The Social Science Journal xxx (2017) xxx–xxx

Contents lists available at ScienceDirect

The Social Science Journal

journal homepage: www.elsevier.com/locate/soscij

Who governs or how they govern: Testing the impact of democracy, ideology and globalization on the well being of the poor

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ARTICLE INFO

Article history:
Received 25 August 2015
Received in revised form 15 December 2016
Accepted 20 January 2017
Available online xxx

Keywords:
Democracy
Ideology
Political economy
Globalization
Poverty
Domestic institutions

ABSTRACT

This paper examines the effects of regime type, government ideology and economic globalization on poverty in low- and middle-income countries around the world. We use panel regression to estimate the effect of these explanatory variables on two different response variables: national poverty gap (104 countries from 1981 to 2005) and child mortality rate (132 countries from 1976 to 2005). We find consistent and significant results for the interactive effect of democracy and government ideology: strong leftist power under a democratic regime is associated with a reduction in both the poverty gap and the child mortality rate. Democracy, on its own, is associated with a lower child mortality rate, but has no effect on the poverty gap. Leftist power under a non-democratic regime is associated with an increase in both poverty measures. Trade reduces both measures of poverty. Foreign direct investment has a weak and positive effect on the poverty gap. From examining factors that influence the welfare of poor people in less developed countries, we conclude that who governs is as important as how they govern.

1. Introduction

The political and economic determinants of poverty have become a key subject of study for scholars of political economy. Does democratic development help or harm the poor? How does the ideology of government affect poverty rates? What effect does globalization have on poverty? Current empirical studies on poverty have two main problems. First, economists who study poverty usually pay little attention to domestic political conditions, despite research that has shown how important these factors are to the well-being of poor people. Second, social scientists who study poverty usually focus only on the impact of regime type (e.g., how democratic or autocratic a regime is) and ignore the impact of government ideology. Our paper attempts to remedy this gap by extending existing theory on domestic political institutions, globalization, and poverty with a focus on the developing world.

The central purpose of this paper is to examine the impact of regime type, government ideology, and globalization on poverty. To do this, we use a panel regression estimation of a novel data set that includes 104–132 developing countries over 25 or 30 years (depending on the model being tested). Our key finding is that leftist democratic regimes reduce poverty. That is, *who governs* is as important as *how they govern* as it pertains to the well-being of the poor. We also find that trade openness is strongly associated with a lower poverty rate, while FDI inflows are associated with a higher poverty rate. Beginning with Section 1, the introduction, this paper is divided

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http://dx.doi.org/10.1016/j.soscij.2017.01.010
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into five parts. In Section 2, we review the theoretical relationships between poverty and globalization, regime type and government ideology; In Section 3, we detail the data and empirical models; In Section 4, we present empirical results; In Section 5, we discuss the implications of the empirical results, limits, and directions for future research.

2. Theory: economic and political drivers of poverty

Social scientists and economists have been exploring the political and economic causes of poverty for decades. In recent years, the impact of globalization on poverty has become a topic of intense debate in political and academic circles. Standard trade theory, as set out by the Heckscher–Ohlin model, expects that globalization reduces poverty in less developed countries (LDCs). Several scholars also argue that globalization is "good" for the poor (e.g. Dollar & Kraay, 2004; Dollar, Kleineberg & Kraay, 2013; Lundberg & Squire, 2003). The key mechanism behind this is that trade accelerates economic growth and growth reduces poverty (Dollar & Kraay, 2004). For example, Dollar and Kraay (2004) find a strong positive relationship between trade volume and growth, and also link higher growth rates to higher income for poor people. Using new data that covers 118 countries from 1967 to 2011, Dollar et al. (2013) revisit research conducted by Dollar and Kraay (2004) and find that, as an economy grows, the income of poor people generally rises "equiproportionally" with mean societal income. Thus, they conclude that although there are regional differences, "growth is still good for the poor" (p. 17).

