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# Political transition, Corruption in new democracies.

# Special case Albania.

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**Abstract**

This paper examines the effect of democratization on income inequality in new democracies country, using data from the World Income Inequality database. We attempt to explain why income inequality rises at much faster in developing nations than in developed ones. Briefly summarized, high and rising corruption increases income inequality and poverty by reducing economic growth ; increase elite political polarization, induce political instability and even threaten the survival of democracy. The paper argue that the key to solving this puzzle lies in a better understanding of the patterns of democratization and the consequences of corruption in new democracies. While democratization ideally takes place after the construction of a solid institutional foundation of rule of law, realistically most developing countries democratize by introducing elections before they have structured a system of accountability. This type of electoral democracy , despite of legitimizing the government, does not hold the ruling elites accountable through an effective system of checks and balances. As a result, corruption becomes rampant at every level. Most importantly, the emergent corruption attenuates the social demands for redistribution during democratization , since corruption leads to tax evasion particularly among the rich and well connected. This evasion in turn reduces tax progressiveness and offsets the welfare implications of the tax system. Additionally , corruption misallocates social welfare and education program spending by redirecting that spending from those who are truly in need to those who are inside the patronage network. In short , corruption enriches a small part of population at the cost of whole society and therefore leads to greater income inequality.

**Key Words:** *Corruption, Poverty ,Income inequality, Democratization.*

## Introduction.

Income inequality , or more generally the distribution of wealth among citizens in a society, has been e central topic of concern and discussion for several disciplines. Income inequality is found to reduce economic growth (Alesina and Rodrik 1991) ; increase elite political polarization (McCarty et al.2003), induce political instability (Londregan and Poole 1990) and even threaten the survival of democracy.(Przeworski et al.2000).

That democratization in new democracies results in greater income inequality is not only empirically distinctive but also theoretically puzzling. Particularly , many studies have documented a more equal income distribution in democratic countries than in authoritarian regimes.(Muller 1988;Reuveny and Li 2003).This empirical fact alone may not be surprising since various channels exist for responding to social demands in democracies ,whereas such demands are easily ignored or even suppressed in authoritarian countries. Thus, in theory, one should intuitively expect a reduction in inequality when a country moves from an authoritarian regime to a democratic system. But why, in reality , do we find that democratization in every new democracy leads to greater income inequality? Put differently, why does this cross-national empirical regularity between income equality and democracy fail to manifest itself inter temporally? Obviously, the key mechanism identified by the conventional wisdom –social demands for redistribution –falls shorts of answering this question, as the democratic transition also unleashes strong social demands for redistribution –falls short of answering this question, as the democratic transition also unleashes strong social demands for redistribution and yet these social demands for redistribution and yet these social demands are attenuated and not translated into improved equality.

I argue that the key to solving this puzzle lies in a better understanding of the patterns of democratization and the consequences of corruption in new democracies. While democratization Ideally takes place after the construction of a solid institutional foundation of rule of law, realistically most developing countries democratize by introducing elections before they have structured a system of accountability. This type of electoral democracy, despite legitimizing the government, does not hold the ruling elites accountable through an effective system of checks and balances. As a result, corruption becomes rampant at every level. Most importantly, the emergent corruption attenuates the social demands for redistribution attenuates the social demands for redistribution during democratization, since corruption leads to tax evasion particularly among the rich and well connected. This evasion in turn reduces tax progressiveness and offsets the welfare and implications of the the tax system. Additionally , corruption misallocates social welfare and education program spending by redirecting that spending from those who are truly in need to those who are inside the patronage network. In short, corruption disproportionately enriches a small part of the population at the cost of the whole society and therefore leads to greater income inequality.

In this paper we seek to understand why democratization results in greater income inequality in new democracies, using survey data from the World Income Inequality Database for the world's 30-old countries experiencing democratic transitions during the early part of the 1990s comparing with the new democracies countries , just like my country Albania with a back ground of 20-years fragile democracy ,if i can call it democracy.

