CHAPTER 2

Markets and democracy

Why have some countries in the transition region succeeded in building sustainable democracies, while in others political reform has stagnated or even gone into reverse? Evidence suggests that countries with higher per capita income are more likely to develop pluralistic political systems and less likely to experience a reversal in this process, while large resource endowments impede – or at least slow – democratisation. Earlier and more vigorous market reforms may also help to consolidate democracy.

FACTS AT A GLANCE

ABOVE
70%
Global proportion of countries which had democratic institutions in 2012, compared with 30 to 40 per cent from 1960 to 1990.

94%
of countries with average per capita income above US$ 10,000 held free and competitive elections in 1999.

INCOME IN
1992
is correlated with levels of democracy in 2012 in a global sample.

BY
2000
all constituent democracies of the former Yugoslavia had become full democracies.

Markets and democracy in the transition region

The fall of the Berlin Wall in 1989 was seen by many as a defining moment in the evolution of political systems, crowning the "third wave" of democratisation, which was famously described by Francis Fukuyama as "the end of history".[1] Fukuyama argued that liberal democracy had prevailed over all other systems of political organisation and was the inevitable endpoint for all societies.

Many countries in the transition region have since become consolidated democracies, while others have at least made significant strides towards building robust democratic institutions, lending support to Fukuyama's assertions. However, the experience of transition in some countries has been more erratic, with reforms stagnating or even going into reverse.

Why do some countries succeed in building sustainable democracies, while others do not? What is the role of economic development in this process? Does transition to a market economy strengthen the medium and long-term prospects for democratic transition and consolidation?

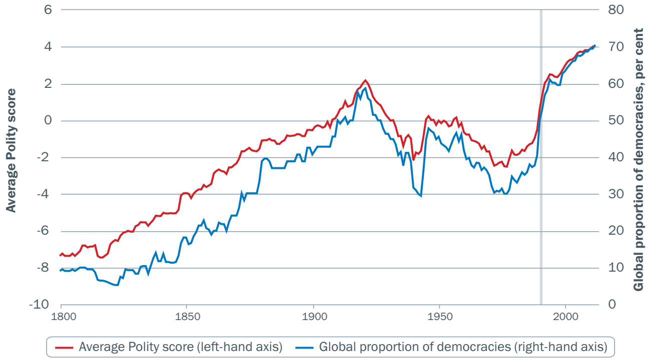
The answers to these questions are particularly relevant to those countries which have yet to fulfil their democratic potential, as well as newly democratising states in the southern and eastern Mediterranean (SEMED).

The academic literature is filled with theories and explanations of what makes democracy work. The overall expansion of democracy and global wealth has been fairly evident, but the causal mechanisms remain a contested area among social scientists, and exceptions to the pattern of growth and democracy are too large to overlook.

The existence of a sizeable middle class – allegedly a bulwark of democracy based on its own interests, incentives and values – does seem to be associated with the presence of democratic institutions. Why, then, do some transition countries become "stuck" with imperfect market-based economies, reasonably large middle classes and non-democratic (or only partially democratic) political systems?

This chapter reviews some of the literature addressing these questions and submits some of the main insights to empirical testing. Using data from the EBRD/World Bank *Life in Transition Survey* (LiTS), it looks at where the demand for democracy is strongest and weakest, and how that might compel or constrain democratic reform. It then looks at specific cases within the transition region that may shed further light on the relationship between economic development, demand for democracy and democratic outcomes.[2]

Chart 2.1. Democracy resumed its upward trend after the end of the Cold War



Source: Polity IV.
Note: The vertical grey line marks the year 1989.

EXPLAINING DEMOCRACY

Democracy may not be inevitable, but it has been gaining ground steadily over time. Representative democracy has spread pervasively around the world over the last 200 years. In the first half of the 19th century it was limited to a few Swiss cantons and several states in the north-eastern United States. The European revolutions of 1848 sparked a prolonged wave of democratisation that would peak in 1921, when almost three-fifths of all sovereign countries were democracies. A second, shorter wave occurred just after the end of the Second World War.

Between 1960 and 1990 the proportion of the world's countries that had democratic institutions fluctuated between 30 and 40 per cent. In the wake of the collapse of the Soviet Union, the figure rose to more than 60 per cent by the beginning of the 21st century, and by 2012 it exceeded 70 per cent.

This global expansion is depicted in Chart 2.1, which shows the proportion of countries classified as democracies by the Polity IV dataset over the period 1800-2012 and the average global Polity score for each year.

[1] The term "third wave" was coined by Huntington (1993). The thesis on the end of history was first outlined in Fukuyama (1989) and was developed further in Fukuyama (1992).
[2] For an earlier treatment of these topics, see EBRD (1999) and EBRD (2003).

ECONOMIC DEVELOPMENT AND DEMOCRACY: THEORY

The expansion of democracy around the world coincided – albeit imperfectly – with the industrial revolution and global growth. The first major study demonstrating the relationship between economic development and democracy was undertaken by Lipset (1959), who found that a range of development factors – including wealth, industrialisation, urbanisation and education – were statistically associated with the emergence of democratic political systems.

Lipset hypothesised that, together, the changing social conditions of workers (who became free to engage in political activity), the rise of a wealthy and politically active middle class and the creation of social capital and intermediate institutions generated conditions that supported robust democracy and demand for it.

His ideas are central to a branch of the literature known as “modernisation theory”, which continues to attract attention and more sophisticated empirical testing. Since Lipset, many studies have claimed that development – mainly measured through per capita income – increases the likelihood of transition to democracy and increases the stability of democracies.[3]

However, critics of modernisation theory have challenged Lipset’s central claim that development leads to democracy. For example, some have argued that development does not influence the probability of a country becoming democratic, though the risk of democratic reversal does recede as levels of economic development rise.[4] Others have claimed that when proper statistical controls are applied, per capita income has no effect on the likelihood of a country becoming or staying democratic, and that democracy and development are both the result of “critical historical conjunctures” that took place more than 500 years ago.[5]

While the debate continues among scholars, there is an emerging consensus that development has indeed had a causal effect on democracy, but that this is conditional on specific domestic and international factors.

Long time series data starting in the early 19th century (when hardly any countries were democratic; see Chart 2.1) show income having a positive and significant effect on the likelihood of democratic transition and consolidation. However, the effect diminishes as income grows, and vanishes in richer countries that have already become democratised. In addition, economic development does not generally lead to democracy in resource-rich countries, and democratic institutions imposed by colonial powers or international organisations tend not to last.

Importantly, the impact of economic development on democracy may take between 10 and 20 years to materialise. In the short term, faster economic growth increases the likelihood of political survival for a non-democratic leader, while higher income levels do not usually prompt a breakthrough to more democratic politics until after an incumbent leader has left office.[6]

The literature on the mechanisms that bring about democracy and stabilise it can be classified in two broad schools of thought on the basis of the assumptions made by authors about the reasons why individuals support democratic regimes.[7] The first makes democracy dependent on the liberal or democratic beliefs or values of its citizens. The second, conversely, claims that key political actors will support democracy when it is convenient or rational for them to do so.

UNDERLYING DEMOCRATIC BELIEFS

At the core of a democratic system lie regular, free and fair elections. By definition, fair democratic elections are uncertain events: before they are held, their outcome is unknown. After they have taken place, there is no guarantee that the winners will not exploit their victory to extract resources from their opponents, and perhaps even suspend future polls – or that the losers will not reject the results and rebel against the winners.

