



The role of middle class in democratic diffusion



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ABSTRACT

The modernization hypothesis and the democratic domino theory have been at the forefront in explaining the democratization around the globe. This paper empirically investigates the 'middle class-driven modernization' hypothesis and the 'middle class-driven democratic domino' effect in a panel of 145 countries over the period 1985 to 2013. Using several middle class measures and a dynamic panel estimator, we show that the 'middle class-driven modernization' hypothesis finds strong empirical support in the sample of developing countries excluding Eastern Europe and Central Asia, while the 'middle class-driven democratic domino' effect finds support in the sample of developing countries excluding East Asia and the Pacific.

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1. Introduction

The rapidly declining poverty rates around the world have led to dramatic changes in the income distribution and economic stratification of many countries. Ravallion (2010), using household survey data from 117 countries, estimates that about 1.2 billion people in the world joined the middle class ranks over the period 1990–2005 (see also Sumner, 2012, and Edward and Sumner, 2014).¹ This fact is observed against a background of the substantial growth rates experienced by several economies, most prominently, by China and India. Ravallion (2010) argues that the developing world is divided into two groups of countries; those with a large middle class and those with a relatively smaller one.

Mounting evidence suggests that the growing size of the middle class is conducive to better economic and political outcomes. This argument is supported by historical anecdotes on the role of bourgeois in European democracies, as well as extant cross-country literature on the nexus between the size of middle class and economic and political conditions (Moore, 1966; Barro, 1999; Easterly 2001; Easterly et al. 2006; Banerjee and Duflo, 2008; Solimano, 2009; Amoranto et al., 2010; Loayza et al., 2012; and Wietzke and Sumner 2014).²

The theoretical background of the relationship between greater size of middle class and better economic and political conditions is rooted in the 'modernization hypothesis' (Moore, 1966; Lipset, 1959; Feng and Zak, 1999; Rosendorff, 2001; Epstein et al., 2006; Acemoglu et al. 2014). This hypothesis predicts that higher levels of living standards drive demand for higher levels of democracy. Several commentators suggest that a larger middle class is both a precursor for higher living standards and is likely to be a strong driver of democratic demands in a country. Theoretically, one can link the size of middle class with the modernization hypothesis in at least three ways. First, an affluent society is typically characterized by a larger size of the middle class earning

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¹ Defined as those between the median poverty line of developing countries of \$2 per person per day and the US poverty line of \$13 (2005 PPP).

² The nexus between inequality and quality of institutions is well established in the political economy literature. See, for instance, Alesina and Rodrik (1994), Alesina and Perotti (1996), Keefer and Knack (2002), and Persson and Tabellini (2009).

higher wages³; such higher incomes may reduce conflict over wealth distribution (Benhabib and Rustichini, 1996; Benhabib and Przeworski, 2006), which is conducive to democratic institutions (see Glaeser et al., 2004). Second, once the size and the relative income of the middle class are larger, the redistributive costs of democracy for the elite go down. In such case, the elite is likely to loosen the barriers to democracy (see, for instance, Huber, Rusechemeyer and Stephens, 1993). Third, an increase in income level of the middle class may create higher demand for individual property rights as well as government accountability in return for their tax dollars, which may, over time, force the ruling elite into a series of concessions; this may, in turn, improve democratic outcomes (Ansell and Samuels, 2010; and Wietzke and Sumner, 2014). All of these reinforce the hypothesis that the middle class is likely to act as a distinct pro-democratic agent in the political sphere of the economy.

An alternative and compelling hypothesis of democratization is the democratic domino theory. This theory postulates that change in democratic conditions in one country can spread to the neighboring countries and radically change the levels of democracy in its neighbors (see Starr, 1991; Simmons et al., 2006; Leeson and Dean, 2009; Zhukov and Stewart, 2011).⁴ The link between democratic domino theory and the size of middle class is likely to be predicated on the “demonstration” effect, in which the neighbors’ middle class may trigger a wave of democratization when they contest the incumbent government for improved democratic conditions in their own countries. Such actions of the neighbors’ middle class can induce the majority – the proportion of population consisted of both the lower- and middle classes – of the domestic country to contest the political power. The recent case of Arab Spring, which started in Tunisia and later spread to Libya, Egypt, and Syria, epitomizes a prominent example of this “demonstration effect”. Indeed, several academic and policy circles have argued that one of the principal driving forces behind the recent mass uprisings on the Arab streets is the rising middle class in those countries (see, for instance, El-Naggar and Slackman, 2011; and Remnick, 2011).