**Political Accountability.**

I argue that the key to solving this intriguing puzzle lies in more fully understanding the dynamics by which democratic governments process redistribution demands and translate them into policy outputs. I think that to assure the proper translation from social demands to better distributional outcomes lies in political accountability. In my country , still nowadays, that we are a new democracy ,(20 years)country , is happening the same thing and the problem is the political accountability. When democratization brings political accountability to the hands of citizens in new democracies, citizens are empowered to evaluate incumbents' performances and decide whether or not to throw the rascals out. Consequently, accountability creates a channel for citizens to exert their influence and to make elected officials act in the interests of citizens (Ferejohn 1986).Specially when new democracies are equipped with institutional check-and –balance structures, citizens are able to take advantage of the conflicts of interest among political elites and elicit information that is otherwise unavailable to them (Persson et al 1997).Hence , democratic accountability mechanisms help to constrain the ruling elites from abusing their powers and ensure that social demands for redistributions will be fully addressed in the policymaking process. Without proper accountability mechanisms, redistribution demands are vulnerable to electoral considerations and political manipulation and hence become attenuated in new democracies.

The theory of accountability is well supported in several empirical studies. Muller(1988) argues that the lack of fully institutionalized political structures in new democracies is the main reason for a non-finding concerning the relationship between the level of democracy and inequality. Is the level of institutionalization and accountability, not the level of democracy, that leads to the reduction of inequality. Specifically, (Lee,2005) argues that the public sector expansion only reduces inequality in fully institutionalization democracies in which the working classes can channel their organized interests "through an efficient and sound bureaucracy capable of implementing progressive tax and transfer policies". While all these studies emphasize the importance of political accountability in the democratization process, accountability is unfortunately a rare commodity in new democracies. By sharp contrast, most citizens in new democracies find themselves poorly governed. As Keefer (2005, p.1) forcefully puts it, "Many democracies fall short of many autocracies in the provision of public services or the protection of human and economic rights." Keefer finds overall that nascent democracies suffer from more corruption, lower provision of rule of law, inferior bureaucratic quality, and lower school enrollment.

**DEMOCRATIZATION AND ITS DISTRIBUTIONAL CONSEQUENCES**

In this section, first, I highlight differences in the modes by which and the conditions under which democratization takes place. Second, I discuss how democratization without institutionalization, the dominant type of new democratization, may lead to an outbreak of corruption. Finally, I examine the mechanisms by which corruption leads to inequality in new democracies.

The Modes of Democratization:

I argue that much of the debate over political and economic performance in young democracies results from overlooking the ways and the conditions under which democratic transition initially takes place. An influential tradition in the democratization literature posits that the outcome of democratization is path and history dependent. In their seminal book, O'Donnell and Schmitter (1986) hold that the mode of transition, shaped by the strategic interaction between state and society, critically determines both the path and the destination of democratic transitions. These authors identify four critical actors in the early phase of democratic movements, using the side of affiliation (democratic challengers or authoritarian incumbents) and the strength of ideology (hardliners or moderates) as guides. Importantly, they argue that a democratic transition is most likely to succeed when both moderate incumbents and challengers ally with each other but is doomed to fail in the absence of such an alliance. In particular, a new democracy is more likely to survive using the mode of pacted transition because pacts that enhance trust and sharing among actors become institutionalized as a set of checks and balances in the new democracy (McFaul 2002). Meanwhile, Przeworski (1991) emphasizes the importance of the initial condition: democracy enhancing pacts are most likely to appear when the distribution of power is roughly equal between both sides. Under such circumstances, political actors have higher uncertainty regarding their own strength and the odds of success if they switch to using force, and they hence have greater incentives to reach a compromise. Importantly, Cervellati et al (2006) shows that new consensus-based democracies produce growth-enhancing environments and implement larger fiscal redistribution programs, since consensual democracy serves as a signaling device to coordinate the society's expectations about the rule of law and to secure property right protections. By contrast, democracies that were born in a conflictual environment do not necessarily perform better than authoritarian regimes. In short, Cervellati conclude that democratization does not guarantee the emergence of efficient economic systems; what is more important is the process by which countries democratize. Kaplan and Converse (2006) endorse this view and argue that the variance among democracies in terms of constitutional arrangements and institutional maturity matters more than the level of democracy itself with regard to delivering preferred economic outcomes.

The above discussion on the patterns of democratization and their economic consequences sheds light on the lack of accountability in new democracies. Specifically, it is important to emphasize the distinction between democratic transition and democratic institutionalization; the former refers to a process that transfers political power from a few elites to the popular masses, whereas the latter denotes the process of engraving democratic principles into the society. Huntington (1971) is one of the pioneers warning us of the potential incompatibility between these two concepts. He argues that democracies vary significantly in degree of institutionalization. More important are the political consequences when democratic transition and democratic institutionalization fail to occur in the right order during the democratization process. Concretely, Huntington posits that political systems will become unstable when political
participation advances more rapidly than institutionalization.

