

# *The Influence of Democracy on Inequality*

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Democracy can reduce political inequality and expand public goods provision, but it does not inherently lead to wealth equality or sustained redistribution. Outcomes depend on political will, institutional design, elite influence, and societal cleavages, with short-term democratization sometimes increasing inequality and longer-term gains requiring stable, modernized systems. Rising inequality may erode public support for democracy, making it crucial for policymakers to understand that economic transformation goes beyond the mere existence of democratic institutions.

# Stanford

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## *Background*

Classical democratic theorists often assumed that extending political rights to the masses would naturally lead to redistributive policies, as the poor majority would vote for wealth redistribution. This expectation was formalized in median-voter models that predicted democratic governments would systematically reduce inequality through progressive taxation and social spending. However, contemporary research has challenged these optimistic assumptions, revealing that the relationship between democratic governance and economic equality is far more complex and contingent than early theorists anticipated.

## *Democracy's Limited Intrinsic Impact on Economic Equality*

REGARDLESS OF ITS ABILITY TO RESPOND TO PUBLIC DEMANDS, democracy alone does not result in redistribution initiatives. As Acemoglu and Robinson (2006)<sup>1</sup> posit in their canonical model, upon democratization, elites often find ways to retain their power and constrain redistribution. When democracy increases citizens' formal power, elites allocate more resources to activities that expand their informal influence to offset this shift. Consequently, the probability of maintaining elite-favoring economic institutions remains the same in both democratic and nondemocratic regimes. Their model also predicts that the higher the economic rents from elite-controlled institutions or the more effective their influence-building technology, the more likely elites are to preserve these institutions. The mere pres-

<sup>1</sup> Acemoglu, Daron, and James A. Robinson. 2006. "De Facto Political Power and Institutional Persistence." *American Economic Review* 96 (2): 325–30.

ence of democratic institutions is insufficient for equitable economic transformation unless underlying power structures change.

INDEED, MOST COUNTRIES EXPERIENCED INCREASED INEQUALITY IN THE SAME TIME FRAME AS THE GLOBAL RISE IN ELECTORAL DEMOCRACY, as Bermeo (2009)<sup>2</sup> shows. Bermeo demonstrates that electoral democracy may reduce political inequality but does not automatically lead to lower economic inequality. Instead, redistribution depends on the choices of leaders and key members of the governing coalition. Acemoglu et al. (2013)<sup>3</sup> further expand this argument by challenging the median-voter expectation that democratization should consistently lead to patterns of broader redistribution of wealth. While they find that democracy raises state capacity and public goods provision, it does not reliably reduce inequality. Effects vary with heterogeneous levels of elite capture, economic structures, and market dynamics, with improvements in redistribution often favoring the middle class as opposed to the poorest in society.

BUILDING ON THIS SKEPTICISM of democracy's equalizing potential, Scheve and Stasavage (2017)<sup>4</sup> further challenge the view that democracy inevitably promotes wealth equality. Democracy and inequality often coexist because political processes do not consistently result in wealth-equalizing policies. Across countries, scholars find that, Latin American democracies redistributed less land than autocracies (0.38% vs. 1% annually) and regressions for country-year data between 1900–2010 find no significant connection between competitive elections and the wealth shares of the top 1%. Authors conclude that redistributive effects are conditional, shaped by dominant societal cleavages, perceptions of the fairness of inequality, and the disproportionate policy influence of the wealthy.

### *The Contextual Nature of Redistribution under Democracy*

EVALUATING DEMOCRACY'S EFFECT ON INEQUALITY poses a more complex task than merely asserting that it has no effect. Lake and Baum (2001)<sup>5</sup> offer some support to suggest that democracy leads to rapid, significant improvements in a direct form of redistribution: public service provision. Authors argue that improvements in education, health, infrastructure occur through competitive political markets that limit rent extraction. Regime changes produce rapid and substantial shifts, consistent with politicians' incentives in more contestable political markets. While politicians maximize utility (including rents), democracy's institutional features of competition and low participation costs restrain exploitation and optimize service pro-

<sup>2</sup> Bermeo, Nancy. 2009. "Does Electoral Democracy Boost Economic Equality?" *Journal of Democracy* 20 (4): 21–35.