Democracy and the undisrupted holding of elections will only come about if both winners and losers are willing to comply with the outcomes of the periodic elections that form the core of this system of governance, accepting the possibility of losing and deferring to the will of the majority – and in the case of the winners, resisting the temptation to permanently prevent the losers from gaining power.

One important strand of the literature contends that a democratic outcome will only be possible if voters think of democratic institutions, including free elections, as the most legitimate means of governance. If a sufficient majority of the population sees democracy as the most appropriate political regime, winners will not exploit their political advantage and losers will not challenge the electoral outcome. Given the proper democratic convictions, everyone will embrace democracy permanently.[8]

While beliefs may influence the intensity of individual support for democracy, the theory of democracy as a function of democratic convictions is problematic. From a conceptual point of view, beliefs do not seem to provide very strong foundations for complying with fair elections and other democratic practices. A belief that democracy is the best form of government will not necessarily deter individuals who stand to obtain significant economic or status-related benefits as a result of undermining the rule of law and behaving undemocratically.

Once they have been tempted to distort or oppose democracy, even those individuals who hold strong convictions about democracy may not be willing to uphold their principles if that implies losing an election. From an empirical point of view, democratic beliefs (aggregated at the country level) do not seem to have a particularly strong impact on the transition to – or consolidation of – democracy.

[3] See Przeworski and Limongi (1997). Some have claimed that this is true mainly for richer democracies; see Dahl (1971), Huntington (1991), Barro (1999), Boix and Stokes (2003), Epstein et al. (2006) and Heid et al. (2012). Frye (2003) and Jackson et.al. (2013) have shown how the introduction of private property rights and the creation of new private businesses in Russia and Poland have generated greater support for pro-reform parties and the holding of elections.
[4] See Przeworski et al. (2000).
[5] See Acemoğlu et al. (2009) and Moore (1966).
[6] This summary is based on Barro (1999), Boix (2011) and Treisman (2012). See also Glaeser et al. (2004), Epstein et al. (2006) and Miller (2012).
[7] For a critical review, see Geddes (2007).
[8] See Welzel and Inglehart (2006). For the first generation of studies on modernisation and belief change, see Lipset (1959) and Almond and Verba (1965).

THE ROLE OF INEQUALITY

Another approach to understanding the causes of democratisation focuses on incentives that may encourage key participants in the political process to abide by an electoral outcome. Given that a winning majority has the potential to redraw the political and economic rules of the game, voters (and parties) will accept democracy if losing an election does not threaten their living standards or political survival. Similarly, election winners will uphold democratic institutions if the political value of the offices they hold and the decisions they are empowered to make are kept in check by other institutions of governance.[9]

Democracy, then, is more likely when all voters and their representatives live under relative economic equality. Where income inequalities among voters are not excessively large, elections will not threaten asset holders or high-income individuals. In contrast, if a small minority control most of the wealth, the less well-off majority will seek redistribution through the ballot box and the tax system. In those circumstances, the wealthy will probably prefer an authoritarian political regime that acts in their interests, rather than those of the majority, and blocks any introduction of high, quasi-confiscatory taxes.[10]

Industrialisation and development have sometimes been associated with increased inequality in the short term.[11] However, in the longer term, development has generally been correlated with lower levels of inequality through the expansion of education, the accumulation of a skilled labour force and a consequent improvement in wages and conditions across the population.[12] This would explain why, in 1999, 94 per cent of countries with average per capita income of more than US$ 10,000 (in constant 1996 US dollars) held free and competitive elections, while only 18 per cent of those with average per capita income of less than US$ 2,000 did so.[13]

NATURAL RESOURCES AND THE "RENTIER STATE"

Faced with the risk of high taxes imposed by a democratic majority, a wealthy minority has two options to protect itself: it can invest in repression and authoritarian rule, or it can take its assets elsewhere. If wealth is mobile, capital holders can credibly threaten to leave if taxes become too high under a democracy. However, if wealth is immobile (as in the case of land or other natural resources) and/or its control depends heavily on state regulation, democracy becomes potentially much more threatening, and asset holders are more likely to support authoritarian regimes.

At the same time, regimes that draw heavily on rents from extractive industries do not rely on a fiscal system that taxes the general population and are in a better position to provide side payments and subsidies – for example, payments to less well-off regions or disadvantaged groups – financed by natural resources. They therefore face less pressure to be accountable to the taxpaying population through democratic institutions.[14]

CONCLUSIONS FROM THE LITERATURE

We can draw the following conclusions from this brief review of the academic literature on the subject.

- Although the research community remains divided, there is strong support for the proposition that increases in economic development are likely to lead to an increase in democracy, up to the point where the democratising effects of development begin to diminish.
- Once a country crosses a particular democratic threshold – especially when this is achieved through the traditional modernisation route – it is unlikely to slip back into authoritarian rule.
- The spread of democratic beliefs and demand for democracy play a role in consolidating democracies and preventing them from slipping back, but empirical support for them as independent causes of initial democratisation is weak.
- Countries with lower levels of inequality are more likely to become – and remain – democracies.
- The relationship between economic development and democracy is considerably weaker in countries that rely heavily on the extraction of natural resources as a means of generating national wealth.

The rest of this chapter examines whether these broad conclusions apply to the transition region. It uses some descriptive statistics and the results of regression analysis to test the propositions, as well as using household survey data to explore the democratic beliefs in different segments of society.

REFORM AND DEMOCRACY

The collapse of the Soviet Union and communism was a political "big bang" moment, giving countries in the transition region an opportunity to recreate their political institutions. To what extent, and at what speed, should this result in the development of stable democracies? The literature cited in the previous section offers three main propositions.

First, one would expect some correlation between initial political institutions and the underlying social and economic conditions of each country. Countries with economies based on manufacturing and a relatively well-educated population would tend to establish and consolidate democratic institutions. By contrast, agrarian or extractive economies would typically find it more difficult to adopt democratic systems.

Second, as economies develop and grow, democracy would be expected to take hold. However, given the time lag between economic development and democratisation, there would probably be relatively few immediate transitions to full democracy in the first 10 to 20 years after the beginning of post-communist economic recovery.

Third, one would expect the speed of transition to market economies – particularly in the first few years after the collapse of communism – to be a predictor of the countries' propensity

[9] The idea of democracy as a political equilibrium – that is, as an outcome that is only possible if all political participants accept it (and the related possibility of losing elections) over any other political regime – was first developed informally by Dahl (1971), before being developed analytically by Przeworski (1991) and Weingast (1997).

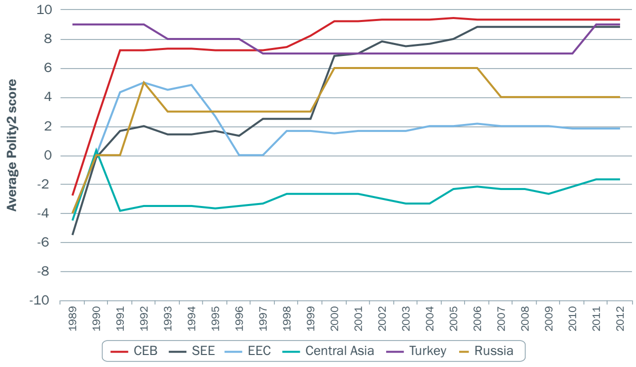
[10] The effect of economic inequality on democracy has a long tradition in the literature, going back to Aristotle and Machiavelli's Discourses. For more recent analysis, see Boix (2003) and Acemoğlu and Robinson (2006).