Rose and Shin (2001) elevate Huntington's view to a higher level by comparing the democratization processes observed in the first and third waves of democratization. They argue that the first wave of democratization took place in a "forward" manner. That is, before universal suffrage and competitive elections were introduced in these advanced democracies, these countries had already developed a state structure buttressed by a solid institutional foundation of rule of law, a vibrant civil society, and checks and balances among political actors. By contrast, new democracies introduced free elections before these countries even had a chance to build and secure an institutional foundation. As a result, "The governors of these new democracies thus face a double challenge: completing the construction of the modern state while competing with their critics in free elections" (Shin and Rose 2001, p. 336). Due to the absence of fundamental institutions, Rose and Shin (2001) hold that most new democratizations remain incomplete. As other scholars have also posited, a functioning and consolidated democracy needs to be buttressed by behavioral, attitudinal, and constitutional foundations. While new democracies enfranchise citizens and legitimize the government through elections, these democracies fall into the trap of electoralisem by only fulfilling the electoral criteria of democracy without supplying an effective system of checks and balances to hold the ruling elites accountable (Diamond 1999; Bratton et al. 2005). A live example is still nowadays , my country, Albania .We have the same problem, we had our last elections in July 2009 and we still have a political crise, because the opposite doesn't agree with the results of the elections and is still out of the parliament , as it doesn't believe in the government institutionalization.

**Democratization , Corruption and its consequences in inequality.**

The combination of competitive elections and a lack of accountability in new democracies can be explosive in several consequential ways. First, the pressure to stay in office may encourage opportunistic incumbents to engage in electoral fraud or economic manipulation. Since Nordhaus' (1975) early contributions, a standing literature commonly known as the political business cycles (PBC) literature has emphasized that the desire for reelection leads incumbents to stimulate the economy just before elections, with subsequent adverse effects.

Political parties in new democracies are in general institutionally underdeveloped. For instance, Kim (2000) argues that parties in South Korea, just like in Albania are ideologically indistinctive and are organizationally detached from civil society. Put even more bluntly, politicians have turned political parties into their own personal instruments. The accountability consequences of ill-developed parties are non-trivial. Literature on personal voting has long posited that when candidates' personal reputations electorally outweigh party reputations, candidates will seek to build their own patronage networks and pursue personal votes. However, personal votes are costly to candidates, and the more personal votes a candidate needs to secure victory, the more incentive he has to seek illegal funds from special interest groups to finance the campaign, thereby engaging in corruption (Cain et al. 1987; Carey and Shugart 1995). Paradoxically, while democracy theorists consider electoral competition conducive to accountability, stiff competition under this personal vote scenario can actually serve exactly the opposite purpose. In fact, a candidate's dependence on personal votes increases with his perceived electoral uncertainty. Competitive elections will magnify a candidate's belief that he will lose in his reelection bid, and he therefore will try to collect more personal votes (and hence more illegal bribes) in order to win (Chang 2005). In short, a lack of institutionalized party politics leads to the prevalence of personalistic elections in new democracies. In turn, these personalistic elections increase candidates' dependence on unlawful resources and result in higher levels of corruption and economic outcomes (e.g. tariffs, contracts, or subsidies) that are dominated by or favorable to various special interests at the expense of ordinary citizens. Hellman (1998) vividly illustrates how organized interest groups effectively hijacked the economic reform process in post-Communist Russia, reaped the benefits, and stonewalled other reform policies intended to create transparency, competition, and openness.

Finally, democratization without institutional foundations may simply present a golden opportunity for self-enrichment and power abuse in new democracies. Moran (2001) demonstrates that bribes, kickbacks, and various forms of corruption are supplied in return for government favors and special treatment in

Latin American countries when democratization is associated with privatization. I think that the point is that "although democracy has in many ways opened up Albanian politics and brought people liberty, it has also produced a degree of chaos and instability that has actually made corruption and lawlessness worse in many cities ." Several scholars hold the same view in the context of East Europian country and African country. Quan (2004) argues that the third wave of democratization has been accompanied by an eruption of corruption in both the Philippines and South Korea. Chu and Lin (1996) suggest that with the expansion of electoral avenues in Taiwan, local factions and business sectors were presented with new and greater opportunities for political investment, and as a result the money politics and corruption that used to dominate the local level elections quickly seeped into national level elections. In short, as Moran (2001) argues, the conventional view that democratization necessarily reduces corruption is subject to fallacy. While limitations of the currently available cross-national data on corruption prevent us from drawing a definite inference concerning the effect of democratization on corruption, all our discussions so far lead us to the same conclusion: democratization by itself is not an adequate deterrent against corruption. To the contrary, when countries democratize without institutionalization, election-winning incentives and pressures, underdeveloped party structures and ill defined policy platforms, and the lack of credible accountability mechanisms jointly provide a breeding ground for corruption in new democracies. Worth noting is the mutually reinforcing process between state building and democratic consolidation discussed in Bratton and Chang's study (2005).

