wealth preservation that strain democratic norms and procedures: regulatory conflict resulting from a large productivity gap across sectors and redistributive conflict between classes. One of the main contributions of this article is to consider the political effects of splits within the economic elite affect democratic erosion, a political outcome. I now develop each of these claims separately.

#### 4. THE EMERGENCE OF FACTORAL DIVIDES

I will first consider the case of a high factoral gap, which translates into substantial class conflict, and a low sectoral gap, which implies unity among the economic elite. In this scenario, a cohesive elite sees its wealth threatened by an increasingly pugnacious working class, which nonetheless has a substantial collective action problem. Precisely to prevent the working class from organizing and effectively contending for political power, the cohesive elite pushes for greater restrictions to freedom of speech, assembly as well as the rights and reputations of key political parties tasked with channeling discontent into policy change. The agent for these united elites are traditional political parties, which grow increasingly authoritarian. These parties are, in fact, a natural ally: they also do not want new parties to challenge their position of political power.

A high factoral productivity gap between labor and capital in advanced democracies is usually the result of lower wages in the wake of productivity shocks. Advanced economies tend to offer workers high wages and as compared to less developed ones. They also implement laws that protect labor rights. Capital accepts higher labor costs and protections provided productivity stays high. If productivity decreases, labor's compensation is ultimately adjusted downward, as are other benefits, to match low productivity levels. The model predicts that those factors who experience the negative consequences of low productivity will seek to revert them. Thus, political conflict commensurate with the scale of the adjustment ensues, as labor try to regain their losses through political reform. An economic crisis or shock usually precipitates, or exacerbates, the conflict.

These developments were particularly notorious in Southern Europe after the 2008 economic crisis. In Spain, labor reform was central to the EU's efforts toward full recovery, and was often a non-negotiable condition imposed by the European Central Bank (ECB) in exchange for bank bailouts and zero-interest loans. Reforms were deep. They focused mostly on facilitating and reducing the costs of lay offs for companies, while providing greater flexibility to offer short-term contracts. Salaries decreased substantially as a result. The adjustment led to popular protests and the 15 May Movement, which in turn sowed the seeds for the growth of a radical left populist party, Podemos, which would find itself leading the polls in late 2014.

Other countries in Southern Europe enacted similar ECB-imposed reforms. One such notorious case was Greece, where a large gap in accounting of the nation's debt under Papandreou's socialist PASOK government (2009-11) in the midst of the global financial crisis unleashed a period of major domestic adjustment. The austerity measures taken under the conservative government of Antonis Samaras (2012-15) consisted in raising taxes and introducing labor market reforms aimed at increasing competitiveness, but which in the short run produced lower wages and higher unemployment. Syriza, a coalition of the radical left similar in nature to Spain's Podemos, rose from 4.6 percent of the vote in 2009 to 27 percent in late 2012. When it won the elections in 2015, it obtained 36.3 percent of support. In the United States, a similar situation occurred: the factorial productivity gap widened as a consequence of the Great Recession of 2008, resulting in greater unemployment, lower salaries and worse benefits in areas precisely where worker productivity was the lowest.<sup>19</sup>

Hence, a large factorial productivity gap contributed to the emergence of movements and political parties that aimed, at least initially,<sup>20</sup> to advance the interests of the working class at the expense

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<sup>19</sup>The connection between economic discontent and the rise of Donald Trump is object of intense debate, and no conclusive answer can be given precisely because it difficult to establish a causal claim. Here I am only establishing that an important subset of low productivity labor is likely to support an outsider candidate that promises wholesale reform. Whether that candidate wins power depends on other factors, as this article also argues.

<sup>20</sup>Syriza softened its stance once it took over power, while Podemos also moved to the political center as it gained political influence after elections in 2015 and 2016.

of the elite. In the case of Spain, the absence of an explicit bailout and the conversion of ballooning private debt into state debt kept the elite sufficiently powerful to stifle the rise of Podemos. In Greece, a tough and highly publicized bailout discredited ruling parties and weakened the private sector to the extent that they were overrun by Syriza. Both cases serve as examples of a key part of my argument: A high factoral gap is a necessary condition for democratic erosion, irrespective of whether a sectoral gap exists. Yet it is the interaction between these two gaps that leads to interesting outcomes of democratic erosion. In the next two sections, I explore them.

## 5. THE EFFECT OF SECTORAL DIVIDES ON DEMOCRATIC EROSION

Consider a country with high factoral and sectoral productivity gaps. Returns to productive activity are accumulating primarily in the hands of capital holders, not labor. At the same time, some capital holders are much more productive than others and are keeping most new wealth. For simplicity, I will reduce the sectoral gap to exist between any two important economic groups –even though, in complex economies, sectoral differences are multidimensional.<sup>21</sup> Here, two different interests, a low productivity sector and factor, push to reverse their adverse position. The high productivity sector, on the other hand, prefers to remain in the status quo. In this set-up, labor is also treated as one actor.

Economic groups are forward-thinking. They are at least equally concerned about their future wealth as they are about their current wealth. At any given time  $t_0$ , the two sectors own a certain amount of wealth stock, which they use to produce new wealth and to influence policy. Their influence on policy is geared toward income preservation through reducing the net tax paid to the government, as identified in Winters (2011). It also focuses, I add, on favorable governmental policy toward their economic activity, in the form of lax regulation or subsidies. Groups with a bumper wealth stock will have greater influence on policy outcomes through lobbying and other mechanisms,

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<sup>21</sup>Sectors and subsectors tend to cluster in terms of productivity, and the simplification I make is helpful in illustrating the logic of the argument. I do reflect this multidimensionality in the empirics by calculating the sectoral gap across all sectors in the economy.

according to our model.<sup>22</sup> Conversely, those with lower stock will have less influence on policy. The assumption here is that, in normal times, groups push for policy outcomes that are beneficial to their economic interests.