[11] See Kuznets (1955).

[12] See Atkinson et al. (2009), Davies and Shorrocks (2000) and Morrisson (2000).

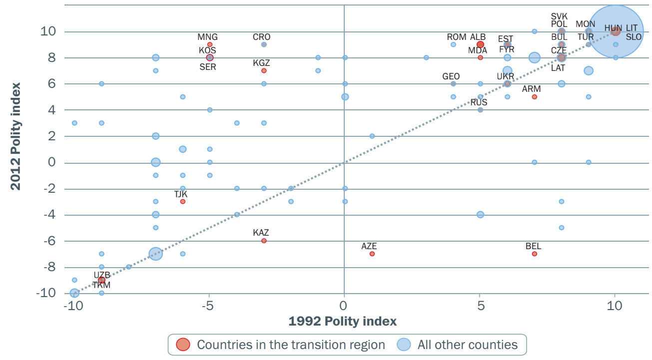
[13] This empirical relationship between income and democracy is even closer for earlier historical periods. Just by looking at per capita income, we can successfully predict 76 per cent of annual observations regarding political regimes in sovereign countries after the Second World War. The proportion of cases that are predicted correctly rises to 85 per cent in the inter-war period and 91 per cent before the First World War. These results are taken from Boix (2011).

Chart 2.2. The collapse of communism led to widely diverging levels of democracy



Source: Polity IV.
Note: The chart reports, for each region, the mean of the Polity2 variable as contained in the Polity IV dataset, for the period from 1989 to 2012.

Chart 2.3. A few countries in the transition region experienced large changes in levels of democracy after 1992



Source: Polity IV.
Note: The chart shows the Polity2 index for countries in the transition region (labelled) and other countries (not labelled) in 1992 and 2012. The size of chart markers corresponds to the number of countries with those given scores in 1992 and 2012. For example, the blue marker at point 10,10 represents the 24 countries with a Polity2 score of 10 in both 1992 and 2012.

to democratise, or at least to develop nascent democratic systems with some degree of stability. Adopting liberal market institutions quickly would make it less likely that a political elite could take control of large parts of the economy (either directly or in collusion with specific economic groups or firms) and block the introduction of democratic mechanisms, or distort them, to preserve their political control and economic rents.[15]

These propositions are supported by the evidence. The political shock of 1989-92 led to a wide divergence in political systems across countries, followed by considerable stability in both the level of democracy and free markets over time (see Chart 2.2).

In central European countries – which were the most advanced economies in the former Soviet bloc and had the shortest period under communism (imposed from outside), highly educated populations, but few natural resources – political institutions were democratic by 1991 and reached the level of advanced Western democracies by the early 2000s.

Conversely, in eastern Europe and the Caucasus (EEC) and Central Asia, democracy generally started from a low level and has made uneven gains. In many cases, this reflects the power of the old elite (or part of it, combined with new political entrepreneurs), who ended up with control over strategic sectors of the economy or the post-communist state itself. Democratic progress has been particularly subdued in most countries in resource-rich and agrarian Central Asia.

Several countries in south-eastern Europe (SEE) have made significant progress towards democracy over the 20-year period since 1992 (see Chart 2.3, which compares Polity scores in 1992 and 2012). The constituent states of the former Yugoslavia started out with authoritarian or weak democratic systems, but by 2000 had become full democracies.

These transitions partly reflected external shocks (as in the case of the Milošević regime in Serbia, whose end was accelerated by the Kosovo war), but also domestic pressure for change (as in Croatia). Similarly, the Kyrgyz Republic experienced a home-grown democratic transition in 2010. However, other countries, such as Belarus, slid down the democracy scale in the 1990s (see the case study later in this chapter).

This leads us to the core question in this chapter: what drives these changes in democracy over time, and what explains the differences in outcomes across countries? To what extent is there systematic empirical support for the drivers of democracy discussed earlier in this chapter?

[14]See Mahdavy (1970) and Beblawi and Luciani (1987). A related argument is that resource-rich economies tend to have worse political and economic institutions – in the sense that the executive is not held accountable and property rights are insufficiently enforced – because the improvement of these institutions would restrict the ability of powerful elites to syphon off resource revenues. See Tornell and Lane (1999), Sonin (2003) and EBRD (2009). To the extent that democracies lead to greater public accountability, this is another reason why natural resource wealth might hinder democracy.

[15]See Hellman (1998).

ECONOMIC DEVELOPMENT AND DEMOCRACY: EVIDENCE

Does economic development encourage democratisation in transition countries? The literature suggests at least four reasons why average per capita income might influence a country's propensity to democratise.

- At higher average income levels, high-income voters will be more willing to accept the redistributional consequences of democracy, especially if the costs of repression are considered excessive.
- Development is generally correlated with lower levels of inequality, at least in the long term.[16]
- Development is linked to a shift in the nature of wealth – that is to say, from fixed assets, such as land, to mobile capital.
- Higher per capita income is associated with education and secularisation, with educated citizens being more likely to demand political participation and to embrace democratic beliefs.

Table 2.1 presents the results of a simple regression of the level of democracy on economic development for a global sample over the period from 1800 to 2000. It looks at the impact of economic growth on the development of democracy with lags of 5, 10 and 25 years. This shows that per capita GDP has a strong positive impact on the emergence of democracy globally. Levels of democracy will be higher today for countries that were richer 5, 10 or 25 years ago (see the three left-hand columns of the table).

Unsurprisingly, the relationship between economic growth and democracy does not hold true in the countries that make up today's transition region, many of which were part of non-democratic states or empires for much of their recent history – the Habsburg, Ottoman and Russian empires prior to the First World War, and then the Soviet Union or one of its satellites in eastern Europe.

During these periods many countries in the transition region experienced rapid development led by industrialisation, but remained undemocratic. Consequently, the rest of this analysis focuses on the period between 1989 and 2012 to examine the relationship between economic development and political regime outcomes in the post-communist period.

Table 2.2 shows the results of a panel regression that is analogous to that of Table 2.1, except that it also includes measures of natural resource endowments (as a share of GDP) and income inequality (measured by the Gini coefficient). These are variables that should, based on the preceding analysis, influence the propensity to democratise for a given level of per capita income.

As in Table 2.1, the regression considers the relationship between democracy in year t and lagged GDP per capita (as well as income inequality and natural resources). Because of the shorter length of the sample, the lag length is always five years.[17]

Three variants of the dependent and lagged dependent variable are considered: first, the level of democracy as expressed by the Polity index (as in Table 2.1); second, the highest Polity score over the preceding five years (Max5Polity), which effectively restricts the analysis to cases where there has been an increase in democracy; and lastly, the minimum score over the previous five years (Min5Polity), which restricts the analysis to cases where there has been a decline in democracy.

The rationale for analysing these variants in addition to the Polity index at time t is that the effect of some of the explanatory variables may not be the same when it comes to promoting or delaying democratic improvements and when it comes to defending or undermining a level of democracy that already exists.