**Why Corruption Worsens Inequality.**

Corruption is now recognized as a cancer of a polity. Commonly referred to as the abuse of public office for private gain, political corruption is found to harm economic growth, lower levels of

investment, foster underground economies, and distort the composition of governmental expenditures (Mauro 1995; Jain
1998). Furthermore, recent empirical studies have started to systematically explore the channels through which corruption may affect income inequality. Corruption may affect income inequality and poverty through various channels, including overall growth, biased tax system, and poor targeting of social programs as well as through its impact on asset ownership, human capital formation ,education inequalities , and uncertainty in factor accumulation.

**1. Growth.**

High corruption can lead to high poverty for two reasons .First ,evidence suggests that a higher growth rate is associated with a higher rate of poverty reduction (Ravallion and Chen, 1997 ), and that corruption slows the rate of poverty reduction by reducing growth .Second, income inequality has been shown to be harmful to growth (Alesina and Rodrick,1994; Person and Tabellini, 1994 ) and if corruption increases income inequality, it will also reduce growth and thereby limit poverty reduction.(Ravallion,1997).

**2.Biased tax systems.**

Corruption can lead to tax evasion ,poor tax administration , and exemptions that disproportionately favor the well-connected and wealthy population groups. This can reduce the tax base and the progressivity of the tax system , possibly leading to increased income inequality.

**3.Poor targeting of social programs.**

Corruption can affect the targeting of social programs to the truly needy. The use of government –funded programs to extend benefits to relatively wealthy population groups, or the siphoning of funds from poverty-alleviation programs by well-connected individuals, will diminish the impact of social programs on income distribution and poverty.

**4.Asset ownership.**

High concentration of asset ownership can influence public policy and increase income inequality. In a society where asset ownership is concentrated in a small elite, asset owners can use their wealth to lobby the government for favorable trade policies, including exchange rate, spending programs, and preferential tax treatment of their assets. These policies will results in higher returns to the assets owned by the less well-to do, thereby increasing income inequality. Furthermore, assets can be used as collateral to borrow and invest; therefore ,inequality in ownership of assets will limit the ability of the poor to borrow and increase their lifetime income and will perpetuate poverty and income inequality.(Li, Squire, and Zou 1996;Birdsall and Londono,1997).

**5.Human capital formation, education inequalities, and social spending.**

Corruption can affect income distribution and poverty via its impact on human capital formation and the distribution of human capital. First, corruption weakens tax administration and lead to tax evasion and improper tax exemptions, as discussed above. Therefore, for a given tax system, the higher the level of corruption ,the lower the tax revenue and the lower the resources available for funding public provision of certain services ,including education.

Second, corruption increases the operating cost of government , and therefore reduces the resources available for other uses , including the financing of social spending that is crucial to the formation of human capital. In fact , higher corruption is found to be associated with lower education and health spending (Mauro,1997).

Third, wealthy urban elites can lobby the government to bias social expenditure toward higher education and tertiary health , which tend to benefit high-income groups. Corruption can also increase expenditure on tertiary health because bribes can be more easily extracted from the building of hospitals and purchasing of state-of-the art medical equipment than from expenditure on vaccinations.

Finally, corruption can increase the share of recurrent expenditure devoted to wages as opposed to operations and maintenance. (Tanzi and Davoodi,1997).This lowers the quality of education and health services and affects the ability of the state to improve educational attainment levels.

**6.Uncertainty and factor accumulation.**

If the " rules of the game" in a corrupt country are unclear and biased toward the well-connected , the poor and the less –well-connected face added risk premium in their investment decisions. This unequally distributed risk increases expected returns to any investment for the well- connected relative to the less –well-connected .Therefore, low income and poor groups –the less- well-connected will be discouraged from investing in any resource –human, physical capital, or land –and income inequality and poverty will be perpetuated or accentuated.