However, wealth at  $t_0$  is not the only consideration for economic groups—they must also consider their long-run prospects as they decide which policies to support. I contend that the sectoral productivity gap determines the extent and nature of political influence exercised by economic groups, as productivity today dictates expectations around wealth and power in the future. High productivity increases wealth into the future, while low productivity produces stagnation or decreasing wealth. High productivity gaps, in effect, widen the expected future wealth gap between sectors. Thus, according to our model, in some  $t_1$  in the future, a highly productive group at  $t_0$  can reasonably expect to wield greater policy influence than a group with lower productivity at  $t_0$ .

What is more important in this discussion, however, is that the focus of some elite groups shifts from income preservation to wealth preservation—to use Winters' terminology—in a way that is not directly related to rule of law guarantees. Seismic changes in productivity levels threaten some groups with the extinction of their business and thus the ability to generate sufficient new wealth to maintain their status. These lower expectations on future wealth by low productivity groups determine their political choices in the *present* time, when they can still wield political power by virtue of their current wealth.

The argument, from here, is relatively straightforward: the wider the productivity gap, the greater the incentive for unproductive groups to demand large-scale policy changes tailored exclusively to their needs. In a well-functioning democracy, small gaps are common and are easy to manage politically. However, as the gap increases, policy is less able to accommodate the regulatory desires of different groups—say exporters versus importers, high technology services versus oil and agriculture. If the gap is so large that it cannot be expected to close through restructuring and reinvesting before

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<sup>22</sup>Winters 2011.

$t_1$ , these groups will turn to the state to restore their losses. This perception of ‘permanent loss’ into the future creates incentives to seek solutions that alter the core rules of the democratic game.<sup>23</sup> Thus, some economic elites are willing to risk key democratic institutions and guarantees in order to reverse their future prospects of wealth accumulation.

Yet economic elites require a political agent to carry out this agenda. In normal times, these elites use lobbying to obtain policy concessions, but when the cleavage among economic sectors is large, greater control of executive action is required. In a nondemocracy, a situation such as this one could be resolved by installing a representative of the ‘losing’ elite in power using some degree of force. In democracy, the political leader requires popular support, which is not often readily available directly to a member of the aggrieved sectors. This creates an opportunity for a political entrepreneur, usually an outsider, to emerge and act as an agent for losing elites. The outsider must obtain (1) electoral support and (2) promise low productivity sectors the policy outcomes they desire in exchange for political support. A high *factoral* gap aids the outsider in obtaining (1). High sectoral gaps facilitate (2). In essence, the entrepreneur creates a cross-class coalition, with a marked populist vent, that still enjoys widespread elite support within certain economic sectors. The coalition, coupled with the ‘bonapartist’ nature of the outsider’s leadership, bestows dangerous amounts of authority upon the democratically elected leader.

How this outsider take over erodes democracy has been described recently by Coppedge, who argues that democratic erosion follows two paths.<sup>24</sup> One is “a classic path of growing repression of speech, media, assembly, and civil liberties, combined with deteriorating political discourse.” The second “involves the concentration of power in the executive at the expense of the courts and the legislature.” In my argument, the takeover of political power by an outsider amidst high factoral and sectoral gaps leads to the second form of erosion. The leader obtains a mandate from a coalition

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<sup>23</sup>It is important to note that I do not assume that the productivity gap creates a situation of permanent losers and permanent winners in the long run. Rather, the assumption is that forward-thinking elites in losing sectors perceive it as such given the current conditions and future expectations.

<sup>24</sup>Coppedge, 2017.

whose members' main priority is to revert back to more prosperous days to build a prosperous future. Provided the leader fulfills these promises to a certain extent, the coalition will continue their support. In exchange, he or she can concentrate power further in the executive, eroding horizontal accountability. To do so, the outsider attacks the judiciary and the legislative branches. Powers that were traditionally or by constitution in the hands of their hands now become part and parcel of executive privilege.

From this discussion, I conclude that a large sectoral productivity gap leads to democratic erosion of the most harmful type: through opportunistic candidates who obtain both popular and elite support and who, once in office, aggrandize executive power and undermine democratic institutions. The primary example of this pattern within OECD member states are the United States with Donald Trump and the Czech Republic under Babiš.

#### *Low Sectoral Gaps and Authoritarianism from Within*

Wealth differences among the economic elite are insufficient to generate discord among different sectors if the sectoral gap is small. Current levels of wealth, as well as expectations about future wealth, remain stable, and no one sector projects as dominant in the future. In the face of a large factorial gap and a populist upstart who represents the disenchanting working class, the economic elite come together to preserve the status quo.

Unity in the economic elites solves their collective action problem. The surge of a bottom-up populist movements threatens their accumulated wealth, and not just their income. They must therefore try to influence politics beyond simple income preservation.<sup>25</sup> Institutions such as chambers of commerce, business associations, lobbying groups in Parliament, as well as personal relationships among top level economic and political leaders, all serve the purpose of converting economic power into political power. In Spain, the CEOE is a prime example of such institution.<sup>26</sup> Moreover, traditional

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<sup>25</sup>See Winters 2011, ch.1.

<sup>26</sup>Confederación Española de Organizaciones Empresariales, or Spanish Confederation of Business Organizations.

political parties and their incumbents are receptive to these lobbying efforts, forming a natural alliance with the economic elite. Both groups, political and economic elites, see their wealth and power threatened by the same actor.

Conversely, the working and middle classes face a monumental collective action problem. Popular movements, such as the 15th of May movement in Spain, and political parties like Podemos, help solve it, but only in part. The challenge must be sustained in time and grow in numbers to be credible, while internal divisions must be kept at a minimum. With this in mind, the coalition between ruling traditional political parties and various economic sectors will try to prevent the popular movement from further growth.

