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Investigating the Effect of Democracy on the Relationship between Economic Growth and Income Inequality in Iran

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EXTENDED ABSTRACT

INTRODUCTION

Reducing inequality, adjusting incomes, and redistributing issues become the biggest goal of development economics and the most difficult task for policymakers when viewed in conjunction with economic growth. Because achieving high growth rates, in addition to its own difficulties, also raises the concern that providing accelerated growth may lead to disruptions in income distribution. Therefore, explaining the causal relationship between growth and income distribution and how to determine the relationship between these two variables and then applying optimal growth and distribution policies has particular importance.

Numerous studies have been conducted in different societies in this field, which is mainly based on Kuznets (1955) hypothesis of "income growth and distribution". In his studies, Kuznets observed a parabolic relationship between per capita income and income inequality and explained this relationship as follows: In the stages of economic development, the lowest and highest values of per capita income with low inequality and the mean values of per capita income with degrees More of the corresponding inequality. Using statistics from the United Kingdom, Germany, and the United States, he empirically estimated the impact of economic growth on income distribution and observed that income distribution inequality increased during the first stages of economic growth, and then It balances and eventually declines during the final stages of economic growth. However, the results of empirical studies show that the Kuznets hypothesis has not always been confirmed and the relationship between economic growth and income inequality is not predictable, and depending on which country (or group of countries) this issue is examined, the relationship Positive, negative, meaningless or nonlinear will be obtained.

For this reason, a new approach to the issue of economic growth and income inequality in macroeconomics has emerged among some economists, especially since the early 1990s. Attitudes that mainly believe that contrary to Kuznets, who considered only economic factors in explaining this relationship, the relationship between these two elements is endogenous and in addition to economic factors, is also a function of social and political factors as a result of developments. Politically and institutionally, societies are affected. Therefore, researchers are looking for variables that provide a more comprehensive understanding of patterns of growth and income inequality, and at the same time can achieve economic growth and income distribution at the same time. In this regard, the purpose of this article is to investigate the effect of democracy on the relationship between economic growth and income inequality in Iran. Theoretically, it is expected that the establishment of a democratic culture in society, in addition to providing suitable conditions for productive economic activities, will lead to reduce income inequalities and class conflict through the process of public participation and the expansion of justice for all. The side should be reduced in the shadow of democracy. But in fact there is no clear connection between this, and the effect of democracy on economic variables depends to a large extent on the actual distribution of power.

Political elites can increase investment in real power (through control of local actors, mobilization of non-governmental military forces, political lobbies, and other means of controlling party rule) under certain circumstances that threaten the rule of law democracy. It is natural that in such an environment, democracy will have little effect on the redistribution of wealth and the reduction of inequality and economic growth. In addition, the democratic process may be limited by institutions such as the constitution, conservative political parties, judges, the real threat of a coup, and even widespread tax evasion, and as a result its economic effects diminished. So there is no exact relationship between democracy and the variables of growth and inequality, but this does not mean that basically any relationship is ruled out, but it is most likely due to the complex and different relationships between democracy and economic variables that pay attention requires more comments on this article.

Theoretical explanation of the relationship between economic growth and income distribution can answer one of the fundamental questions of economic planners, especially in developing countries. Because these countries have always suffered from low levels of per capita income and wide income gaps. It can be said that eradicating poverty and reducing income inequality, when combined with economic growth and institutional and political reforms, becomes the biggest goal and the most difficult task of economic policy makers in developing countries.

In the case of a country like Iran, of course, how the development process can be effective in the relationship between growth and income distribution. For this reason, in this article, the effect of democracy as a political variable on how

this relationship is examined to clarify the effect of the expansion of democratic institutions on the problems of economic growth mismatch with income inequality at the same time and not by leaving one in favor of the other.

METHODOLOGY

This research is causal and the data are extracted in the form of a library (general information and required data from the World Bank website, time series statistics published by the Statistics Center of Iran, the Central Bank and reports related to the policy project). The population studied in this research is Iran in 1971-2018.

Due to the nature of the data, Autoregressive Distributed Lag (ARDL) method has been used to estimate the model. Excel, Microfit 4.1, Eviews9 software packages have been used for this purpose.

The research is organized in such a way that after stating the introduction, the literature is briefly reviewed and the research model and variables are identified. Then, the model estimation and econometric tests necessary to check the accuracy and stability of the coefficients and results are performed, and at the end, we summarize the conclusions and present some suggestions.

FINDINGS

According to the results of the research model (political economy of Kuznets curve), although Kuznets hypothesis (relationship u form of income inequality and economic growth) in Iran is not rejected, but considering the effect of the political institution of democracy has reduced the negative impact of growth on inequality Also, the inclusion of the variable of democracy in the model shows the opposite and significant effect of growth associated with democracy on income inequality, meaning that inequality is destructive and changes in the political regime (expansion of democracy) lead to redistribution. In fact, based on the theoretical foundations of this model, the Kuznets hypothesis is formed, but increasing inequality in society causes the masses of ordinary people who are dissatisfied with the current situation to form organizations and institutions for the realization of rights. Therefore, politicians who feel threatened have to put reform programs and redistribution policies on their agenda in order to avoid the risk of coup and revolution. As a result, it can be said that political reforms and democratic measures reduce inequality while increasing economic growth.

CONCLUSION

Based on the results of the estimation model:

1- Kuznets hypothesis has been accepted with a high percentage of confidence in the research period. Economic growth has an increasing effect and squared Economic growth has a decreasing effect on income inequality and the intensity of these effects is greater in the long run. This confirms that tolerating a percentage of inequality in society to achieve a certain level of growth for economic development is inevitable, that with increasing the level of development, the effect of growth on inequality is reversed and the possibility of growth with proper income distribution Will be provided.

2- Inflation has a direct and significant effect on income inequality, which means that increasing inflation widens the income gap of society. This result is consistent with the studies of Abu Nouri (2006) and Georgia (2008).

3- The ratio of oil revenues to production has had a direct effect on income inequality. Thus, rising oil revenues have fueled severe inequalities. This result is consistent with the rentier government hypothesis in the Iranian economy that stakeholders are trying to gain as much share of oil rents as possible by influencing the budgeting and allocation process. Give. Therefore, it seems that increasing oil revenues by increasing access to foreign exchange resources and importing more consumer goods, provides the basis for unproductive activities and increasing income gaps.

4- The inclusion of the Democracy Index in the model has reduced the negative effects of economic growth on inequality to an acceptable level (although the Kuznets hypothesis is still valid). Under democratic conditions, it is possible to achieve both components of economic growth and reduce inequality at the same time, but in the empirical analysis of these results, it is necessary to consider that the nature of the institution of democracy may prevent an immediate effect in this regard. The lower coefficient of this variable in the short run compared to the long run also confirms this.

It should be noted that in order to ensure the accuracy of the results of econometric model estimates, tests of classical assumptions and to check the stability of the model, Cumulative Sum Of Recursive Residuals and Squares Of Recursive Residuals tests were performed for the specified model, the results of which indicate the establishment of Classic assumptions as well as model stability. Given the growing impact of growth on inequality in the early stages, it is likely that pursuing growth-oriented policies, regardless of their distributional consequences, will lead to a worsening of the

income distribution situation in Iran. Therefore, in order to achieve both important development goals, namely economic growth and income distribution, it is necessary to consider growth strategies combined with redistributive policies.

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