

Poverty, Inequality, and Democracy

DEALING WITH INEQUALITY

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What is the relationship between modern liberal democracy and de facto socioeconomic inequality? Liberal democracies are based broadly on the twin principles of liberty and equality. But what is the meaning of equality? Is the equality to which such regimes are committed simply juridical equality—that is, the equal treatment of persons under universally applicable laws? Is it equality of opportunity, which, in addition to equal legal treatment, might include equal access to education? Or are democratic societies committed to achieving some degree of de facto social equality, either through redistribution of resources or through guarantees of equal outcomes with regard to education, health, housing, and the like? If there is a tradeoff between individual freedom and de facto social equality, how does a society achieve a suitable balance? And are these questions to be answered on the basis of theoretical first principles, or should actual democracies take a more pragmatic approach?

These are some of the questions that the articles on “Poverty, Inequality, and Democracy” in this and earlier issues of the *Journal of Democracy* seek to address.¹ The “third wave” of democratization that began with the Spanish and Portuguese transitions in the 1970s (and which now may be followed by a fourth wave in the Arab world) consisted largely of political revolutions that sought to put in place regimes whose first objective was to secure electoral democracy and political rights in countries coming out of authoritarian rule. But the third wave also happened to coincide with a conservative trend in economic thinking, during which redistribution and active economic intervention fell out of favor, to be replaced by an emphasis on more classically liberal economic policies. Indeed, the collapse of communism after 1989 led to

a rethinking of the entire redistributionist agenda on the Left, since its negative impact on economic growth had become evident for everyone to see. While a number of new democracies put into place a variety of social protections designed to bolster equality, the broader trend in economic thinking from the 1970s through the first decade of the twenty-first century was, if anything, toward support for a reduction in the size of welfare states.

Neoliberal economics implied a greater tolerance for economic inequality, since many economists argued market competition inevitably meant that value-creating entrepreneurs would be more richly rewarded than others. And indeed, in some advanced democracies such as the United States and Britain, the last three decades of the twentieth century saw increasing de facto inequality. Some have maintained that global inequality also increased during these years, though this assertion is highly contested and dependent on the way one defines and measures inequality. Incomes may have grown more unequal within individual East Asian countries, for example, though per capita incomes in the region closed the gap with Europe and North America. Levels of inequality began to decline somewhat in Latin America during the first decade of the twenty-first century, but overall they remained stubbornly high for the region.²

There are a number of reasons why people interested in the future of liberal democracy should pay renewed attention to the question of equality. In recent years, there has been increasing concern about the ability of new democracies to deliver on the promises that democratic politicians make to their publics to provide good-quality government services in areas such as education and health. Many democratic transitions have been stalled or threatened by the existence of large inequalities and high degrees of polarization between rich and poor. Countries such as Pakistan and the Philippines have poorly consolidated democratic institutions, which most observers ultimately link to their high levels of social stratification and quasi-feudal institutions. In Latin America, populist regimes such as that of Hugo Chávez in Venezuela have undermined democratic institutions in the name of greater social equality. And in the Middle East, groups with a questionable commitment to liberal democracy, including Hamas in Palestine and the Muslim Brotherhood in Egypt, have gained adherents because they are seen as providing social services and catering to the needs of the poor.

Theoretical Arguments

The early theorists of liberal democracy were concerned with political equality, but either paid little attention to economic equality or else assumed that it would continue to exist. Thomas Hobbes in *Leviathan* (1651) asserts that human beings are equal because any given human

being can kill any other human being, and that all humans are equally driven by the fear of violent death. This leads him to derive a right to life as a “right of nature” that humans seek to preserve by entry into civil society (and is the progenitor of the rights to “life, liberty, and the pursuit of happiness” proclaimed in the U.S. Declaration of Independence). John Locke, in his *Second Treatise on Government* (1689), views human nature as both gentler and more focused on a universal desire to acquire property. Like Hobbes, Locke emphasizes the equality of political rights, but goes on to acknowledge that there are important differences between the “industrious and rational” and the “quarrelsome and contentious” in their ability to mix their labor with the “mere things of Nature” and turn them into private property. Thus, while Locke’s liberal state protects equally the right to acquire property, it does not assume that there will be anything like equality of actual outcomes with regard to wealth. Indeed, his stress on the importance of property implies that the industrious and rational will need political protection of their wealth, both from the state and from others who might unjustly take it away from them. U.S. founding father James Madison revisits the latter theme in *Federalist* 10 (1787), in which he argues that “the first object of government” is the protection of the *unequal* ability to acquire property.