To do so, ruling parties use gradually more authoritarian tactics, targeting primarily those rights and freedoms that directly affect the popular movement's collective action capacity. This is what I refer to as democratic erosion through increasingly authoritarian incumbents. In Coppedge, this corresponds to a particular erosion path, namely, the one where there is "growing repression of speech, media, assembly, and civil liberties".<sup>27</sup> This deterioration can happen under both liberal and conservative governments, even though the latter are more common in the recent erosion wave. In the case of Spain, a move to limit speech and assembly gathers pace after 2014, when cases against satirical magazines, rappers and puppeteers are brought before the courts. The *ley mordaza*, which limits gatherings, is the Popular Party's main political measure of 2015 and can be traced to the May 15th movement and the emergence of Podemos as major a political threat.

Aside from laws and executive measures against speech and assembly, economic and ruling elites also seek to limit the financial resources of their challenger as well as their access to the media. Economic elites build a wall around the popular movement, starving it of funding to compete with established political parties. In Spain, political parties only obtain funding after contesting elections. The money they receive is proportional to their support in the ballot box. In 2014, without public

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<sup>27</sup>Coppedge, 2017.



money and with little support from the economic elite, Podemos had difficulty countering some of the most damning smear campaigns against them. Similarly, a majority of media conglomerates, owned or run by traditional economic elites and supportive of traditional political parties, shunned Podemos. Its leader, Pablo Iglesias, who had gained notoriety as a pundit, now appeared less often on television and only one channel, La Sexta, offered a more positive outlook on him and his nascent party. Other channels and newspapers launched invectives against Podemos and even smeared them with allegations of collusion with the Venezuelan government.

Thus, in advanced democracies with a unified economic elite and a sudden, radical challenge from below, democratically elected governments respond with increasingly authoritarian measures to preserve elite wealth and their political power. Incumbent parties focus primarily on curbing basic rights to freedom of speech and assembly, and use their influence –aided by economic elites– to limit media presence and funding options for the movement that threatens them.

While these moves and measures are fully constitutive of democratic erosion, note the stark differences between the potential consequences of each type of democratic erosion. One thing to note is that the latter type, erosion from within, primarily affects policy and is temporary in nature. While it harms freedoms and limits political opposition, it does not constitute a fully fledged attack on formal democratic institutions and their balance. This is certainly the case in the first type of erosion. This conclusion entails that erosion from within may be more easily reversed once a new government takes office –which is precisely what is happening in Spain, as the new Socialist government intends to overturn the *ley mordaza* by the end of 2019.

## 6. EMPIRICAL ANALYSIS

Quantitative evidence is presented first. I test two hypotheses derived from the above discussion: (1) an increasing factorial gap is positively associated with democratic erosion and (2) the interaction of the factorial and sectoral gaps leads to different erosion outcomes. From the theory, I expect to

find that increases in the factorial productivity gap will lead to greater erosion and higher levels of populism. We should also expect greater erosion through Caesarian leaders in countries where both the sectoral and factorial gaps have increased together, while the effect should be non-negative for those where they have not. Two detailed case studies of the United States and Spain follow.

## 7. DATA AND METHODS

To capture the level of democracy, V-Dem’s continuous measure of liberal democracy is used.<sup>28</sup> Inter-class inequality, which is commonly used in the literature, proxies for the factorial productivity gap (see Houle 2009). For sectoral productivity, I construct various measures using data from the Organisation for Economic Co-operation and Development (OECD). The unit of observation is the country-year. Data range from 1961 until 2015 and are available for 124 countries. I perform tests both on the full sample and on a subset of advanced democracies.

To measure inter-class inequality, I use the share of capital that accrues to labor from the Penn World Tables.<sup>29</sup> The variable captures cross-class differences between capital-holders and labor. The higher the share of output that accrues to wages, the more *equal* the society. In the tests, I have inverted the *laborshare* measure to capture increasing *inequality* at higher values.<sup>30</sup>

I use productivity data from the OECD to estimate the productivity gap among sectors.<sup>31</sup> Data are available for the following sectors: finance, information and communication, professional services, and retail are classified as high productivity sectors that fall under the broader ‘business excluding agriculture’ umbrella; and industry, manufacturing and mining which are group under industrial sectors. I compute an aggregate score for the sectoral productivity gap by (1) computing all the distances in productivity between sectors and (2) adding and normalizing them. The resulting value provides a sectoral gap ‘score’ for each country year.

<sup>28</sup>Version 8.0 is used: <https://www.v-dem.net/en/data/data-version-8/>. I do not use other measures of democracy as they all capture the same underlying process (cite).

<sup>29</sup>Version 9.0 at <https://www.rug.nl/ggdc/productivity/pwt/>. The variable used is *labsh*, the labor share.

<sup>30</sup>See Houle 2009, 2016.

<sup>31</sup>Available at: <http://www.oecd.org/sdd/productivity-stats/>.

To test hypothesis 1, I use a linear OLS model with clustered standard errors at the country level. Our theory predicts that inequality is negatively associated with democracy in advanced economies, so I present a model with the entire sample and one with a subset of OECD countries to show the differences. To test hypothesis 2, I use multilevel modeling, which solves a challenge particular to our theoretical formulation: we distinguish two types of democratic erosion, but in effect the outcome is the same for both. One solution would be to classify countries as one type or another ex-ante, but I am disinclined to alter the data in this fashion as it may introduce bias. Another solution, which I employ in this article, is to model the data in such a way that differences among countries become apparent on their own. The analysis of countries can then be done ex-post. I thus build a multilevel model with country random intercepts and random slopes for inequality and sectoral differences. The idea is that countries in which a political opportunist takes over with a cross-class alliance will reveal themselves through a negative interaction coefficient (higher sectoral divides and higher inequality lead to lower democratic scores), whereas the effect will be non-negative for those where erosion is a function of an authoritarian response by incumbents (as inequality would increase but sectoral differences would not).

