

# 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



# Critiques

- **Endogeneity problem:** redistribution as a cause of the structure of inequality?
- **Data limitation:** fewer than 10 observation for earning inequalities for 6 over 15 countries
- **Geography:** If median = middle voters, how these results are consistent in developing countries in which the middle class is typically small (Houle, 2015)?
- **Ethnicity:** Class expressed as a racial group in developed countries? Racial minorities are highly over-represented among the poorest (Alesina and Glaeser, 2004)
- How **political instability** - that influence income inequalities (Perotti, 1995; Alesina & Perotti, 1994)- can affect the results?

# References



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