In a pioneering contribution, Gupta et al. (2002) argue that corruption increases income inequality through the following mechanisms.
First, corruption distorts income distribution in a direct and self-explanatory way, since illegal benefits derived from corruption by definition accrue disproportionately to those who control and/or have access to political power, while the costs are externalized to ordinary citizens. Second, corruption distorts the tax system in several ways (e.g. tax evasion) that favor the rich and well connected. This in turn reduces tax progressiveness and offsets the welfare implications of the tax system. Additionally, corruption misallocates social welfare and education program spending by redirecting that spending from those who are truly in need to those who are inside the patronage network.

Alternatively, corrupt politicians may auction off the provision of public goods, and under such circumstances delivery of social services will give priority to the rich (who can afford to pay higher prices) rather than the poor
(who are the assumed beneficiaries of social programs) (Lui 1985). In either case, corruption will cause under-provision of social and education programs, which consequently prevents the formation of human capital, the upgrade of job skills, and the potential for social mobility for the poor. Therefore, corruption inevitably nullifies the egalitarian effects of social programs on income inequality. Finally, Gupta et al. (2002) note that the corrosive effects of corruption and income inequality can be mutually reinforcing through two parallel mechanisms. In systems that are penetrated by and permeated with special interests, corruption disproportionately enriches the wealthy and thereby leads to a high concentration of wealth. Meanwhile, beneficiaries whose assets are obtained from non-market profits have incentives to bribe the government for favorable policies and information so as to maintain their market advantages. The favorable policies and information in turn yield higher returns to the assets owned by the rich, while extra uncertainty and risks in the investment environment bear down only on the shoulders of the poor. Under this vicious circle, inequality raises corruption, and corruption in turn strengthens inequality.

Alesina and Angeletos (2005) mirror the above view and argue that the vicious circle of inequality and corruption operates through government spending programs. The notion is that when wealth resulting from corruption is deemed unfair by the society or when the ability to seek illegal rents lies most in the hand of the rich, the poor will demand redistribution programs to compensate for the inequality induced by corruption. However, when the size of government increases, more opportunities for corruption also emerge, which again contributes back to a higher level of inequality and stronger support for redistribution. Alesina and Angeletos suggest that this vicious circle accounts for the political economy in Latin American populist regimes, which are characterized by a paradoxical coalition that includes both the poor who benefit from redistribution and the rich ruling elites who gain from corruption. Similarly, You and Khagram (2005) argue for a self-reinforcing relationship between corruption and inequality, with
an emphasis on how inequality might turn corruption into an acceptable norm and practice for both the poor and the rich. To sum up, the above discussion warrants several empirical inquiries, including (1) whether different modes of democratization affect the quality of new democratic regimes, (2) more specifically whether backwards democratization leads to greater levels of corruption, and (3) whether corruption in new democracies attenuates social demands for redistribution and hence leads to greater income inequality.

**Empirical Analysis.**

I attribute rising income inequality in new democracies to corruption , and I empirically test the hypothesized corruption-inequality link at two levels. At the cross –national level, I build upon data compiled by Reuveny and Lee
(2003), and I focus on the world's 30-odd countries experiencing democratic transitions during the early part of the 1990s. (Figure .1). At the individual level, I use survey data from both the

Afrobarometer and the Albanian Statistics (IDRA; Institution of Researches and Development Alternatives ), country that span more than 20 new democracies .