## 8. ANALYSIS

I first test whether the factorial gap is systematically associated with democratic erosion in advanced democracies. The evidence suggests so. Table 1 shows the effect of inequality on V-Dem scores for both all democracies in model (1) and OECD countries in model (2). I control for GDP per capita, economic growth, social fractionalization, and previous transitions. A time trend is added to capture the general increase in democracy through time with generally decreasing inequalities. Decade dummies are also included to account for unobservable heterogeneity within certain decades.<sup>32</sup> While there is no substantively or statistically significant effect for all democracies, the effect for advanced

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<sup>32</sup>Note that the time trend and the decade dummies are not incompatible. One captures change *in* time while the other removes unobserved variation linked to given periods of time. Changing these specifications does not substantively alter the results.

TABLE 1. Effects of the factorial gap on all and advanced democracies.

	(1) All Democracies	(2) OECD
Inequality	−0.057 (0.107)	−0.368** (0.131)
GDPpc	0.969*** (0.111)	0.458* (0.192)
Growth	0.015 (0.014)	−0.027 (0.018)
Fractionalization	−1.140* (0.496)	−0.946* (0.403)
Previous Transitions	−0.381 (0.255)	−0.593 (0.444)
Trend	−0.039*** (0.011)	−0.007 (0.015)
Constant	−0.010 (1.064)	5.218** (1.493)
Observations	2766	1407
Adj. $R^2$	0.625	0.475

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ . Clustered standard errors in parentheses.

democracies is negative and statistically significant. A one-unit increase in inequality, ranging from 1.97 to 6.15 in the test sample, leads to a 0.368 point decrease in the V-Dem score.

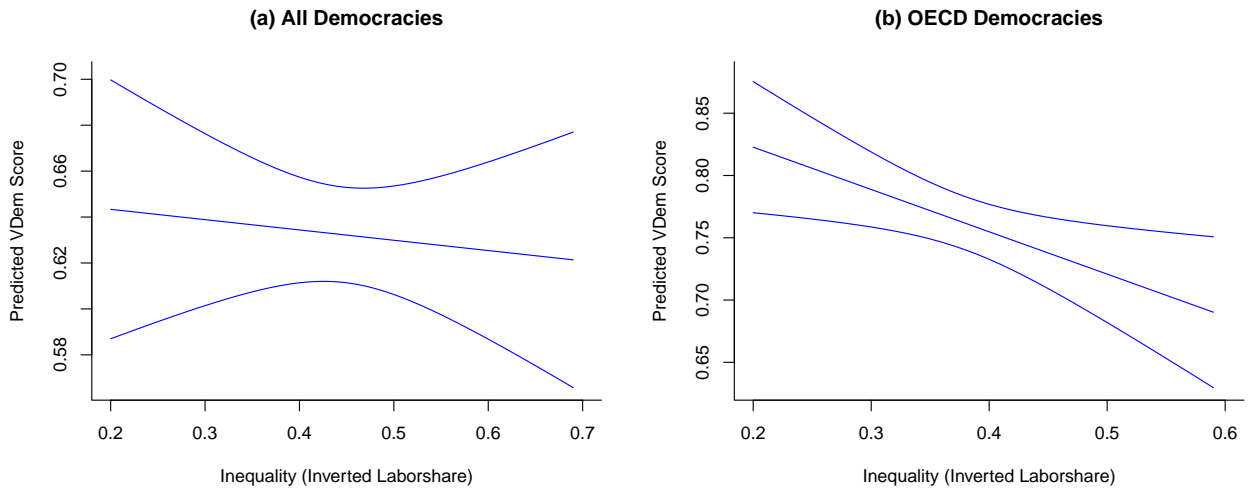


FIGURE 3. Effects of inter-class inequality on VDem score.

Substantively, the effect is also significant: a one standard deviation change in inequality, which is equivalent to going from middle to high levels of inequality, will decrease the V-Dem score by 0.25 points, a substantive change considering that V-Dem scores range between 6 and 9 for most countries. Similarly, going from low to high inequality (here I use the 20th and 80th percentiles of inequality) will decrease V-Dem scores by almost 0.5 points. Figure 3 shows the predicted value of V-Dem at different levels of inter-class inequality for (a) all democracies and (b) advanced democracies. The effect is negative and statistically significant for advanced democracies. For all democracies, it is only weakly negative and statistically indistinguishable from zero.