Trade can also directly alleviate poverty by increasing wages and employment. The World Bank (2015) views the removal of protectionist measures such as subsides, import tariffs, and quotas as an important means to reduce global poverty. This is because trade liberalization makes developed countries open their markets to labor-intensive products, such as agriculture, food, and simple manufactured products. In a study of trade liberalization and poverty in 259 regions of Indonesia from 1993 to 2002, Kis-Katos and Sparrow (2013) find that trade liberalization reduces poverty by formalizing jobs, and ensuring larger and more secure incomes for low- and middle-skilled workers. Trade liberalization can also reduce poverty by raising productivity, reducing policy interventions by foreign lenders or non-governmental organizations, and protecting countries from external financial shocks (Winters, 2002).

Along these same lines, foreign direct investment (FDI), can also promote economic growth, which, as discussed above, benefits poor people by raising their income. Ozturk (2007) reviews the literature and finds strong empirical support for the growth promoting effects of FDI. FDI leads to growth in host economies by fostering competition, increasing capital stocks, transferring technology, and improving the skills and knowledge of domestic workers (Ozturk, 2007). FDI may also help the poor by increasing employment, raising wages for workers, and improving working conditions (Arnal & Hijzen, 2008).

However, Nunnenkamp (2004) argues that the "euphoria" over FDI as a route to support development goals and reduce poverty is unwarranted (p. 657). He reviews the existing literature and finds that low-income countries that are the most "attractive hosts" for FDI usually have domestic conditions (e.g., poor education and financial systems) that constrain the beneficial social effects—and may even cause negative effects. So, in a low-income country with little education spending, domestic producers are easily out-competed by more advanced foreign multinationals. Bardhan (2006) finds that opening domestic markets to international competition, without improving the financial or physical infrastructure of the host nation, puts small, local producers at a distinct disadvantage to large multinational firms (p. 3).

Despite substantial empirical and theoretical work on the relationship between poverty and globalization, there is little consensus regarding the relationship between these factors. The challenges of creating robust cross-country research projects and measuring concepts such as poverty play a role in this confusion (Ravallion, 2001). But there is also growing evidence that economics alone cannot explain cross-national differences in poverty (The World Bank, 2006). Because of this, empirical research on poverty is increasingly examining political factors such as regime type—that is, to what degree a country is democratic or autocratic (e.g., Brown & Hunter, 2004; Gerring, Thacker & Alfaro, 2012; Przeworski, 2000; Reuveny & Li, 2003; Ross, 2006).

A more democratic government may provide greater resources to poor citizens for two main sets of reasons. First, increased electoral competition between political groups in democratic regimes causes political elites to respond to the interests of the poor (Bueno de Mesquita, Smith, Siverson, & Morrow, 2003). Second, greater political participation in democratic regimes allows social groups, including the poor, to demand public services, such as welfare and healthcare. For these reasons, democratic governments tend to provide public goods and services to please the poor (Bueno de Mesquita et al., 2003; Ghobarah, Huth, & Russett, 2004; Lake & Baum, 2001; McGuire, 2006; Ha, 2015; Ha & Kang, 2015; Pribble, Huber, & Stephens, 2009; Wigley & Akkoyunlu-Wigley, 2011). Brown and Hunter (2004), and Avelino, Brown, and Hunter (2005) find that democratic governments in Latin America spend more on health and education than autocratic governments. Other empirical studies also find that democracy is negatively associated with indirect indicators of poverty, such as child and infant mortality rates (Lake & Baum, 2001; Przeworski, 2000; Welander, Lyttkens, & Nilsson, 2015). On the other hand, autocracies, where political leaders often face little competition, tend to stifle both political and economic competition—which harms economic growth and encourages "cronyism and corruption instead" (Bueno de Mesquita et al., 2003, p. 58).

However, although democracies may provide an "opportunity" for the introduction of the preferences of the poor into the political realm, the mere existence of electoral competition does not guarantee that the interests of the poor will be represented (Ross, 2006). Median voter theory argues that, in a majoritarian democratic system, politicians will target policies to appeal to the decisive median voter (Downs, 1957). And, as Meltzer and Richard