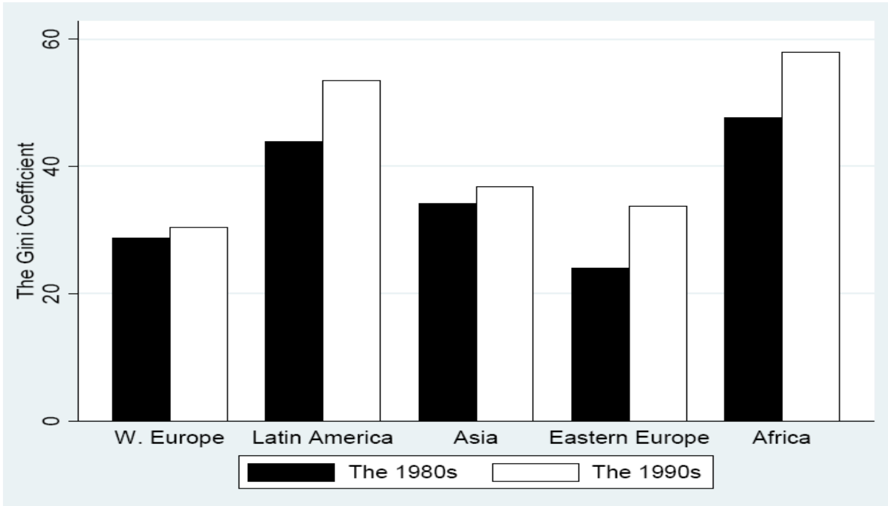



***Figure 1: Inequality Before and After Third-Wave Democratization***

**Aggregate-Level Analysis**

Reuveny and Li's recent contribution (2003) is the first systematic empirical study to examine both the international economic and domestic political determinants of income inequality. In terms of domestic political factors, these two authors, following the conventional view regarding social demands for redistribution , argue that higher levels of democracy should be associated with lower income inequality. With respect to international factors, they argue that trade openness increases incomeinequality in developed countries but reduces it in developing countries. This differential effect of trade on inequality is guided by the Hecksher-Olin model and the Stolper-Samuelson theorem, which posit that the winners from international trade between developed and developing economies are the unskilled
workers in developing countries and the skilled workers and capital owners in developed countries. Additionally, drawing from various insights, they argue that both foreign direct investment and exposure to foreign financial capital should reduce inequality.
Reuveny and Li test their hypotheses against cross-national time series data that cover 69 countries during the period from the 1960s to the 1990s. Their dependent variable is the decade average Gini coefficient. Controlling for the effect of domestic economic growth (i.e., the Kuznets curve), they find that both democracy and trade reduce the level of income inequality, that foreign direct investment increases inequality, and that foreign financial capital has no effect on inequality in either developed or developing countries. From the graphics above we can see that only the new democracies country ,like Latin America, East Europe who included Albania, Africa, have worsen the Gini coefficient , also income inequality.

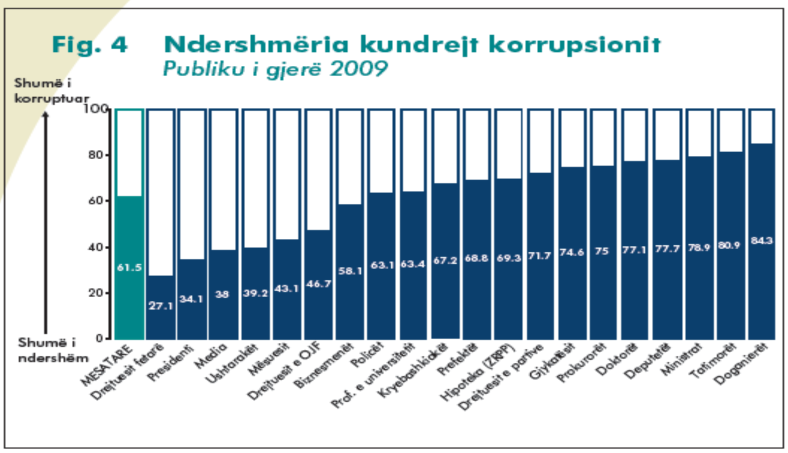
**Individual-Level Analysis**

The individual-level data come from two parallel cross-national survey projects: the Afrobarometer and
IDRA. The Afrobarometer is a collaborative survey project that studies citizens' social, political, and economic attitudes in more than a dozen African countries. IDRA ( Institution of Researches and Development Alternatives) conducts similar research in Albanian, sponsoresied by USAID.

As discussed above, one empirical advantage of using survey data is the ability to measure the dynamics of income inequality. Specifically, the Afrobarometer asks respondents the following question: "Please tell me whether the gap between the rich and the poor in this country is better or worse than it was a few years ago, or whether it has remained the same." The answer scores on a metric of 1-5, where 1 represents “much worse” and 5 “much better.” Table 1 summarizes citizens' perceptions concerning past changes in inequality in Africa. At first glance, we can quickly see that rising income inequality is indeed a common concern: a great majority of the African respondents believe that the gap between the rich and the poor has increased over the past few years, while only slightly more than 10 % think the opposite. More than 50% of respondents say that income inequality has gotten much worse. While Albanian cities present a less extreme picture, overall more respondents still report that inequality has become worse than better.

While the information that I have taken about Albania from IDRA , tell us that the Albanian people (60 % of the interviewers) have still the same perception that corruption is very high in our country and it is going worse , and it is the main factor why things doesn't go better for the Albanian, although we have 20 years of democratization. Table.2 and the graphics below summarizes citizens' perception of inequality and corruption in Albania, told by IDRA , 2009. The tables below , Fig.4; Fig.5 ; Fig.38; Fig.10.(taken off the IDRA opinion –poll, 2009) tell us about the perception of the Albanian people in relation with corruption, under four years, 2005 ;2006; 2008;2009, and we can see clearly that the most corrupted in our country are the customs officers, tax force , ministers ,deputies, the doctors , public officials (average. 70%- 80% think the same.) ,and that from 2005(a electoral year in Albania), still now the corruption seems that it is increased with 13 % .

