Abstract

Contrary to the body of literature on the negative linkage between democracy and income inequality, the existing empirical evidence on this relationship is inconclusive. By highlighting measurement problems, omitted variable bias, and heterogeneity in democracies, this paper explains why we often fail to detect a significant relationship between democracy and income inequality. To this end, I use new measures of income inequality provided by Estimated Household Income Inequality (EHII) project. Finally, by examining institutional features of political systems and controlling for factors of economic openness, this paper shows that democratic regimes are more likely to have an equal income distribution only when the size of the winning coalition is relatively very large. In addition, it illustrates that economic openness, especially capital market openness, harms an equal income distribution.