

The political economy of redistribution in contemporary LA

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Standard political economy model

- Meltzer and Richards 1981, Boix 2003, Acemoglu and Robinson 2006
- High inequality → pro-redistributive median voter → Inter-temporally lower inequality
- “New left” mandate
- Yet, although (i) recent declines in inequality in LA are at least broadly consistent with Meltzer and Richard, (ii) they are collinear with commodity boom + (iii) the mechanism’s still not clear + (iv) there’s still a lot of variation across countries that needs to be explained (e.g. Argentina vs. Brazil or Bolivia).

Towards a more efficient model

Which factors shape inequality?

- Set of Initial conditions:
 - Policy-feedback from ISI and long-term development/urbanization, etc.
 - Size of social sector, in-kind transfers (health/education)
 - Interest groups
 - Age orientation
 - Formal-informal / Urban-rural
 - State capacity and territorial reach
- Market conditioning, types of economic activity, and labor-regulation
- Taxes
 - Direct
 - Indirect
- New transfers
 - CCTs (\$ and targeting)
 - Non-contributory pensions (\$ and targeting)
 - Subsidies

Initial conditions:

- As of 2000, how was the interface between social risk structure and welfare architecture?
 - Social policy structure (coverage, generosity, segmentation)
 - In-kind transfers (health/education)
 - Interest groups tied to social policy benefits?
 - Age orientation of welfare architecture?
 - Formal-informal / Urban-rural
 - State's reach and infrastructural capacity (effectiveness of the state => prior & posterior implementation & people's expectations)

Market conditioning and labor-regulation

- Types of investment and sectorial growth
 - Natural vs. Human resources (Educational premium via policy-feedback lag). Costa Rica/Uruguay vs. Bolivia/Peru
 - Which sectors provide employment and to whom?
 - With which distributive and political (i.e. labor organization, concentration/dispersion of tax payers, etc.)
- Types of labor regulation
 - Minimum wage
 - Collective bargaining
 - Formalization

Taxes

- Tax policy
 - % direct, % indirect
- Ex-post vs. Ex-ante
- Relevant tax exemptions
- Has tax policy changed in the last decade? If so, which are the major changes? If not, were tax reform proposals debated/who blocked them? Impact of commodity boom on tax policy & extractive capacity?

Proximate causes/Intervening Variables: New Transfers +

- CCTs (coverage, targeting, conditionalities)?
- Non-contributory pensions (coverage, amounts, and eligibility criteria)
- New subsidies to investors/sectors
- Interface between risks & welfare architecture
 - How has it changed?
 - Which new programs contribute to relevant distributive results?

Two alternative approaches

- Deductive → hypotheses and simplifying assumptions
- Backward induction from case studies departing from 'working' hypotheses to be refined based on the cases?

Working hypotheses for stylized
deductive framework

		Initial conditions	
		Less developed---in terms of GDP per capita, social services, urbanization, etc.	More developed—in terms of GDP per capita, social services urbanization, etc.
Comparative advantage	Natural resources	Limited gains in countries that experience commodity booms but are plagued by corruption and clientelism that either (i) raise the income level of the median programmatic voter (a la Schneider and Soskice) and thus derail the Meltzer and Richard story or (ii) foster less efficient social policy more generally.	Pronounced gains in countries that fund effective redistribution with the fruits of their commodity booms (Meltzer and Richard)
	Human resources	Pronounced gains in the absence of effective social policy due to labor intensive export growth (a la Rogowski)	Limited gains (or perhaps reversals) in countries that are too wealthy to compete on the basis of low cost labor and too poor to defend (or expand) their welfare states in the absence of high value exports (e.g., Costa Rica)

Working hypotheses for deductive framework (less stylized)

- Long-term factors:
 - Cluster 1: Southern Cone + Costa Rica
 - Settler colonies, non-labor intensive agriculture/
Urbanization/Industrialization/Relatively Extensive ISI
Welfare system and reaching state
 - Cluster 2: Mexico, Brazil
 - Less urbanized, more ethnically diverse & unequal/
Industrialization/Urban ISI Welfare system and capable but
less reaching state/Sizable internal market
 - Cluster 3: Remaining countries (yet, diff. b/t
Colombia/Venezuela vs. Andean countries & CA)
 - Rural/Residual ISI Welfare system/Weak state

Working hypotheses for deductive framework (less stylized 2):

- Short-term factors:
 - Scope of economic growth under commodity boom
 - Redistributive political coalition?
 - Role of insiders/outside from old ISI model
 - Degree of political organization of outsiders (high in Bolivia, low in Peru).

Working hypotheses for deductive framework (less stylized 3):

- Clusters 1 and 2 + \$ growth + left government → more redistribution // Uruguay, Argentina, Brazil?
- Clusters 1 and 2 - \$ growth – left government → less redistribution and weaker labor market (+ cost) // Mexico, Chile?
- Cluster 3 + \$ growth + left government → less effective redistribution // Bolivia, Venezuela?
- Cluster 3 – left government → less redistribution but stronger labor market (+ market competitiveness) // Peru?
 - ¿Causal role of left government?

Backward induction from case studies

- Which policies more strongly shaped inequality in each case? (ID through net effect estimates from CEQ country-reports)
- How were new policies (regressive or progressive) designed?
- How much and how unequally are distributive policies implemented?
- Target time frame 2000-2012

Backward induction from case studies

- Policy design
 - For each relevant policy innovation and significant failed projects:
 - Map relevant actors and interests, including not-only institutional arena but also social mobilization
 - Process-tracing of policy-design process
 - How even is implementation pursued, either due to lack of state capacity and/or explicit political options (forbearance)?
 - More in countries from clusters 1 and 2 a
 - Crucial dimensions:
 - » Urban/Rural – In Federal Systems Province-States
 - » Formal/Informal sector
 - » Private/Public sector
 - » Age and gender gaps

Some general expectations (interactions and contradictory effects)

- Initial conditions
 - State capacity & human capital are collinear and crucial for understanding redistributive outcomes
 - ISI corporations might still matter politically → lack of fit between social needs and social policy (pension beneficiaries in Brazil).
- Market conditioning and taxes
 - Human resources vs. natural resources (Costa Rica/Uruguay/Argentina vs. Andean countries)
 - Labor market regulation vs. investment friendly environment
- New transfers
 - Design (coverage and conditionalities) and implementation (feedback from initial conditions) are crucial
 - Design (left-turn, diffusion) and implementation (protest, political organization of outsiders) are equally consequential
 - “Shape” of pre-existing inequality should also matter for results

Research strategy

- Framing paper and TORs for national teams
- National teams in dialogue with CEQ country-specialists and across cases
- Comparative/cross-national paper once case-studies are received and processed