Four years later, another eloctoral year for albanian, other four years of democratization, and we are still more corrupt and more unequal, and of course , still out of European Community… and I think that Albania is a live example of 20 years of democratizion without before institutionalization , political accountability and when the pure democratizion is still a dream…



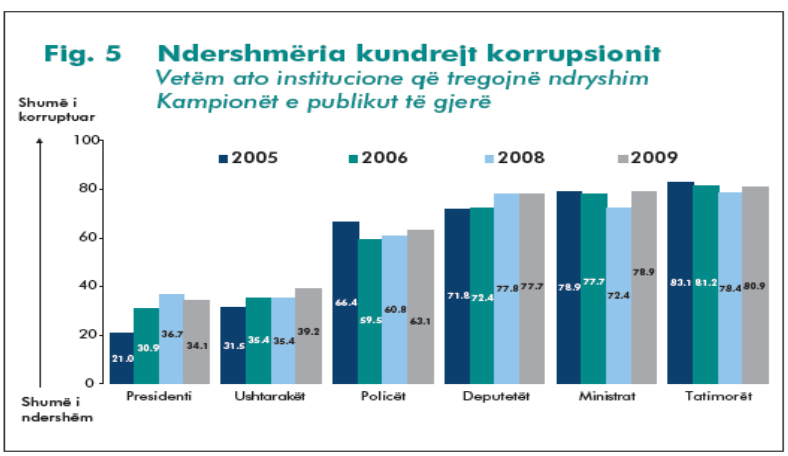




**Fig.4 The honesty by % (percent) of corruption.**
**Fig.5 The honesty by %(percent) of corruption, under 4 years,(2005;2006;2008;2009).**

Source of data : IDRA. (2009)

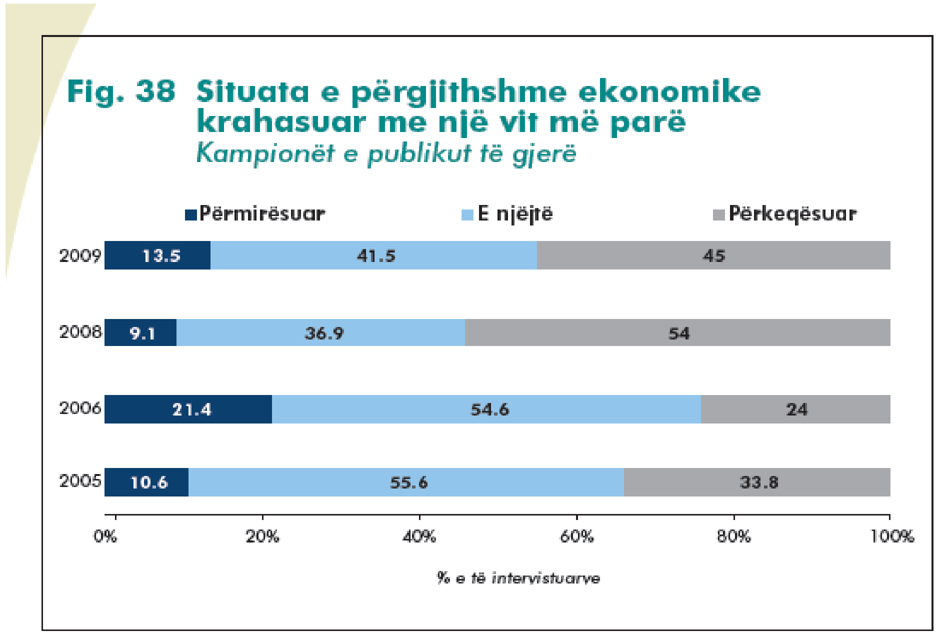



**Fig.38 Economic situation in Albania compared with a year ago.**

Source of data : IDRA, 2009.