More recent liberal theorists such as Friedrich A. Hayek are similarly insistent that the preservation of a “free society” entails acceptance of potentially high degrees of economic inequality. In *The Constitution of Liberty* (1960), Hayek defines freedom in very narrow terms as an absence of compulsion—in particular, compulsion by a centralized state.³ He rejects metaphysical definitions of freedom as freedom of the will, and assumes that the absence of compulsion will be sufficient to provide space for the exercise of individual choice. While Hayek is not rigidly opposed to government provision of poor relief or health insurance, he is strongly critical of formal schemes of redistribution such as the progressive income tax. His opposition does not stem from utilitarian concerns about the effects of progressive taxation on economic growth; rather, he argues that such a tax represents an illegitimate exercise of government power over individuals because it violates the principle of equal legal protection. Yet this seeming stand on principle is in fact based on a certain kind of consequentialism on Hayek’s part, since he also believes that once government gets into the business of coercive redistribution, it is more likely than not to increase its role over time.⁴

The theorists who believe that the promotion of socioeconomic equality is intrinsic to democracy can be divided into nonliberals and liberals. In the first camp are Karl Marx and his followers, who argue that formal democracy is in effect captured by the bourgeoisie, and that the outcomes of democratic elections do not really reflect the true interests of “the people.” These interests are in some sense objectively knowable even in the absence of procedural methods for revealing citi-

zen preferences such as elections, and can be promoted by authoritarian regimes speaking “in the name of the people.” Virtually all real-world communist regimes thus incorporated adjectives like “democratic” or “people’s” in their titles. Hardly anyone today believes that countries like North Korea or Cuba deserve to be called democracies, though it is interesting that, according to the Asia Barometer, a majority of Chinese today believe not just that democracy is the best political system, but that their country is already democratic.⁵

A far more influential strand of thinking on the question of equality today comes from within the liberal tradition itself, a tradition that sees society as based upon a social contract meant to enhance the freedoms of its individual members. An example is John Rawls, a contemporary Kantian who seeks to derive abstract rules of justice without reference to substantive understandings of human nature or a human essence.⁶ Rawls’s “veil of ignorance” is a heuristic device to uncover ethical rules that individuals would choose if they did not know what position they would actually occupy in society. He argues that people deliberating under these conditions would agree upon a standard of justice based on the way that society treats its least fortunate members. Rawls does not go into the practical details of how societies are to meet the needs of the least fortunate, but clearly it would entail substantial redistribution.

The economist Amartya Sen offers a rather different set of arguments, also from a liberal perspective, that in the end lead to a principled case for a more substantive view of equality. Like Hayek, Sen believes that individuals aim at different ends and that society’s role is to allow people to pursue their chosen life courses in the freest possible manner. Sen argues, however, that the actual freedom one can achieve is dependent on a host of material preconditions: If one is starving, or in poor health, or is a woman in a society that limits female opportunity, then a simple Hayekian freedom from government coercion will not be sufficient to allow one to make meaningful individual choices. A genuine liberal society, then, is one that provides the necessary preconditions for the exercise of individual freedom, something which again presupposes a degree of redistribution or at least an equitable provision of basic services such as education and health.⁷

In the course of the twentieth century, principled defenses of the welfare state and of redistribution came increasingly to rest on liberal rather than Marxist or other nonliberal grounds. That is, arguments for redistribution or active social policy were cast in the language of liberal individual rights⁸ and were enshrined in a host of new democratic constitutions in the form of “second-generation” social or economic rights to education, health, housing, and the like. These were seen by many as natural follow-ons to first-generation political rights of the sort enumerated in the U.S. Bill of Rights. For example, Brazil’s 1988 Constitution, drafted at the end of the military dictatorship, goes on for many

pages, listing a multitude of rights to various economic benefits and social services. Advocacy groups from South Africa to Colombia have tried to use constitutional courts to force reluctant executive branches to actually implement certain social policies said to be guaranteed in their country's basic laws.