This paper empirically tests the “middle class driven modernization” hypothesis and “middle class-driven democratic domino” effect in a unified framework. In doing so, we investigate whether a country’s own middle class or its neighbors’ middle class is the major driver of changes in its own democracy. We interpret the increased democratic standards in a country due to an increase in its size of middle class as a support for the “middle class-driven modernization” hypothesis, and increased democratic standards in a country due to increase in the size of its neighbors’ middle class as evidence for the “middle class-driven democratic domino” effect. In our analysis we use a rich panel dataset of 145 countries observed in four-yearly periods over 1985 to 2013. Our panel includes several measures of middle class, including an absolute measure (i.e., the proportion of population living on PPP\$2–\$10 per day) and two relative measures (i.e., the proportion of population falling between 75% and 125% of the median expenditure, and the share in the total expenditure of the middle 60% of the consumption distribution). Neighbors’ middle class is measured by the size-weighted average of a country’s neighbors’ middle class, where size refers to neighbors’ population or land area. We use a dynamic panel estimator to address the endogeneity in the size of the middle class and to control for unobserved country-specific heterogeneities in the estimation.

This paper makes two key contributions to the literature on the political economy of economic development. First, unlike many other studies that have focused on per capita income as the main indicator of modernization and had hitherto been criticized for over-aggregation, this paper highlights the middle class as a key driver of higher living standards, which brings about higher demands for democracy as a result. Second, moving away from the narrow focus on a country’s own middle class, we show that the size of a country’s neighboring middle classes can start an impetus for higher levels of domestic democracy. Taken together, this paper bridges several lines of research in the political economy literature, including the relationship between economic development and the middle class, the association between the middle class and democracy, and the nexus between neighbors’ middle class and domestic polity. Our aim is to formally document the role of the neighbors’ middle class in waves of democratizations and as one whose democratic demands are not to be ignored in a globalizing world.

Our results identify three major conclusions concerning the effect of middle class on democratic standards in the medium-term horizon (i.e., four-year intervals). First, the absolute indicator of middle class, the proportion of population living on PPP\$2–\$10 per day, and the relative indicator representing the proportion of population that fall between the 75% and 125% of the median, strongly affects the level of democracy in a country. Importantly, this effect is prevalent in the sample of developing countries, but not in the global sample that is inclusive of developed countries. Second, using the absolute measure above, the ‘middle class-driven modernization’ hypothesis finds strong empirical support in developing countries excluding Eastern Europe and Central Asia. The related coefficient suggests that a 10 percentage-point increase in the size of the middle class increases the democracy score in a country, as measured by Polity IV database, by 1.3 units in the range of [–10, 10]. Third, using the same measure, the ‘middle class-driven democratic domino’ effect finds empirical support in developing countries excluding the East Asia and the Pacific. Our coefficient estimate suggests that each additional 10 percentage-point increase in the neighbors’ middle class size raises the democracy score in a country by approximately 1 unit in the range of [–10, 10]. Our empirical analysis indicates that the extent of democracy in a country is relatively more sensitive to the size of its own middle class than its neighbors’ middle class in affecting its democratic conditions. Overall, our findings suggest that the middle class plays a significant role in democratizations around the world by improving the level of democracy in both their own country and in their neighbors.

The paper proceeds as follows. Section 2 describes about the sources as well as the construction of our dataset. Section 3 discusses the estimation methodology. The empirical findings are discussed in Section 4, and Section 5 concludes.

³ Solimano (2009) shows that the relative sizes of the middle class in countries with higher income are larger than the share of the middle class in low income countries. This suggests a positive association between economic development and the size of middle class. Generally, the middle class serves as entrepreneurs, and they save and invest in education and health that are the main threats for promoting economic growth (see Banerjee and Duflo, 2008; and Easterly, 2001).

⁴ See Leeson and Dean (2009) for a recent analysis of the domino theory. Persson and Tabellini (2009) ascertained that democratic capital (i.e., countries’ historical experience with democracy, and the incidence of democracy in their neighboring nations) not only reduces exit rates from democracy but also raises exit rates from autocratic regimes.

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