

INCOME SHOCKS AND INEQUALITY AS A BOON OR BANE FOR DEMOCRATIC CHANGES – AN APPROACH USING CLIMATE VARIABLES

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ABSTRACT

How do income, income growth and inequality bring about changes towards democracy? This paper uses a global panel of 180 countries from the years 1950-2016 (67 years) to determine the impact of changes in per capita income, growth of income per capita and the gini index on changes in the democracy score. The paper uses an IV-2SLS approach to account for the potential endogeneity of the income and inequality variables using climate variables such as temperature and rainfall. The results indicate a contemporaneous negative impact of increase in income, income growth and income inequality on changes in democracy. It also finds strong contemporaneous non-linear effects of temperature and rainfall on per capita income, growth in income per capita and income inequality, supporting the existing literature on climatic effects on economic output and growth.