Policy Debates

The real terrain of debate over the relationship between liberal democracy and socioeconomic equality is less the theoretical one than a more practical or consequentialist argument about the real-world impact both of socioeconomic inequality and of the various types of policy interventions designed to correct it. Few people take a strict Hayekian position against all forms of redistribution or social policy; on the other hand, few today would argue that the single-minded pursuit of economic equality is an appropriate end of public policy. In most liberal democracies, there is a consensus that excessive inequality is a bad thing, but considerable disagreement as to the practicality and likely effects of policies that governments can implement to mitigate it.

Let us begin with arguments that inequality undermines or is dangerous to democracy. Kate Pickett and Richard Wilkinson present data, mostly based on cross-country or cross-state analysis, purporting to show that high levels of inequality are correlated with a host of social ills, including drug use, criminality, obesity and other forms of poor health, poor educational outcomes, low social trust, and the like.⁹ While none of these results necessarily undermines democracy, democratic societies are clearly better off when their citizens are healthy, well-educated, secure, and so on. The statistical analysis in their book is relatively unsophisticated; they fail to test for endogeneity or excluded variables and assume that a correlation implies that the causal direction inevitably runs from inequality to the social ill in question. Moreover, they fail to ask whether poverty reduction brought about by rapid economic growth might cure certain of the social problems that they describe, even in the presence of substantial levels of inequality. Indeed, many years ago Simon Kuznets argued that rapidly growing countries went through a period of increasing economic inequality as certain sectors of the economy pulled ahead of others, but that levels of equality would then increase again as development became more broad-based.¹⁰ By this account inequality would, at certain stages of development, be a symptom of economic health.

Nonetheless, it is more than likely that some of Pickett and Wilkinson's causal assertions would withstand more rigorous analysis. For example, social trust between rich and poor in highly stratified countries is for a number of obvious reasons likely to be low, and low social trust has a number of deleterious effects on the quality of democracy.¹¹ Economic

divisions often correspond to ethnic, racial, or religious ones. Paul Collier's work has suggested that much of what passes for ethnic conflict in poor countries is actually driven by conflicts over resources in highly

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unequal societies.¹² Social conflict can be driven either by minorities who are poorer than the rest of society, as in the case of African Americans in the United States or Muslim immigrants in the Netherlands or France, or by minorities that are better off than average, like the Chinese in Southeast Asia or the Indians and Lebanese in East Africa.

Another line of research suggests that inequality leads to reduced economic growth, which in turn has a negative impact on the prospects for democratic consolidation. Robert Barro has suggested that while there is no particular correlation between inequality and growth in developed countries, there is a negative one for developing nations when levels of inequality get

to be very high.¹³ There are a number of possible reasons for this relationship, such as the fact that access to credit may be highly unequal in stratified societies, limiting possibilities for entrepreneurship outside of a relatively small oligarchy. Alternatively, demand for high-quality public services may be low in highly unequal societies, since the rich can afford to pay for them privately and do not want to tax themselves for the benefit of others. A middle-class country with more evenly distributed income, by contrast, is more likely to have median voters who will support broader public goods.¹⁴ Finally, other studies have suggested that more equal societies have lower fertility rates and higher rates of investment in education, both of which are positive for economic growth as well as for democracy.¹⁵

A more likely reason why inequality is bad for growth is directly political: Highly unequal countries are polarized between rich and poor, and the resulting social conflict destabilizes them, undermines democratic legitimacy, and reduces economic growth. The latter is a scenario that has played out over the centuries in the world's most unequal region, Latin America. Highly unequal societies—what Douglass North, Barry Weingast, and John Wallis call “limited access orders”¹⁶—are capable of sustaining high rates of growth for considerable periods of time. Over a longer time frame, however, social conflict eventually catches up with them, and growth can be set back for an entire generation.¹⁷ One could argue that something like this scenario played out in Venezuela from the

time of the Pacto de Punto Fijo in 1958 until the rise of Hugo Chávez in the 1990s. Both economic growth and political stability seemed reasonably secure, but the former was poorly distributed, and social conflict was exacerbated when energy prices fell during the 1980s.¹⁸