Table 2.2 shows that, when controlling for the type of political regime in place five years previously, for natural resources, and for inequality, the probability of a country becoming more democratic depends strongly on lagged GDP per capita (see columns 1 to 6). The coefficient estimated is larger for the transition region than for the rest of the world, and statistically significantly larger than zero in all specifications except model 1. The effect of lagged GDP growth appears to be larger as regards inducing democratic improvements – columns 3 and 4 – than it is when it comes to protecting countries from democratic reversals – columns 5 and 6.

Table 2.1
Historically, higher per capita income has been a predictor of democratisation – but that is not the case in today's transition region

	Countries outside transition region			Countries in transition region		
	Lag length τ (years)			Lag length τ (years)		
	5	10	25	5	10	25
Polity at t-τ	0.66***	0.39***	0.21**	0.58***	0.07	0.55**
Log of GDP per capita at t-τ	0.04**	0.14***	0.23**	-0.04	0.10	-0.04
Observations	2007	911	269	163	78	26
Countries	143	137	78	11	11	8
R^2	0.81	0.67	0.55	0.82	0.69	0.37

Source: Polity is taken from the Polity IV dataset. GDP per capita, which is in 2000 US dollars, is taken from Gleditsch (2002) for the period 1950-2004 and Maddison (2008) for earlier years, as merged in Boix et al. (2012).
Notes: The table shows regressions for a sample period of up to 200 years (1800-2000). The dependent variable is the Polity index of democracy at time t-. * = p<0.10; ** = p<0.05; *** = p<0.01.

[16]See Atkinson et al. (2009), Davies and Shorrocks (2000) and Morrisson (2000).
[17]For each country, the dependent variable in the first observation in the sample is the 1995 democracy score, while the lagged dependent and independent variables correspond to 1990; the second observation is the 2000 democracy score, while the lagged dependent and independent variables correspond to 1995, and so on.

Table 2.2
Determinants of democracy in the transition region and in all other countries, 1989-2012

Dependent variable	Polity		Max5Polity		Min5Polity		Polity	Max5Polity	Min5Polit	Min5Polity
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Transition region	All other countries	Transition region	All other countries	Transition region	All other countries	Transition region	Transition region	Transition region	Transition region
Polity at *t*-5	0.139***	0.679***	0.397***	0.635***	1.003***	0.944***	0.095*	0.386***	0.961***	0.950***
	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.07)	(0.00)	(0.00)	(0.00)
Log of GDP per capita at *t*-5	0.545	0.391**	1.204**	0.356**	0.474**	0.276***	0.343	1.191**	0.375	0.275
	(0.36)	(0.01)	(0.01)	(0.02)	(0.05)	(0.00)	(0.57)	(0.02)	(0.15)	(0.31)
Natural resource rents at *t*-5	-0.027*	-0.037***	-0.080***	-0.030***	-0.002	-0.012**	-0.036**	-0.081***	-0.006	-0.006
	(0.09)	(0.00)	(0.00)	(0.01)	(0.83)	(0.04)	(0.03)	(0.00)	(0.54)	(0.55)
Inequality at *t*-5	0.026	0.021	-0.041	0.025	0.045*	-0.004	-0.046	-0.051	0.018	0.031
	(0.49)	(0.26)	(0.27)	(0.16)	(0.07)	(0.67)	(0.32)	(0.30)	(0.57)	(0.35)
Transition indicator at *t*-5							0.732***	0.117	0.608***	0.544**
							(0.00)	(0.67)	(0.00)	(0.01)
EU membership										0.503
										(0.24)
Constant	-1.027	-1.794	-4.698	-1.234	-6.022**	-2.183***	1.082	-4.537	-5.712**	-5.213*
	(0.86)	(0.29)	(0.33)	(0.46)	(0.01)	(0.01)	(0.85)	(0.39)	(0.03)	(0.05)
N	103	376	103	376	103	376	95	95	95	95
chi^2	17.6	849.8	181.5	793.4	1816.0	6475.4	25.4	161.6	1822.2	1849.5
p	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
ll	-235.3	-916.2	-217.7	-838.5	-182.8	-664.8	-216.0	-204.2	-166.3	-165.6
p_c	0.000	0.158	0.000	0.001	1.000	0.377	0.000	0.000	1.000	1.000

Source: Polity IV, EBRD (for transition indicators), World Bank World Development Indicators.
Notes: The table shows the results of a panel regression involving observations at four different points in time – 1995, 2000, 2005 and 2010. The estimation technique is a multi-level mixed (fixed and random) effects, maximum likelihood model, using Stata's xtmixed command. Errors are clustered at the country level. *Polity* refers to the Polity2 index, *Max5Polity* to the maximum level of the Polity2 index over the preceding five years, and *Min5Polity* to the minimum value of the index over the previous five years. P-values are shown in parentheses. * denotes that p<0.10; ** that p<0.05; and *** that p<0.01. "Natural resource rents" refers to the share of natural resource production in GDP, and "inequality" refers to the Gini coefficient of income inequality. "EU membership" is a variable taking the value 1 if a country is among the 10 new Member States in central and eastern Europe that joined the European Union in 2004 and 2007, and 0 otherwise. *N* denotes the number of observations, p the overall significance level of the regression, chi^2 the chi-squared statistic, ll the log of the likelihood of the comparison model, and p_c the p-value of the comparison model.

NATURAL RESOURCE RENTS

Table 2.2 also shows that, worldwide, a country's level of natural resource rents – defined as the share of GDP that stems from natural resource extraction – is a significant negative predictor of levels of democracy five years ahead. In the transition region the effect is only detectable when the dependent variable is an improvement in the Polity2 score for democracy (Max5Polity). This means that natural resource rents reduce the chances of a country becoming more democratic over the five-year horizon.

The negative impact of natural resource rents on the probability of an improvement in democracy is about twice as large in the transition region as it is in the rest of the world. The regressions do not find that natural resources trigger declines in democracy, reflecting the fact that few countries in the transition region that are rich in natural resources have seen declines in their levels of democracy. Most have stayed at low levels, and some have improved.

Chart 2.4 illustrates the potential role of natural resource rents in impeding democracy. The chart plots per capita GDP in 1992 against democracy in 2012 in oil-producing countries (red rectangles) and non-oil producers (blue rectangles) in the transition region, as well as oil producers (red triangles) and non-oil producers (blue dots) outside the transition region. Countries in the transition region which have high natural resource rents are significantly less democratic than their level of income would otherwise predict.

DO MARKET REFORMS PROMOTE DEMOCRACY?

Based on the foregoing analysis, one would expect market reform to support the process of democratisation indirectly by contributing to rising per capita GDP. The question is whether it has also directly helped democratisation in the transition region. Is there evidence that faster transition to a market economy, particularly in the early years of the transition process, may have helped or protected democratisation by preventing powerful elites from becoming entrenched?

Chapter 1 shows that there is a strong correlation between current levels of market-oriented reforms, measured by the 2013 average of the EBRD's country-level transition indicators,[18] and current levels of democracy (see Chart 1.6). This correlation also works over time. Levels of democracy in 1992 help to predict transition indicators in 2012, and vice versa.