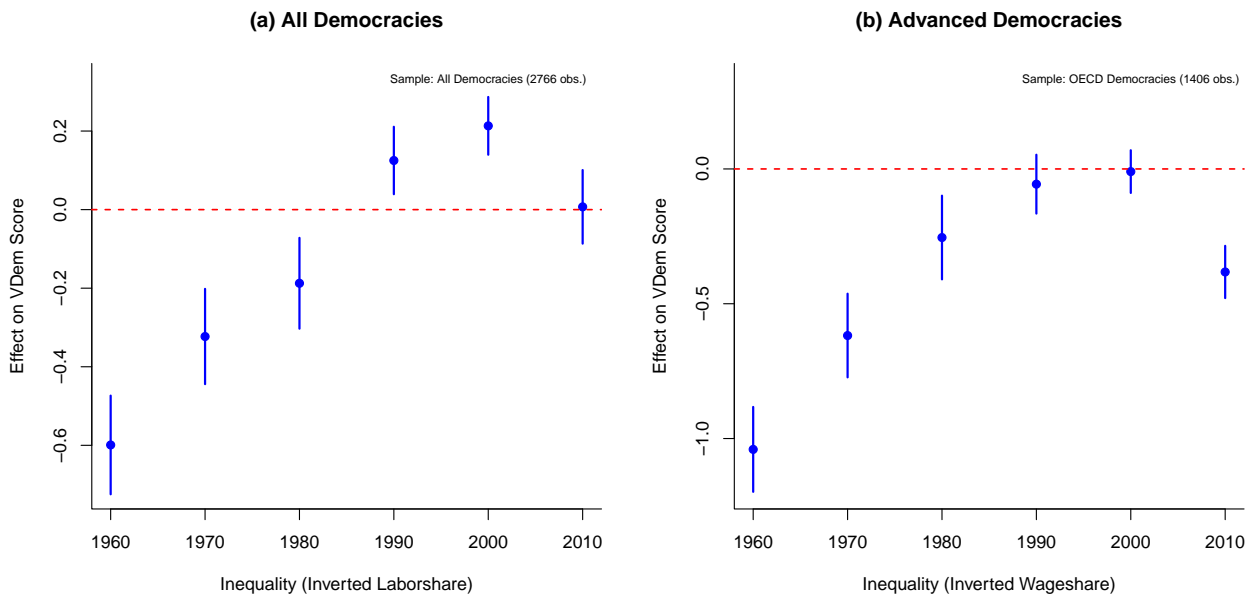


FIGURE 4. Effects of inter-class inequality on VDem score, by decade.

The effects, however, are not consistent across time. Figure 4 shows the effect of inter-class inequality on the V-Dem score of (a) all democracies and (b) advanced democracies broken down by decade. The results are obtained from a multilevel level with random slopes for inter-class inequality and random intercepts by decade.<sup>33</sup>

For all democracies, the effect was strong and negative during the cold war decades, but reversed afterward. This is due to an influx of post-soviet democracies in the 1990s, whose inequality

<sup>33</sup>More details on this model are available in the appendix.

increased during the transition to capitalism and whose democracy scores surged at the same time. For advanced OECD democracies, higher class inequalities in the 1960s and 70s led to large decreases in predicted V-Dem scores, but the effect disappeared during the 1980s, 1990s and 2000s. The negative trend reappeared strongly after the Great Recession during the 2010s.

One of the takeaways from Figure 4 is that inequality is unlikely to be the sole driver of democratic backsliding. The fact that the effect is more pronounced after 2010 is also an indication that, while it is indeed an important factor, other issues particular to this past decade could be at play. With this in mind, I test the hypothesis that factorial and sectoral gaps interact to produce different forms of democratic erosion. As stated earlier, the main model is a multilevel model that exploits both country-year and within-country variation, with random slopes and random intercepts per country. This model gives us purchase in analyzing the interactive effect of the sectoral and factorial gaps within each country. The general equation for our model is as follows:

$$(1) \quad Y_{ij} = \alpha + X_{i(j)}\beta + Z_j\gamma + \mu_j + \varepsilon_{i(j)}$$

More specifically,

$$(2) \quad Y_{ij} = \beta_0 + \mathbf{inequality}_{i(j)}\beta_1 + \mathbf{gap}_{i(j)}\beta_2 + \mathbf{inequality}_{i(j)} * \mathbf{gap}_{i(j)}\beta_3 + C_n\beta_n + \\ \gamma_0 + \mathbf{inequality}_j\gamma_1 + \mathbf{gap}_j\gamma_2 + \mathbf{inequality}_j * \mathbf{gap}_j\gamma_3 + \mu_j + \varepsilon_{i(j)}$$

In this set up, predictions about democratic scores for the country-year are obtained from individual level variation at that same level, the country-year, as well as variation at the group level, the country. A set of controls at the lower level are included.<sup>34</sup> The model produces a set of random slopes at the group level (in this case,  $j = \text{country}$ ) that vary solely in accordance with our interaction

<sup>34</sup>GDP per capita, growth, fractionalization and a time trend at the country-year level.

term of interest –between inequality and the productivity gap. Random intercepts per country and year are also included in the model.<sup>35</sup>

The analysis focuses only on results at the group (country) level. The expectation is for the interaction to be negative, i.e. have damaging effects for democracy, in those countries that have exhibited the worst form of democratic erosion, a cross class coalition built by a political opportunist. Conversely, the interaction should be non-negative where democratic erosion has taken its more temporal, less damaging form. Since, the outcome variable here is again continuous (V-Dem), I fit an `lmer` model using R. I now move to the analysis of the random slopes, as the results of the general model do not provide evidence for the hypothesis. The overall effect may be null precisely because it is highly negative in some countries and does not apply to others, which is what the hypothesis states.

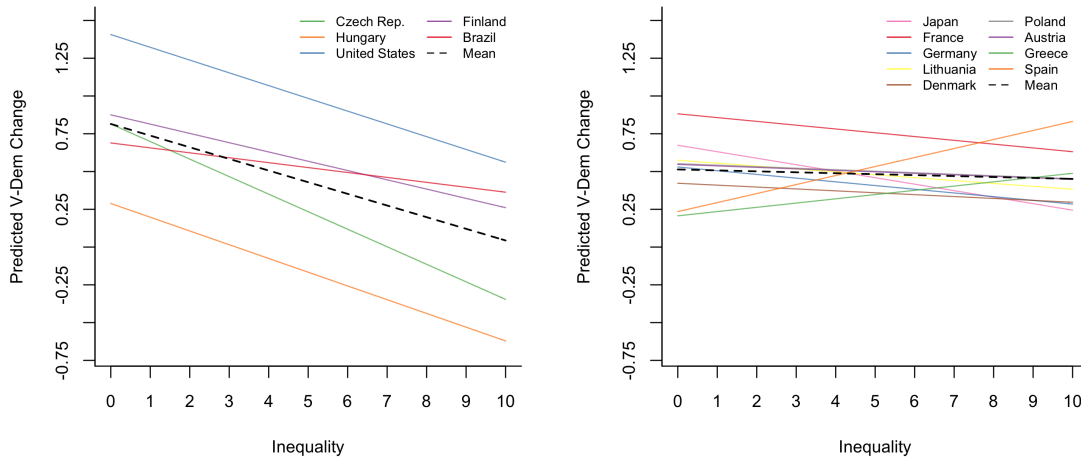


FIGURE 5. Effect of Factorial+Sectoral Gap on V-Dem

Figure 5 plots the results for countries that have experienced a Caesarian-style threat or takeover in recent years (left) and those that have suffered involution from increasingly authoritarian traditional parties.<sup>36</sup> These plots capture the marginal change in V-Dem scores caused by a one-unit