It should be pointed out that many of the negative consequences associated with inequality, whether political or economic, do not arise as a linear function of the degree of inequality. They are rather associated with extremely high levels of inequality, suggesting that there is something like a tipping point at which social stratification becomes entrenched, producing political polarization and distinctive patterns of behavior between rich and poor. A separate question is whether rapid *changes* in the degree of equality—such as the sudden impoverishment of a particular group or the rise of one part of a society—have separate political effects from the aggregate level of inequality. Samuel Huntington long ago suggested that rapidly rising middle classes that were denied adequate institutionalized forms of participation could be very destabilizing.¹⁹ As recent events in the Middle East suggest, however, authoritarian regimes may be more vulnerable than democratic ones to this threat, suggesting that this particular form of inequality may actually benefit democracy by undermining authoritarianism.

On the other side of the ledger are a number of arguments as to why liberal democracies should not worry very much about the impact of inequality on democracy and why efforts to remedy inequality will be more damaging than the problem itself. One argument made by many Americans in defense of their own country's relatively high degree of inequality compared to other developed democracies is that single time-point measurements of income inequality such as the Gini coefficient are less important than the question of intergenerational social mobility. A great deal of inequality is due to life-course effects—over time, people accumulate skills and therefore wealth. What is more important is whether their society permits them to reap the rewards of their acquired skills and effort. Americans have historically tolerated higher degrees of inequality than have Europeans because of Americans' perception that their society offers opportunity to rise, if not for them, then certainly for their children and grandchildren.

Tyler Cowen makes a somewhat different argument against the salience of income inequality in contemporary rich societies like the United States: Compared to the dramatic differences in consumption levels, health, longevity, and work that existed a century ago, most ordinary Americans today have reached a level of material prosperity, health, and access to services that makes their lives qualitatively much more similar to those of the rich than previously. The rise in economic inequality is not a broad phenomenon, according to him, but rather is highly concentrated in the outsized earnings of an extremely small minority of people in the financial sector. This may be problematic for a democracy, yet it

is not at all similar to the kinds of class differences that drove the emergence of welfare states in modern democracies early in the twentieth century.²⁰

Perhaps the most powerful arguments against excessive concern with the problem of inequality have to do with the unintended consequences of social programs, income transfers, and other policies designed to redistribute income or shift the targeting of public services more decisively to the poor. The first and most straightforward of these is the “moral hazard” argument—namely, that subsidies or income transfers to the poor reduce incentives to work and increase dependence on the state. In the American context, this was linked to the particular pathologies said to be produced by the New Deal’s premier welfare program, Aid to Families with Dependent Children (AFDC), which provided subsidies to poor women but only if they were unmarried. The perception that this was fueling the explosion of single-parent families in poor neighborhoods was one of the reasons why AFDC was finally abolished in 1996.²¹

A second argument against social-policy programs is more political: Any subsidy or cash transfer given out by the state, however well-intentioned, becomes a source of rents and therefore of political contestation. The poor who are the beneficiaries of subsidies come to see them as entitlements and try to hang on to them even when they are no longer poor; moreover, subsidies are sought by middle-class voters as well, and therefore tend to expand over time. Politicians catering to voters see social programs as a form of patronage that they can use to build political machines. This produces an unhealthy interest-group politics at best, and clientelism and corruption at worst. The very popularity of social programs thus spurs their growth over time and the fiscal problems that this engenders. It is much easier for a politician to initiate a new program than to take away an old one. Programs that were begun in flush economic times often persist in downturns or periods of low growth and become drags on national budgets. Fiscally unsustainable programs have all sorts of negative implications for macroeconomic stability and therefore long-term economic growth.