Chart 2.5 plots the average transition indicators in 1992 against the transition countries' Polity2 scores in 2012. The chart suggests an S-shaped relationship between the two concepts, as was apparent in Chart 1.6.[19]

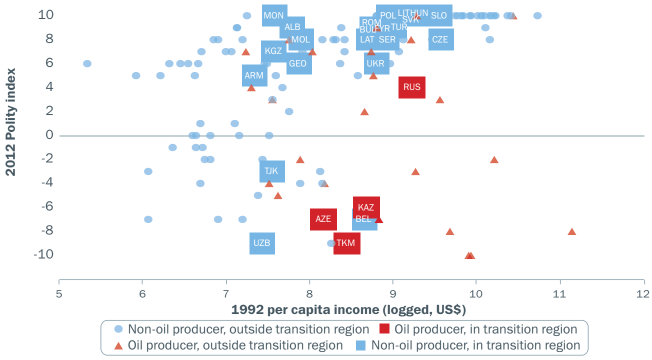
With some exceptions (such as Georgia and Ukraine), very low levels of transition in 1992 are generally associated with very low levels of democracy in 2012. The curve then becomes very steep, indicating that even slightly higher initial levels of transition tend to be predictors of much higher levels of democracy in 2012. After that, the curve levels off, reflecting the fact that even the most advanced economies in the transition region in 1992 cannot have democracy scores that exceed 10 in 2012.

This correlation need not necessarily imply a causal relationship. We could interpret the correlation in at least four ways.

- Cross-country differences in market reform in 1992 could reflect variation in democratisation at the time, which may still be felt in 2012.
- Differences in initial market reform could have been correlated with per capita income at the time, which could have an impact on democratisation.
- Initial market reform and democratisation could reflect the influence of geography or prospective EU membership (see Chapter 3).
- There could be a direct or indirect causal effect running from early transition to democratisation through faster growth and higher per capita income in the intervening period, or through the prevention of the formation of new elites opposed to democracy.

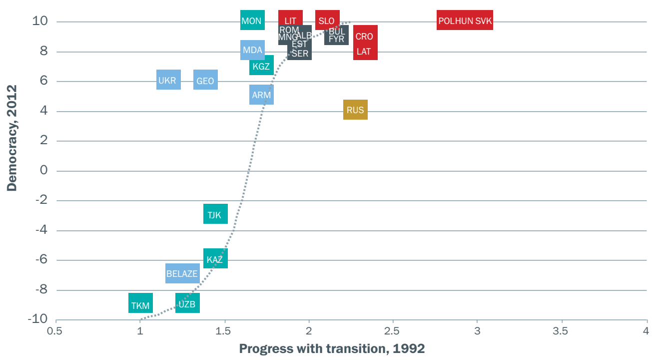
This analysis cannot confirm which of these interpretations is correct, but it suggests that neither the first two nor the "EU effect" can be the whole story. Column 7 of Table 2.2 shows a strong correlation between transition and future democratisation, even when controlling for past levels of democracy and per capita income. Columns 8 and 9 indicate that this is driven mostly by the fact that transition reduces the risk of democratic reversal. Importantly, column 10 shows that this effect persists even when the regression accounts for the impact of EU membership.

Chart 2.4. Oil producing countries tend tend to have lower levels of democracy for their level of development



Source: Polity IV and World Bank World Development Indicators.

Chart 2.5. Economic transition in 1992 is correlated with democracy in 2012



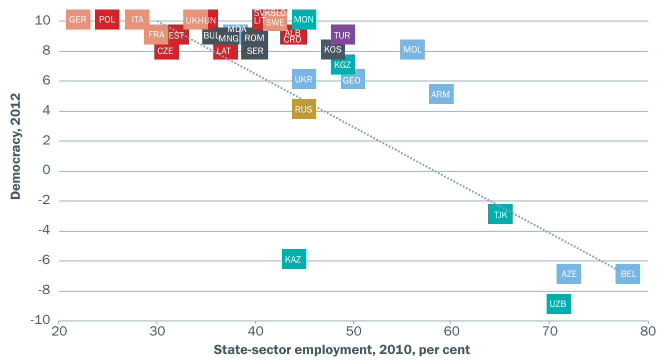
Source: Polity IV and EBRD.
Note: Progress in transition is measured as the average of the EBRD's six country-level transition indicators.

This shows that the effect of transition does not simply capture the fact that prospective EU members were more likely to pursue more vigorous reform and less likely to backslide in their progress towards democracy.

Of course, there might be factors other than the "EU effect" (such as an historical predisposition towards both democracy and market economies in some countries),[20] which could be picked up in the regression. However, the results in Table 2.2 are certainly consistent with the interpretation that early reformers were better able to defend their democratic regimes against backsliding if they also liberalised their economies – perhaps because this prevented the rise of any groups of economic or political forces inside the country that had an interest in holding back democracy.

[18] The EBRD's six country-level transition indicators measure: (i) large-scale privatisation; (ii) small scale privatisation; (iii) governance and enterprise restructuring; (iv) price liberalisation; (v) trade and foreign exchange liberalisation; and (vi) competition policy (see Annex 2.1).
[19] Note that the axes have been reversed relative to Chart 1.6 – that is to say, democracy appears on the vertical axis and transition on the horizontal axis.
[20] See Chapter 3, Box 3.1.

Chart 2.6. Less democratic countries tend to have higher levels of state employment



Source: LiTS (2010) and Polity IV.
Note: State employment is expressed as a percentage of total employment in 2010.

INDIVIDUAL SUPPORT FOR DEMOCRACY

The analysis so far suggests that early market reform and economic development promote democratisation and prevent democratic reversals, while natural resource endowments can be a hindrance. The causal channels through which these factors operate are demand for, or opposition to, democracy by specific groups benefiting from its presence or absence, and the impact of economic development on education (which is, in turn, assumed to influence democratic convictions).

Complementing the previous country-level analysis, this section uses household data from the 2010 round of the EBRD/World Bank Life in Transition Survey (LiTS) (see Chapter 5 of this *Transition Report*) to explore individual attitudes to democracy in the transition region.

The survey collected detailed socio-economic information on respondents and their households, and also asked respondents about their values and beliefs, including support for democracy.[21] Using these data, one can test three hypotheses.

- Although the survey is not designed to cover the views of elites who might have an interest in opposing democratisation, it does include some groups who arguably derive economic benefits from maintaining the status quo in less democratic systems. These include public sector employees, specifically those in state-owned enterprises (SOEs), who may stand to lose from democratisation and market reforms.[22] Is there any evidence that these groups are less supportive of democracy than others in the same country?
- Are well-educated individuals more supportive of democracy than those with lower levels of educational attainment?
- Are individuals who have fared well under democratic systems more supportive of democracy? On the one hand, individuals who have seen their incomes rise may want to maintain a status quo that has benefited them; on the other, rising incomes may lead to greater demand for political participation, even for given levels of formal education.

We have used regression analysis to investigate whether household-level support for democracy is influenced by:

- respondents' employment type (whether public servants, employees of SOEs or employees of private domestic or foreign-owned firms);
- the level of educational attainment (primary, secondary or tertiary);
- perceived progression up the income ladder over the previous four years;
- the age of the respondent.

The analysis is undertaken separately for consolidated democracies and less democratic regimes. The main results are as follows (see also Annex 2.1).