<sup>35</sup>Code and replication data are available from the author.

<sup>36</sup>Full results for all countries will be included in a future Appendix.

increase in the sectoral productivity gap at varying levels of inequality. Countries like the United States, Hungary or the Czech Republic have suffered from outsider takeovers from Trump, Orban and Babiš. Countries on the right side have not experienced losses in democracy as a result of increases in the sectoral productivity gap at varying levels of inequality.

## 9. WEALTH INEQUALITY AND DEMOCRATIC EROSION IN SPAIN

Democratic declines in Europe are apparent: since 2012, a majority of countries have suffered a regression in their democratic quality. Figure 5.4 displays the evolution of V-Dem scores for the UK, France, Denmark and Spain. All countries decline after 2012, two of them to the lowest levels since 1995 – Denmark and Spain. France is close to its 1995 score after dropping by almost 7 percent since 2012, and the UK has decreased 11 percent since 2012, and Spain’s V-Dem score of 0.7 puts it on par with France, the UK or Ireland in the *1960s*.

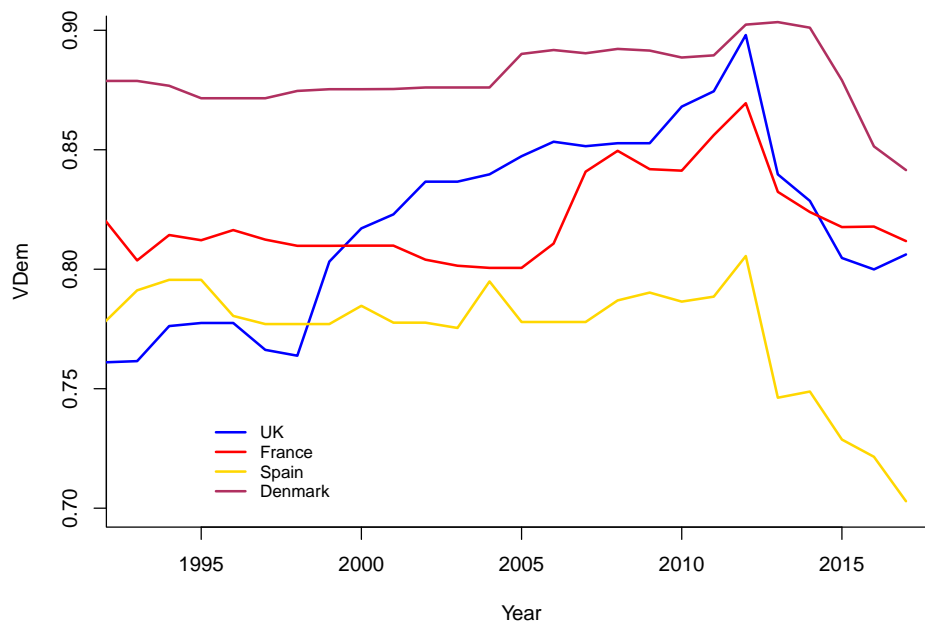


FIGURE 6. Evolution of V-Dem scores by country since 1995.



My theory predicts that an inequality shock provides an opportunity for a political opportunist to obtain popular support and attempt to take power, but that elite support is required to win a general election. Elites support an outsider when levels of elite wealth are so high that groups believe they can obtain their preferred policy from government and no longer need to compromise. This increases polarization among the economic elite, who prefer a less democratic candidate over the victory of the opposition. A Caesarian leader exploits this situation to obtain both popular and elite support, win an election with a certain probability, and subvert democracy once in power.

The case of Spain is a good example of when the lack of elite support prevents a populist, potentially Caesarian leader from emerging. This shows precisely why the second stage of my argument, elite polarization through high levels of wealth, is so important in fostering or hindering democracy. Spain suffered a double crisis between 2008 and 2010. First, the housing bubble began to burst in late 2007 after years of rapid growth. The ECB had maintained interest rates low at 2 percent from 2003 to 2006 to help Germany recover from its recession.<sup>37</sup> With growth at over 4 percent for the period, Spain's economy overheated through the housing market, as banks borrowed cheap money from the ECB and packaged it into easy to obtain loans for consumers. This left banks over-leveraged and consumers unable to pay back their mortgages after the bubble burst and the effects of the Great Recession began to be felt. The recipe for recovery by the ECB were cuts in public spending, labor market reform, and the nationalization of private bank debt.<sup>38</sup>

These reforms cut deep into the middle class' pockets and clawed back some of the welfare gains that had been made since the advent of democracy in 1978. The discontent erupted into large scale protest on May 15, 2011. Millions of citizens marched onto the streets in the country's main cities and occupied the main squares for months. The movement coalesced around a new political party, Podemos, founded in January 2014 under the charismatic leadership of Pablo Iglesias. At inception, the party espoused radical left wing views, some of which were hotly debated. Among these were

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<sup>37</sup>Reisenbichler and Morgan 2012.