<sup>3</sup> Acemoglu, Daron, Suresh Naidu, Pascual Restrepo, and James A. Robinson. 2013. "Democracy, Redistribution and Inequality." National Bureau of Economic Research, January.

<sup>4</sup> Scheve, Kenneth, and David Stasavage. 2017. "Wealth Inequality and Democracy." *Annual Review of Political Science* 20 (1): 451–68.

**The data.** Most quantitative studies examining democracy and inequality rely on cross-national datasets measuring income distribution through Gini coefficients, top income shares, and household survey data. These measures are combined with democracy indices from sources like Polity IV, Freedom House, and V-Dem to assess relationships across countries over time.

<sup>5</sup> Lake, David A., and Matthew A. Baum. 2001. "The Invisible Hand of Democracy." *Comparative Political Studies* 34 (6): 587–621.

vision. This feature of democracy enhances welfare even if inequality remains high.

SIMILARLY, BOIX (2003)<sup>6</sup> ARGUES IN FAVOR OF DEMOCRACY'S INEQUALITY-REDUCING POTENTIAL, as higher voter turnout and economic modernization lead to an expansion in the public sector. Lower barriers to electoral participation lead to democratic regimes supporting larger welfare states compared to autocracies. Yet, Boix notes that the political inefficacy of the poor and competing identity cleavages could hinder the political realities affecting the attainment of redistributive gains. The extent of redistribution, thus, hinges on political institutions, inequality, and socioeconomic factors.

FURTHER STUDIES EMPHASIZE THAT DURABILITY MATTERS in order for democracy's redistributive capacity to emerge. For instance, Carbone (2009)<sup>7</sup> identifies short-term mixed effects of democratization on inequality. Inequality is likely to increase during political transitions followed by long-term reductions, in an "inverse U-shaped" relationship. For consequential redistribution to take place, the democratic experience must be sustained.

### *Wealth Inequality Threatens Democracy*

ON THE CONSEQUENCES OF LONG-LIVED ECONOMIC INEQUALITY, Díaz-Cayeros and Magaloni (2009)<sup>8</sup> argue that rampant inequality threatens democratic legitimacy and undermines democratic growth. They argue that Latin America's traditional social policies have historically failed the poor because they are "truncated" welfare systems that primarily serve formal-sector workers and the middle class. Analyzing 18 Central and South American countries, they show that higher income inequality is strongly linked to lower public support for democracy, suggesting that greater disparities undermine democratic stability in the region. Given that this threat does not inevitably result in a democracy's collapse, however, it becomes imperative to find solutions for inequality reduction within the democratic toolkit. While high inequality erodes representation, fuels polarization, and undermines state capacity, democracies have endured with high inequality when other stabilizing conditions exist, like poverty reduction. Ironically, aggressive redistributive drives aimed at correcting inequality, especially when framed as radical political projects, can provoke destabilizing elite reactions that endanger democracy more than inequality's persistence.

<sup>6</sup> Boix, Carles. 2003. *Democracy and Redistribution*. Cambridge, UK ; New York: Cambridge University Press.

<sup>7</sup> Carbone, Giovanni. 2009. "The Consequences of Democratization." *Journal of Democracy* 20 (2): 123–37.

<sup>8</sup> Díaz-Cayeros, Alberto, and Beatriz Magaloni. 2009. "Poverty, Inequality, and Democracy (II): Aiding Latin America's Poor." *Journal of Democracy* 20 (4): 36–49.

**The data.** Key challenges in measuring inequality effects include data availability across regime types, comparability of income measures over time, and potential selection bias where more democratic countries may have better data collection systems, potentially skewing comparative analyses.

*Looking Ahead*

AS DEMOCRACIES WORLDWIDE FACE RISING INEQUALITY, key questions emerge about the sustainability of democratic governance in highly unequal societies. Future research must investigate how technological change, globalization, and economic transformation affect the traditional mechanisms through which democracy might address inequality. Additionally, understanding how different institutional designs - from electoral systems to social policy frameworks - can enhance democracy's redistributive capacity while maintaining elite support for democratic governance remains a critical challenge for both scholars and practitioners seeking to strengthen democratic resilience in an era of growing economic disparities.

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