- As expected, employees of SOEs are less likely to support democracy than those who work for private companies, whether in democracies or in less democratic countries. However, the effect is statistically significant only in the latter, where the probability of supporting democracy is about twice as low for employees of SOEs' as it is for private-sector employees.
- In democratic countries respondents with upper secondary and tertiary educations are more likely to support democracy than less educated respondents. Interestingly (and against all expectations), the opposite effect appears to hold in countries with very few constraints on the executive, although these effects are generally not statistically significant. The main exception is that highly educated public servants and employees of SOEs in less democratic regimes are far more likely to support democracy than peers with lower levels of educational attainment.
- Respondents from democratic market-oriented countries are more likely to support democracy if they think they are better off (compared with others) than they were four years previously, even if their relative position on the income ladder has not changed in those four years.[23] This is not the case for less democratic countries.

These results are relevant to the prospects for further democratisation in the transition region. Countries with less democratic regimes – in which employees of SOEs tend to oppose democratisation – also have particularly high levels of state employment (see Chart 2.6). In Azerbaijan, Belarus and Uzbekistan state employment exceeds 70 per cent of total employment, while in Tajikistan it is over 60 per cent. This could slow the democratic transition process in these countries. More encouragingly, education seems to partly offset this effect, in that the more educated the state employee, the less likely he or she will be to oppose democratisation.

[21] Specifically, respondents were asked if they thought that democracy was preferable to any other political system, whether in some circumstances authoritarian government might be preferable, or whether it did not matter what system was in place. See EBRD (2011a) and EBRD (2011b).
[22] This link is explored further in Chapter 3.
[23] The 2010 LiTS asked respondents to evaluate their own position on a ladder ranging from 1 to 10 – where 1 corresponds to the poorest 10 per cent and 10 corresponds to the richest 10 per cent – at the current time, four years previously and four years hence. By taking the difference between these rankings, respondents' relative well-being in 2010 compared to 2006 can be measured, as can respondents' expected future well-being.

CASE STUDIES

The following country case studies illustrate many of the key factors driving democratic development in the transition region. They have been selected to highlight particular questions, such as why certain countries are less democratic than might be expected given their level of economic development.

BELARUS

At the start of the transition process, from 1991 to 1994, Belarus was classified as a democracy or a partial democracy. Following the collapse of the Soviet Union, Belarus put in place political institutions that constrained the executive and, in principle, respected democratic rights, with a strong legislature and no president at first.

However, many of the general prerequisites for a stable democracy were not in place. Belarus had weak political, economic and legal institutions, no sizeable middle class and an underdeveloped civil society. The adoption of a strong presidential system in the 1994 constitution may have further contributed to the country's tilt towards a more state-led development model. Belarus's path to democracy was not secure and it has, in some respects, stagnated or even regressed since then.

Today, however, the country has many of the attributes described in the preceding sections as key determinants for democratic transition and consolidation: the population is highly educated; per capita GDP, at nearly US$ 16,000 in purchasing power parity terms, is among the highest in eastern Europe and Central Asia; along with the neighbouring Baltic states, Belarus has the largest middle class (defined in terms of both education and income) in the former Soviet bloc;[24] petty corruption and inequality are low; the state has a comparatively high administrative capacity; and the country has several democratic neighbours along its northern and western borders.

Given these attributes, it would be reasonable to expect Belarus to have made greater progress with democracy after more than 20 years of transition. Why has socio-economic modernisation not led to better functioning democratic institutions? The following four factors have most likely played a role.

Rentier state

Although Belarus has limited natural resources of its own – primarily potash and wood – its socio-economic model fits the description of a rentier state. However, rather than tapping into its own natural resources, the Belarusian rentier state depends on large transfers from Russia in the form of heavily discounted oil and gas, as well as direct financial assistance. These rents, combined with the state's dominant role in the economy, allow the authorities to redistribute subsidies to the population, maintaining a relatively high standard of living. This, in turn, dampens bottom-up demand for political change.

Social contract

Under the Belarusian social contract, the authorities provide stability, order, modernity and low levels of income inequality. In return, the electorate remains politically quiescent – although there have been incidents of dissent, which the authorities have acted to contain. Media control (see below) reinforces this contract and shapes people's choices.

Nevertheless, independent surveys show that a large proportion of the population – although not a majority – values order over freedom. This is not because people are unfamiliar with the choices available in a free society. Belarus has the highest proportion of Schengen visas per capita of any country in the world, and Belarusians routinely travel to neighbouring Lithuania and Poland (both of which are EU Member States with democratic political orders). However, memories of the instability of the early 1990s remain strong, as does the belief that democratisation and market liberalisation led to dramatic increases in corruption and a decline in public governance in neighbouring Russia and Ukraine.

State control of the media

The third key reason that Belarus is not a well-functioning democracy is the lack of media freedom. The country has few independent newspapers, which have limited circulation figures, and no independent domestic television stations. With limited channels for critical opinion, the national political discourse is constrained. Belarusians do not actively engage in open debate on alternative political and economic policies, and demand for change is therefore muted.

State employment and higher education

The state's role in the economy and higher education can shape voters' preferences. Around 70 per cent of economic activity and employment are in public services or SOEs in Belarus. There is also only limited private provision of higher education, which gives the authorities in state-run higher education establishments significant influence over their students.

This can have two separate – but related – impacts on the continuity of the political system. First, employees of the state or state-owned firms may have a stronger interest in maintaining the status quo and the continued rule of the incumbent authorities. Second, managers in the state sector and university officials may use their authority over their employees and students to encourage loyalty and discipline in political behaviour.[25] These disincentives to political engagement effectively demobilise those segments of the population that in other contexts tend to be the most politically active and reform-minded.

RUSSIA

Russia's transition from communism started with Mikhail Gorbachev's reforms of the mid to late 1980s (glasnost, perestroika and "new thinking"). These gave rise to social

[24] See EBRD (2007).

[25] See Frye et.al. (2013).

movements challenging the Communist Party's monopoly on power, to the first contested elections in 1989, which elected a new legislature with real powers, and to the democratic election of President Boris Yeltsin in 1991.[26] Yeltsin was supported by the "Democratic Russia" party, which included liberals and democrats from the intelligentsia and representatives of the emerging entrepreneurial class.

However, democratic consolidation, which required public support for sustained reforms, did not ensue. Moreover, Democratic Russia's early reforms failed to deliver prosperity and opportunities to most Russians. A small group of politically connected oligarchs reaped the benefits of a flawed privatisation process, which in turn raised questions about the legitimacy of property rights and the rule of law.[27]

Yeltsin's commitment to democratic principles was called into question in 1993, when he used force against his opponents in the legislature and promoted a new constitution which created strong presidential powers, while offering weak checks and balances. By the mid-1990s Russia's political transition had been partially reversed, with the new political system dominated by powerful interest groups. The 1996 presidential elections were flawed and were followed by four more years of instability, lawlessness and economic collapse – including Russia's 1998 debt default.

It was therefore unsurprising that Yeltsin's handpicked successor, Vladimir Putin, was elected in 2000 on a "law and order" agenda. He succeeded in bringing about political stability and economic growth, based on a model of state capitalism, and he enjoyed consistently high public approval ratings. During his first two terms in office Russia's per capita GDP more than doubled, dramatically raising the prosperity of ordinary citizens.

Under the new "sovereign democracy" system, regular elections continued and parliament retained multi-party representation, but political pluralism was effectively curtailed. The state regained its dominant role in politics and the economy through the establishment of a "power vertical", entailing the growth of the United Russia party and powerful state companies.