<sup>38</sup>See Sinn 2014.

the nationalization of large corporations in the energy sector, a large increase in the minimum wage, and a guaranteed minimum income. Its discourse was overtly anti-establishment, popularizing the concept of *la casta*<sup>39</sup> to describe established elites who, in their view, had ran the country to the ground.<sup>40</sup>

The party first burst onto the scene in the May 2014 elections to the EU parliament, just three months after it was created. It won 5 seats and 8 percent of the vote, finishing fourth. General elections loomed in late 2015, and it appeared that Podemos would sweep into power. Polls in late 2014 and early 2015 had them comfortably ahead of established parties like the conservative Popular Party (PP) and the socialist PSOE. Pablo Iglesias was the most popular leader in the country, had constant media presence, and the sense was that he would become, in all likelihood, the next president.<sup>41</sup>

However, Podemos' project attracted few elites. Promises to nationalize large corporations were particularly harmful to build an elite coalition, as they increased uncertainty around which companies would be placed on the state's books should the party govern. Large-scale wage redistribution became one of Podemos' core messages, but few elites warmed up to the idea of a substantial increase in costs. The party's elite connections were also initially weak. Pablo Iglesias was a university professor before his switch to politics, and most of the executive committee came from similar non-elite backgrounds. Most were university professors, researchers, and activists. Among the first representatives Podemos sent to the European Parliament were a high school teacher, a small business owner, and a researcher, all of whom had no previous experience in politics.

In essence, Podemos represented the low productivity working class who suffered the brunt of the economic readjustment imposed by the European Union after the financial crisis. Thus, its appeal was based on a logic of class struggle, in which low productivity workers from the middle

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<sup>39</sup>Casta refers to pedigree, to aristocracy, to the elite, and also to chastity and purity. Podemos popularized it as a pejorative label for established elites.

<sup>40</sup>Gomez-Reino and Llamazares 2015, Orriols and Cordero 2016, Sola and Rendueles 2018.

<sup>41</sup>Sola and Rendueles 2018.

and working classes saw their wages slashed and social benefits cut as elites sought to create a leaner and more productive economy. Elites, however, were united in how they approached their future wealth generation and the role of democracy in that process. No industries were obtaining the ultra high productivity margins of US technology corporations, and all were more or less affected by the double set of crises that affect the Spanish economy – the housing crash of 2007 and the global financial crisis of 2008. Banks were particularly weakened by large amounts of toxic mortgages handed out during the 2003-07 boom. Realignment was inevitable, and an entire network of local and regional savings banks were dismantled or absorbed by national banks after large bailouts. A majority of the country's top banks required assistance, with Bankia's 23 billion bailout package the most conflictive of all. To a lesser extent, La Caixa (now CaixaBank) and Banc Sabadell also required assistance, and only Banco Santander navigated the crisis relatively unscathed.

Large Spanish construction corporations were heavily affected by the housing crisis and the temporary slowdown in public projects in the years that followed. National utility and telecom corporations, such as Telefónica or Gas Natural, continued to enjoy dominant market positions that would continue no matter the party in power. Clothing giants like Inditex (known for their Zara brand) and Mango had their sights in the global market and looked at Spanish politics with relative disinterest. Thus, perhaps in part because the housing crisis had ripple effects on almost every part of the economy, there was no obvious elite cleavage that Podemos and its Caesarian candidate, Pablo Iglesias, could exploit.

Elites, however, did see the danger that he posed should he obtain sufficient electoral support to govern –or at least wield influence within a multiparty coalition government. To prevent this, elites presented a united front and used the tools in their disposal to stop Podemos from rising further. Established political elites contributed to this. Socialists were particularly weary of Podemos, who were agitating their core base of supporters and threatening to win them over. Conservative elites saw Podemos as an outside movement that threatened to break up the constitutional order, which

had long been upheld by the traditional parties, PP and PSOE. It certainly did not help matters that Podemos was unapologetically republican, and in multiple occasions intimated that the royal family should be removed from their ceremonial office. National newspapers from the left and the right equally attacked or ignored Podemos, as did all television outlets except, to some extent, La Sexta. The media were particularly keen on the romantic and practical attachment that some members of Podemos had with Venezuela. Iglesias' personal admiration of Hugo Chavez and Fidel Castro was duly reported and debated ad nauseam. The beginning of the end for Podemos were multiple allegations against Juan Carlos Monedero, who at the time was the party's most influential member after Iglesias and his number two, Iñigo Errejón. On January 27, 2015, with Podemos leading the polls, El País alleged that Monedero's academic background and degrees were false, and even reported that professors he cited as references claimed not to know who he was. The accusation was recanted by the newspaper just three days later. Then, on January 28, came the most damning report: Monedero had received payments from Chavez's government and other ALBA countries, for consulting services. Monedero resigned in March, 2015, from his post within the party.

[Missing a more focused discussion on the erosion side after, with the gag law of 2015, crack down on freedom of speech and Catalan indep movement; to be added.].

## 10. WEALTH INEQUALITY AND DEMOCRATIC EROSION IN THE UNITED STATES

According to V-Dem, democratic erosion in the United States began during Barack Obama's second term –see Figure 5.1. Democratic quality declined steadily between 2012 and 2016 before a sharper downturn in 2017. In popular discourse, democratic erosion in the US is often associated with the rise of Donald Trump, but its roots run much deeper. The fast rise of the Tea Party in the early 2010s increased political polarization in congress, forcing President Obama's hand into signing a slew of executive orders that would previously have been resolved within the legislative branch.

Increased polarization within the legislative seemed to have played a key role in the early phase of democratic erosion in the US. This is reminiscent of arguments by Linz and Stepan and Bermeo.<sup>42</sup> However, greater use of executive action, while constitutive of democratic erosion and thus reflected in the data, is not a systematic attack on democratic institutions and values. There is more evidence that this is occurring under Donald Trump<sup>43</sup>, and the rise of the current President is intimately tied to polarization within the *economic* elite rather than the political elite.

