

The structure of inequality and politics of redistribution

Lupu and Pontusson (2011)

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Aim of the paper

1. Does more **inequality** lead to more **redistribution**?
2. What is the role of **middle-income voters** on government's redistribution policies?
 - ↪ Redistributive policy outcome correspond to the policy preferences of middle-income voters
 - ↪ The structure of inequality helps explain why the preferences of middle-income voters vary across countries/over time

Inequalities and Social affinity hypothesis

- Structure of inequality, rather than the level:

$$\mathbf{Skew} = \frac{90th/50th}{50th/10th}$$

- **Social affinity hypothesis** [Luttermer's (2001) and Shayo(2009)]: Middle income voters empathize with the poor (affluent) when they perceive the poor (affluent) as living lives similar to their own

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↑ skew of income distribution \mapsto distance between middle and poor is smaller (relative to middle and upper) \mapsto asking for ↑ redistribution

Design declaration

- a) *declare population* = Describes dimensions and distributions over the variables in the population → The study concerns **country year units** (858 observations).
- b) *declare potential outcomes* = Takes population or sample and adds potential outcomes produced by interventions → Does more **inequality lead to more redistribution?**
- c) *declare sampling* = (takes a population and selects a sample) → **N = 858**
- d) *declare assignment* = (takes a population or sample and adds treatment assignments) → **XXX**
- e) *declare estimand* = (takes potential outcomes and calculates a quantity of interest) → **OLS with robust standard errors**
- f) *declare estimator* = takes data produced by sampling and assignment and returns estimates) → **XXX**

Empirical set-up

→ For 15-18 advance democracies over 1969 to 2005 period, they estimate a time-series and cross-section model:

$$R_{i,t} = \alpha + \beta \frac{\sum_{s=1}^S P_{i,t-s}}{S} + \gamma R_{i,t-1} + \epsilon_{i,t}$$

where,

- $R_{i,t}$ is the level of redistribution defined as (a) $\frac{Gini_{Gross} - Gini_{Disposable}}{Gini_{Gross}}$ or Nonelderly social spending in % of GDP
- S is the number of years between each observation of redistribution
- $P_{i,t-s}$ is a set of policies and structural factors that cause redistribution to deviate from status quo → Control variables: immigration, skills, voting turnout, electoral system, VTR, labor mkt

Empirical results

[insert here: DATA AND TABLE]

→ **redistribution increases** with dispersion of the upper half of the earnings distribution and with compression of the lower half of the earnings distribution

Empirical results

→ What about preferences of middle-income voters?

- (i) Correlation ($R = .45$) btw the **inequality** and **support for redistribution** of the middle-income voters
- (ii) Correlation ($R = .43$) btw the **preference** of middle-income voters and **redistributive policies** pursued by government
- (iii) Skewed **earnings inequality** promotes **left participation** in government ($R^2 = .12$)

= Preliminary result (see R and R^2 level)

Robustness check



Conclusion

1. The structure of **inequality** is statistically and significantly associated with more **redistribution and social spending**
2. **Middle-income voters** are incline to allay with low-income voters and support redistributive policies when the distance between the middle and the poor is small (relative to the distance between the middle and the upper)
3. **Left-leaning government** are more likely to redistribute income than right-leaning government and that governments are more likely to be left-leaning when the structure of inequality is skewed

Extensions



Old slides



References



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