Although Russia is classified as a democracy by Polity (albeit in the middle of the scale), it faces challenges in strengthening its democratic practices and values. At the same time, the country has grown rapidly over the past 15 years, has made progress in developing market institutions, and has a large middle class. Three structural factors help to explain why Russia's democratisation has not progressed as fast as the country's transition to a market economy: the nature of its middle class, its demographic structure and the role of oil and gas revenues.

State-dominated middle class

Most people assume that the middle class is the key bulwark of pluralistic political systems. However, it has not been a strong driver of democratisation in Russia. Since the mid-2000s the Russian middle class has increasingly comprised bureaucrats and employees of state-owned corporations.[28] This group tends to favour political stability, to support the ruling United Russia party and generally does not prioritise political competition or democratic values. The number of entrepreneurs within the Russian middle class has been declining in recent years, as many Russian small and medium-sized enterprises face a more challenging economic environment.

Socio-demographics

Russia's slow pace of democratisation may also be linked to its population structure, with four demographic categories displaying differing levels of support for democratic reform and responding to differing incentives.[29]

- Large cities with over one million inhabitants – including Moscow and 12 other cities: This category, which represents 21 per cent of the population, has progressed furthest towards acceptance of the market economy and has the largest share of entrepreneurs and members of the middle class. It is the most politically active sector of the population, with the highest levels of education and internet use. Large cities were at the centre of the 2011-12 political protests. However, it is important to note that their populations are ageing and include many employees of state-owned companies and public sector workers.
- Medium-sized industrial towns with between 100,000 and 250,000 inhabitants: This stratum represents 25 per cent of the population and underpins the political status quo. Dominated by the state sector and the Soviet industrial legacy, this category has a much smaller middle class. It is the one most likely to have been negatively affected by structural reforms and would only press for political change if the state subsidies decline. Backing for leftist and nationalist forces is high in these locations.
- Rural populations, small towns and settlements: This category has experienced a significant demographic decline in the last decade. However, it still represents 38 per cent of the population, spread across the entire country, and is especially representative of the central and north-western regions, the Urals, Siberia and the Caucasus. These people display minimal desire or potential for political mobilisation, even in the event of an economic crisis.
- Ethnic republics – mostly in the northern Caucasus and southern Siberia: This segment cuts across all three previous categories. These regions, which have large grey economies and high levels of unemployment and corruption, depend mostly on federal budget transfers. The state has been unable to improve their economic situation, but will continue to subsidise them even in the event of an economic crisis, as they provide the highest level of support for the ruling party, which received over 90 per cent support in many republics in the 2011 elections

[26] See Brown (2001).
[27] Opinion polls indicate that only 8 per cent of Russians are prepared to fully accept the results of the privatisation of the 1990s, while 22 per cent want to fully reconsider the results of that privatisation, regardless of how private companies perform now (www.levada.ru/archive/gosudarstvennye-instituty/vlast-i-biznes/s-kakoi-iz-sleduyushchikh-tochek-zreniya-v-otnoshen).
[28] State-owned enterprises still account for 50 per cent of the Russian economy.
[29] See Zubarevich (2012).

Rentier state

A third barrier to Russia's further democratisation may be the country's dependence on natural resources. This presents opportunities for corruption and reduces incentives for administrative transparency. It also reduces electoral pressure to keep government accountable, because hydrocarbons – rather than tax revenues – represent at least half of the state's budget revenues. This enables the authorities to maintain public support through higher social benefit payments and the subsidisation of state-sector employment – especially in the more dependent demographic categories.

TUNISIA

Although democracy spread widely during the "third wave" from the mid-1970s to the early 1990s, not one Arab country made the transition. Explanations for this exception to the global trend include the natural resource wealth of the Gulf states, a weak civil society, the absence of a democratic culture, the relative lack of democratic neighbours, and the ability of autocratic states to deter people from pressing for change through coercion and selective repressive tactics.[30]

The revolution in Tunisia in December 2010/January 2011 broke the mould. Many of the precursors for a democratic breakthrough were already in place, but they needed a trigger. That trigger was the self-immolation of a young small-business entrepreneur, who was living in an increasingly urbanised environment with virtually no access to the state-controlled social support system. Mohammed Bouazizi was emblematic of trends that had been developing in Tunisian society for years.

Private sector growth

Over the last decade, the private sector's contribution to national investment has increased to around 60 per cent. Over 70 per cent of Tunisians work in this sector. The economy is diversifying, with tourism in gradual decline at 14.3 per cent of GDP in 2011. New service industries are emerging, whose revenue streams do not depend on the state or the patronage of a political elite. Entrepreneurial spirit has seen conspicuous growth – particularly in financial services and, to a lesser extent, in the retail and hospitality industries.

Private sector growth has revitalised Tunisia's civil society. Several business associations sprang up in the years prior to the uprising, which in turn strengthened other representative organisations, such as labour unions. Similar trends were evident in higher education institutions, especially within student unions. With a national literacy rate of 80 per cent and close cultural links to Europe, the Tunisian education system has been one of the best performers in the Arab world for decades.

Relative to many other Arab countries, Tunisia also has a much better gender balance in the educational system, the labour force and civil society, reflecting the statutory protection of women's personal rights since the 1950s.

Impact of demographics

Demographics have been central to the country's socio-political change, given that 40 per cent of the country's population of 10.5 million are under 25 years of age. With internet and mobile phone penetration standing at 36.8 and 91.6 per cent respectively in 2011, young Tunisians are rapidly becoming exposed to the world in a way that no previous generation has ever been. These technologies also provided young activist groups with innovative means of eluding the security apparatus of former President Ben Ali's regime. Although mainstream media faced severe restrictions in the two decades leading up to 2011, the emergence of pan-Arab and international satellite channels that could bypass state control helped to revitalise the Tunisian political environment.

Tunisia's economy grew steadily at an average annual rate of 4.4 per cent between 2005 and 2010. However, widespread corruption and consistent predatory economic behaviour by key centres of power led to a concentration of asset ownership and an acute rise in inequality in terms of personal income, access to jobs and infrastructure – particularly between the urbanised northern coastal zone and the rest of the country. At the same time, acute youth unemployment (which averaged 29 per cent between 2006 and 2010) and internal migration exacerbated social tensions and inequality in the larger cities.

Perhaps most importantly, President Ben Ali increasingly withdrew from decision-making because of ill health prior to 2011. This resulted in conflicts of interest between the security establishment and new aspiring centres of power (made up of Ben Ali's family). The security establishment became increasingly detached from the top echelons of the regime, who were preparing to inherit power from the ailing president.

Several historical and political factors relating to the structure of the state, the solidity of state institutions and the lack of political legitimacy were crucial in creating the momentum for the events of January 2011 and the wave of transformations that the Arab world has undergone over the past two and a half years. Nevertheless, one fundamental contributory factor in Tunisia was the rise of the middle class. This almost doubled in size between 2005 and 2010 and increasingly cemented its influence as a new generation voiced political discontent using new technologies. Against this backdrop, the control mechanisms used by the Ben Ali regime slowly disintegrated.

Tunisia's transition process is far from complete and faces considerable challenges. However, the underlying steady growth of the private sector and the middle class, combined with the empowerment of both civil society and young people, illustrates the wider aspiration in Arab countries for political systems with governmental accountability and respect for political and civil rights. Arab countries and their partners in the international community should focus on ways to address the obstacles blocking their transition to well-functioning markets and democracy.