Indeed, the steepest decline in the United States' V-Dem score takes place in 2017, the first year of Trump's presidency. Trump has attempted to reshape institutions in a way that nullifies referees, such as courts, push out actors that could threaten him, and slowly unbalance the playing field. Indeed, the tactics and discourse employed by Trump closely resemble the classic authoritarian script.<sup>44</sup> More importantly for our theory, these traits already were in full display during the 2015/6 republican primary and presidential campaigns. A populist, nationalist message resonated with a portion of the electorate that identified their economic travails with perceptions of increased immigration, cheap imports, and eight years of rule by Democrats in Washington, DC.<sup>45</sup> Furthermore, as happened with Spain's Podemos at the earliest stages of its emergence, Trump promised to 'drain the swamp', a catchphrase akin to *la casta*. Both describe the intention to change the elite make-up of the upper echelons of political power in Madrid and Washington. Thus, as the theory predicts, Trump exhibited all the traits of a Caesarian leader during the presidential campaign, in a way not dissimilar to Pablo Iglesias –even if both leaders were, at least in principle, at different points in the left-right ideological spectrum.

In Spain, as we saw, economic elites were fairly compact and blocked Podemos' rise with campaigns aimed at decreasing its popularity among voters. They then backed *Ciudadanos* extensively in an attempt to create the right-wing equivalent of Podemos, using a similar populist discourse

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<sup>42</sup>Linz and Stepan, 1972; Bermeo, 2003.

<sup>43</sup>Levitsky and Ziblatt 2018.

<sup>44</sup>Levitsky and Ziblatt 2018.

<sup>45</sup>Inglehart and Norris, 2016.

around calls for cleaning up corruption and democratic ‘regeneration’. However, in the United States, not only did Donald Trump capture the Republican nomination, but he also won the Presidency in October 2016.

I contend that cleavages among the elite were at the core of Trump’s emergence and eventual victory in the United States. In particular, an increasingly large productivity gap between technological/financial elites and industrial/natural resource elites produced an opening for Trump to obtain sufficient elite support to mount a credible challenge to establishment Republican (and Democratic) elites. Among Republicans, the push by Charles and David Koch to make the Republican party embrace libertarian ideology took a practical turn in the mid-2000s, when the brothers set their minds to capturing Republican majorities in state legislatures. They observed that a majority of regulation affecting their direct business interests was produced in the states, not in Washington. Dominating state lawmaking bodies would translate into fewer regulations and lesser government meddling into business affairs. The focus on the states, however, left the national party leadership hollow, and it became too late to pivot toward greater national presence late in Barack Obama’s second term.<sup>46</sup>

While the ideological elite of the Republican party abhorred the rise of political outsiders – Trump and Ted Cruz– in the primaries, and the Koch brothers were no exception, two subsets of the Republican elite favored the nationalist rhetoric that the candidates offered. The first were primarily natural resource extracting elites in states such as West Virginia and Texas, as well as others who wanted to see projects such as the Keystone Pipeline not sidelined by environmental regulations. The second subset of elites amenable to Trump were US manufacturers who had lost out with globalization and who saw potential tariff increases and trade disruptions as a positive for their future standing.<sup>47</sup> These elites stood in stark contrast with a high productivity technology sector that is largely behind Democratic candidates and who espouse openness both in terms of

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<sup>46</sup>See Skocpol and Hertel-Fernandez, 2016, for a detailed account of the Koch brothers’ effect on Republican ideology and strategy in the last two decades.

<sup>47</sup>See <https://www.nytimes.com/2016/03/28/us/politics/donald-trump-republican-voters.html>.

trade and social values. To gain an idea of the differences among sectors, the five most valuable companies in 1990 were all industrial, manufacturing and natural resource giants –companies such as General Electric, General Motors, Ford, Exxon and Mobil. In 2015, the five most valuable companies in the United States were all located in Silicon Valley or were part of the new post-2000 technology wave –Apple, Google, Amazon, Microsoft and Facebook.<sup>48</sup>

For elites that were early Trump supporters, the calculus was not only about maximizing wealth in the present time. Indeed, the productivity gap across sectors makes differences in wealth larger across time, given that wealth grows exponentially. Supporting a Caesarian candidate that espouses certain undemocratic views may be accepted by low productivity elites in exchange for state rents that help cover the productivity gap with other sectors. In sum, the case of the United States illustrates how large productivity differences among the economic elite provide an opening for a Caesarian candidate to obtain sufficient elite support to mount a credible political challenge to established political elites. In both Spain and the United States, high levels of inequality fueled voter discontent, which in turn gave new candidates like Pablo Iglesias and Donald Trump a political base.<sup>49</sup> However, differences in elite support for these candidates determined their different political fates. A large productivity gap created an opening for Trump, whose nationalist rhetoric translated into early support from elites in manufacturing and natural resource sectors. Other Republican elites later joined his cause rather than shut him out of the process precisely because it was too late; the early support was sufficient to push him through. In the case of Pablo Iglesias, a compact economic elite suffering from a small productivity gap made a concerted effort to prevent Podemos from reaching power and succeeded, even if at some point Iglesias had a larger share of voter support in Spain than Trump did in the United States for most of his campaign.

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<sup>48</sup>According to Fortune 500: [http://archive.fortune.com/magazines/fortune/fortune500/\\_archive/full/1990/](http://archive.fortune.com/magazines/fortune/fortune500/_archive/full/1990/); and Forbes Magazine: <https://www.forbes.com/powerful-brands/list/>.

<sup>49</sup>Inglehart and Norris, 2016.

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