In many respects, one’s attitude toward inequality and the measures that one believes a democratic government should take to reduce it depends on one’s belief about the type of society one is living in. The closer a society comes to having a level playing field in which differences in outcomes reflect individual-level differences in talents and character, the more likely one is to favor a Lockean liberal political system in which government protects only the equal ability to compete. But if a society’s social structures or institutions obstruct individual access to opportunity, whether on the basis of class, race, gender, or some other ascriptive characteristic, then there is more likely to be a constituency in favor of government action to “level up” the playing field through vari-

ous kinds of redistributive interventions. The belief on the part of many Americans that they live in a society with abundant social mobility, and that Europeans do not, provides one of the classic explanations for why Americans have been leery of European-style welfare states.²² Very few liberal democracies actually succeed in coming close to the ideal of a level playing field, however, so the demand for using social policies to rectify existing social inequalities is sure to persist.²³

The Future of Equality

Today's liberal democracies are sharply divided with regard to their approaches to socioeconomic inequality. On the one hand, there is a large group of democracies that suffer from high *de facto* inequality, as well as inadequate social policies that fail to provide basic services such as health and education to the whole of their populations. In Latin America, redistribution is often regressive, with public expenditure going to middle-class and elite groups rather than the poor and thus exacerbating existing income inequalities. One can make a strong argument that countries such as Brazil, Mexico, Pakistan, the Philippines, and South Africa will not be able to maintain long-term political stability if measures are not taken to provide essential social services on a more equitable basis.

On the other hand, rich developed democracies with far more extensive welfare states are all facing a long-term crisis of fiscal sustainability. Existing social contracts regarding welfare-state benefits were written in an age in which birth rates were far higher and life expectancies much lower than they are today. Even in countries that have a less generous level of public benefits, such as the United States and Japan, underlying demographic realities and the spiraling costs of health care have put national finances on a fiscally unsustainable path, with high debt-to-GDP ratios that will steadily worsen in the absence of remedial action.²⁴ All modern democracies are plagued with the problem of interest groups whose stake in protecting a certain part of the budget is much stronger than the diffuse general interest in long-term fiscal sustainability. The difficulties that the French government recently had in raising the retirement age from 60 to 62, as well as the deadlock that currently exists in the U.S. Congress with regard to entitlement spending, are indicative of the problem.

One profound question left unaddressed here is whether deep structural inequalities of the sort plaguing many developing democracies can ever be solved through democratic means alone. It is hard, for example, to find many instances of thoroughgoing land reform that occurred without some degree of coercion. Many observers credit the post-World War II economic success of Japan, South Korea, and Taiwan to land reform that dismantled the hierarchical social structures prevailing in those

countries. But this was imposed on them by the United States, which uncharacteristically used its authority as an occupying power to bring about significant social change. In the history of the growth of European welfare states, elites were persuaded to give up privileges or to accept higher rates of taxation only by the threat of revolution, or else they were weakened or even physically eliminated by violent conflicts.²⁵

The success of democratic countries in Latin America in reducing extreme inequality during the early 2000s through well-designed social policies is perhaps a counterexample of social change occurring through what Albert O. Hirschman called democratic “reform mongering.” Hopefully this will be the preferred method of dealing with the problem of social inequality in democratic societies in the future.

NOTES

1. The articles in this issue’s cluster on “Poverty, Inequality, and Democracy” include Dan Banik, “Growth and Hunger in India”; Charles Simkins, “South African Disparities”; and Taekyoon Kim et al., “‘Mixed Governance’ and Welfare in South Korea”; previous clusters on “Poverty, Inequality, and Democracy” have appeared in the October 2008 and October 2009 issues of the *Journal of Democracy*.

2. See Luis F. López-Calva and Nora Lustig, eds., *Declining Inequality in Latin America: A Decade of Progress?* (Washington, D.C.: Brookings Institution Press, 2010).

3. Friedrich A. Hayek, *The Constitution of Liberty*, Definitive Edition (Chicago: University of Chicago Press, 2011).

4. This is, of course, the argument of Hayek’s book *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), though it is made at many other points in his writing.

5. Tianjian Shi, “China: Democratic Values Supporting an Authoritarian System,” in Yun-han Chu et al., *How East Asians View Democracy* (New York: Columbia University Press, 2008), 209–36.