**Table.1 Citizen's perception on the past change in inequality in Africa.**

| Country | Much Worse | Worse | The Same | Better | Much Better |
|---|---|---|---|---|---|
| Benin | 37.8 | 42.5 | 10.9 | 6.8 | 4 |
| Botswana | 32.5 | 30.6 | 20.6 | 13.7 | .8 |
| Cape Verde | 17.9 | 34.2 | 25.6 | 10.3 | 1 |
| Ghana | 32.7 | 26.5 | 19.4 | 14.1 | 1.8 |
| Kenya | 43.3 | 25.7 | 15.0 | 11.1 | .9 |
| Lesotho | 56.8 | 21.4 | 9.0 | 10.5 | .3 |
| Madagascar | 18.6 | 38.6 | 22.6 | 15.2 | .2 |
| Malawi | 67.8 | 15.9 | 6.9 | 5.3 | 2.4 |
| Mali | 30.0 | 33.3 | 17.3 | 16.0 | 1.6 |
| Mozambique | 19.9 | 30.8 | 23.2 | 14.9 | 1.6 |
| Namibia | 18.0 | 24.6 | 30.9 | 19.9 | 3.9 |
| Nigeria | 52.9 | 27.6 | 11.7 | 6.4 | .6 |
| Senegal | 13.8 | 40.2 | 14.7 | 19.6 | 2.1 |
| South Africa | 27.6 | 24.5 | 24.6 | 17.1 | 3.4 |
| Tanzania | 34.4 | 23.3 | 12.7 | 11.7 | 4.6 |
| Uganda | 37.8 | 31.3 | 14.3 | 14.0 | .7 |
| Zambia | 55.8 | 25.7 | 14.7 | 1.8 | .7 |
| All African Countries | 35.2 | 29.2 | 17.3 | 12.0 | 1.6 |

Source: Afrobarometer , 2008

**Table.2 Citizens perception on the past change in inequality in Albania.**

| City | Much Worse | Worse | The Same | Better | Much Better |
|---|---|---|---|---|---|
| **Fier** | 17.5 | 43.5 | 30.9 | 7.8 | 0.3 |
| **Elbasan** | 35.2 | 36.8 | 13.7 | 10.6 | 3.8 |
| **Durres** | 10.2 | 15.6 | 47.7 | 21.5 | 5.0 |
| **Vlore** | 18.9 | 21.0 | 33.4 | 23.5 | 3.2 |
| **Tirane** | 1.6 | 7.7 | 41.4 | 40.2 | 9.1 |
| **All Albanian cities** | 15.4 | 24.8 | 32.9 | 20.5 | 4.2 |

Source: IDRA,2009

## CONCLUSION

This paper attempts to solve the puzzle of why democratization results in greater income inequality in new democracies. I argue that the answer lies in a better understanding of the ways countries have democratized. When third-wave countries democratize by opening up elections before they have secured a system of accountability, the resultant corruption wildly distorts the income distribution and leads to greater inequality. The corruption-inequality hypothesis is well supported by empirical analyses using both cross-national data and individual-level survey data, despite the fact that the measures of corruption and inequality, the model specifications, and the estimation strategies at the two levels are quite different. Several issues remain for future research, however. First, while this paper argues that corruption leads to higher inequality, others may rightfully argue that inequality worsens corruption (You and Khagram 2005). Therefore, it is critical to address this reciprocal relationship to ensure unbiased estimates in the empirical analysis. Additionally, examining whether a mutually-reinforcing relationship between corruption and inequality exists also contributes to our understanding of the long-term relationship between democracy and inequality. Specifically, several scholars have argued for an inverted U-shape relationship between democracy and inequality, in the hopes that the rise in inequality associated with democratization will only be temporary and that as institutionalization progresses democratization will eventually reduce inequality. Simpson (1990), for instance, argues that inequality rises with democracy up to some threshold and then starts to decline. However, I argue that this view of a “political Kuznets curve” (Chong 2004) could be overly optimistic. Rising inequality coupled with and fueled by pervasive corruption can turn into an ever-lasting nightmare for both political leaders and ordinary citizens in new
democracies, unless some external shocks (such as institutional reforms) successfully break down this vicious circle. At a broader level, a greater endogeneity concern exists with regard to inequality and democratization itself. The demand for income redistribution induced by inequality has been viewed as the engine driving regime transitions in the latest political economy approach. In Acemoglu and Robinson’s (2006) study, it is indeed inequality that triggers democratization; democracy is conceptualized as a coordination solution for both the rich and poor, since democracy delivers redistribution in a credible manner to the poor while preserving the property rights of the rich. The bottom line here is that if inequality precedes and initiates democratization and also affects the ways countries democratize (as Cervellati et al. argue), then countries with higher initial levels of inequality are “doomed” and are held captive by inequality because greater initial inequality leads to conflictual democratization, which in turn furthers inequality. In this sense, we are inevitably led to a theory of predestination rather than a theory of democratization.

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