[30] See Bellin (2004) and Diamond (2010).

CONCLUSION

Debate continues over the most relevant factors leading to sustainable democracy. However, support for modernisation theory – the notion that economic development over time leads to democracy, albeit with some exceptions – has received strong empirical support in recent studies that cover long time series and control for several factors.

This chapter provides some further support for modernisation theory by extending the analysis of the relationship between economic and political factors in development to the transition region. Increasing per capita GDP leads to more democracy – with the exception of oil-exporting countries, which are less democratic than their level of income would otherwise predict. Market reform appears to benefit democratisation, not only through its effect on growth, but also directly – perhaps because it prevents the entrenchment of anti-democratic political and economic elites.

The development of a broad middle class is also strongly correlated with the level of democracy, again with the proviso that in resource-rich states the middle class seems – thus far, at least – to play a less significant role in creating a strong demand for democracy.

It is evident that education is the main driver of support for democratisation from the bottom up, and that state employees in less democratic countries tend to oppose democratisation – although less so if they are highly educated. Since state employees tend to outnumber their private sector counterparts in such countries, this may dampen electoral demand for more pluralistic political systems.

These results are not surprising, as they generally match worldwide trends and the main strands of the theoretical literature. However, they do have implications for the development of more effective democratic governance in the transition region.

- Continued support for market-based reform and private sector-led growth is likely, over time, to lead to higher levels of democracy in less democratic countries and to prevent erosion of democratic systems in established democracies.
- Interventions that support the growth of the middle class and a strong civil society will reinforce demand for democratic change.
- Investment in private-sector companies and generation of private-sector employment may create a workforce with a stronger focus on democratic governance.
- In countries that are rich in natural resources the promotion of economic diversification and specifically support for the private sector could foster an electorate with higher expectations in terms of public sector accountability.
- Individual countries will themselves ultimately decide on their preferred form of political governance. The international development community will have to exercise patience and persistence in supporting long-term transition objectives and the underlying institutions that are most conducive to achieving them.

Box 2.1
The role of the middle class

What is the role of the middle class in promoting democratic transition? In much of the literature on modernisation, starting with Lipset (1959), there is a strong belief that the middle class – once it reaches a certain size – is a bulwark of both open markets and democracy.[31]

Middle class people, defined in terms of their income, education and profession, are thought more likely to support fundamental market values, such as the protection of property rights and the even-handed application of laws governing regulation of the economy. They are also assumed to derive from their income and social position a growing preference for democratic government and competitive elections, a limited and accountable state, and guarantees of universal human rights and freedoms. In addition, those with sufficient income and social status should have the resources to organise and engage in political activity to promote their collective interests.

Is there any evidence for the hypothesis that economic development leads to the emergence of a middle class, which in turn has the socio-economic influence and organisational capacity necessary to demand increased accountability from its leaders?

Using data on household income and expenditure compiled by researchers at the World Bank,[32] we have undertaken a regression analysis relating the level of democratisation (measured, as previously, by the Polity2 variable) to the size of the middle class, defined as the percentage of individuals that have an income of between US$ 10 and US$ 50 per day. As this is an income variable and therefore correlated with per capita GDP, the model omits the latter. The same regression technique is used as in Table 2.2.

As Table 2.1.1 shows, the size of the middle class is very strongly correlated with the lagged level of democracy in both non-transition and transition countries. However, the middle class becomes insignificant in the transition region when inequality is also taken into account, while its role in the rest of the world becomes even more important when inequality is included.

Table 2.1.1
Role of the middle class in democracy, 1989-2012

	Countries outside transition region		Countries in transition region	
Dependent variable: Polity	(1)	(2)	(3)	(4)
Polity at *t*-5	0.753***	0.716***	0.776***	0.760***
Size of middle class at *t*-5	2.064**	3.019***	2.000**	1.644
Natural resource rents at *t*-5	-0.019	-0.017	-0.046***	-0.051***
Inequality at *t*-5		0.025		-0.014
Observations	243	231	57	56
Countries	92	90	27	27
Wald chi^2	835.16	650.41	392.53	380.11
Prob>chi^2	0.000	0.000	0.000	0.000

Source: Loayza et al. (2012) for the size of the middle class; sources in Table 2.2 for remaining variables.
Notes: See notes on Table 2.2 for details of the methodology.

[31] See Lipset (1959), Moore (1966), Huber et al. (1993), Barro (1999), Birdsall et al. (2000), Easterly (2001) and Loayza et al. (2012).
[32] See Loayza et al. (2012).

Annex 2.1

REGRESSION ANALYSIS OF PREFERENCES FOR DEMOCRACY

Table A.2.1.1
Support for democracy by regime type[32]

Dependent variable: Support for democracy	Established democracies	Less democratic regimes
Baseline category: Household moved down the income ladder between 2006 and 2010		
Household moved up the income ladder between 2006 and 2010	1.319**	1.137
	(0.01)	(0.64)
Household's income ladder position was unchanged	1.142*	1.070
	(0.10)	(0.42)
Baseline category: Private sector employee		
Employee of state-owned enterprise	0.555	0.667**
	(0.13)	(0.03)
Public service employment	0.847	0.734
	(0.88)	(0.17)
Baseline category: No degree/no education		
Primary education	0.895	
	(0.84)	
Lower secondary education	0.892	0.283
	(0.83)	(0.25)
Upper secondary education	1.270	0.252
	(0.65)	(0.20)
Post-secondary non-tertiary education	1.365	0.208*
	(0.54)	(0.07)
Bachelor's degree	1.695	0.229
	(0.33)	(0.19)
Master's degree or PhD	2.354	0.372
	(0.11)	(0.42)
Employee of state-owned enterprise with		
Primary education	1.799	
	(0.20)	
Lower secondary education	2.574**	1.016
	(0.03)	(0.98)
Upper secondary education	2.046	1.972***
	(0.10)	(0.01)
Post-secondary non-tertiary education	1.389	1.525
	(0.45)	(0.37)
Bachelor's degree	2.294**	1.579
	(0.02)	(0.30)
Master's degree or PhD	1.000	1.000
	(.)	(.)
Baseline category: Age 18-24		
Age: 25-34	0.960	0.861
	(0.72)	(0.41)
Age: 35-44	0.904	0.807
	(0.44)	(0.11)
Age: 45-54	0.954	0.843
	(0.70)	(0.15)
Age: 55-64	0.958	0.624*
	(0.71)	(0.06)
Age: 65+	1.365*	0.313**
	(0.10)	(0.04)
Male	1.164**	1.271**
	(0.02)	(0.05)
Baseline	0.670	3.956
	(0.46)	(0.23)
N	7571	2698

Source: Source: LiTS (2010).
Notes: The table reports the result of a logit regression, in which the baseline category is an 18 to 24-year-old woman working in the private sector with no education. The coefficients are exponentiated and reported as odds ratios. An odds ratio greater than 1 means that a variable or group is more favourable to democracy than the baseline category, while a coefficient of less than 1 means that support for democracy is lower than in the baseline category. P-values are reported in parentheses; * = p<0.10; ** = p<0.05; *** = p<0.01.

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[32] For the purposes of this analysis, "established democracies" are countries with a score of 5 or more on the Polity2 index in 2012, and "less democratic regimes" are those with a score of less than 5.

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