6. John Rawls, *A Theory of Justice*, rev. ed. (Cambridge: Harvard University Press, 1999).

7. See Amartya Sen, *Development as Freedom* (New York: Knopf, 1999), and *The Idea of Justice* (Cambridge: Harvard University Press, 2011).

8. There are numerous general accounts of the growth of twentieth-century welfare states. See, among others, Peter Flora and Arnold J. Heidenheimer, *The Development of Welfare States in Europe and America* (New Brunswick, N.J.: Transaction, 1987); Sheila Rowbotham, “Interpretations of Welfare and Approaches to the State, 1870–1920,” in Ann Oakley and A. Susan Williams, eds., *The Politics of the Welfare State* (London: UCL Press, 1994); and Richard M. Titmuss, *Essays on “the Welfare State”* (London: Allen and Unwin, 1976).

9. Kate Pickett and Richard Wilkinson, *The Spirit Level: Why Greater Equality Makes Societies Stronger* (New York: Bloomsbury, 2009).

10. Simon Kuznets, “Economic Growth and Income Inequality,” *American Economic Review* 45 (March 1955): 1–28.

11. See Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon and Schuster, 2000).

12. See, for example, Paul Collier, "Economic Causes of Civil Conflict and Their Implications for Policy," in Chester A. Crocker, Fen Osler Hampson, and Pamela Aall, eds., *Leashing the Dogs of War: Conflict Management in a Divided World* (Washington, D.C.: U.S. Institute of Peace Press, 2007), 197–218.

13. Robert J. Barro, *Determinants of Economic Growth: A Cross-Country Empirical Study* (Cambridge: MIT Press, 1997).

14. Nancy Birdsall, "Income Distribution: Effects on Growth and Development," Center for Global Development Working Paper No. 118, April 2007.

15. Roberto Perotti, "Growth, Income Distribution, and Democracy: What the Data Say," *Journal of Economic Growth* 1 (June 1996): 149–87.

16. Douglass C. North, John Joseph Wallis, and Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (New York: Cambridge University Press, 2009).

17. This is the argument suggested by the historical data in the chapters by Adam Przeworski, James A. Robinson, and Jorge I. Domínguez in Francis Fukuyama, ed., *Falling Behind: Explaining the Development Gap Between Latin America and the United States* (New York: Oxford University Press, 2008).

18. This was also true in Mexico under the Porfiriato; see Jeffrey L. Bortz and Stephen Haber, *The Mexican Economy, 1870–1930: Essays on the Economic History of Institutions, Revolution, and Growth* (Stanford: Stanford University Press, 2002).

19. Samuel P. Huntington, *Political Order in Changing Societies; with a new Foreword by Francis Fukuyama* (New Haven: Yale University Press, 2006; orig. publ. 1968).

20. Tyler Cowen, "The Inequality That Matters," *American Interest*, January–February 2011, 29–38.

21. See Charles Murray, *Losing Ground: American Social Policy 1950–1980* (New York: Basic Books, 1984).

22. This is the argument made initially by Louis Hartz and expanded upon in Seymour Martin Lipset, *American Exceptionalism: A Double-Edged Sword* (New York: W.W. Norton, 1995). Lipset points out that the level playing field did not exist for all groups in America; African Americans, like European working-class whites, have tended to vote in favor of welfare-state interventions because of their perceptions that they were being unfairly disadvantaged on a social level.

23. Ironically, American intergenerational social mobility is no longer exceptional and is actually lower than in certain European countries. See Emily Beller and Michael Hout, "Intergenerational Social Mobility: The United States in Comparative Perspective," *Future of Children* 16 (Fall 2006): 19–36.

24. For an overview of this problem, see Peter Heller, "Global Economic Crisis and Demographic Change: Implications for Development Policy," in Nancy Birdsall and Francis Fukuyama, eds., *New Ideas on Development After the Financial Crisis* (Baltimore: Johns Hopkins University Press, 2011), 288–310.

25. This is the theme of Barrington Moore, Jr., *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon, 1966).