

A Conference on

Inequality and Institutions in Industrialised Democracies

**May 8 – 9, 2009
Manor Road Building, Oxford**

Convenors

**Tim Hicks
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Supported by:

Oxford Centre for the Study of Inequality and Democracy (OCSID)

Nuffield College

Department of Politics & IR

Friday 8 May

10:00 – 11:00

Coffee & Registration

11:00 – 12:30

The Politics of Inequality

What Changes Inequality, and What Does Inequality Change?

Vicious and Virtuous Cycles

Ronald Rogowski (UCLA)

What, *in general*, changes economic inequality; and why does it matter, i.e., when inequality increases or decreases what else changes? Both questions are intrinsically important, we have pretty good answers to both (though some crucial questions remain open), and perhaps most importantly of all when we put together the consequences and the causes of inequality, we see clearly the possibility of “virtuous” and “vicious” cycles, i.e. of self-sustaining equalization and of self-intensifying inequality, that (perhaps) give us greater purchase both on the seemingly cyclical character of equality and on the larger issues involved in recent and current trends.

The Structure of Inequality and Demand for Redistribution

Noam Lupu & Jonas Pontusson (Princeton)

The paper proposes a new explanation of why PR countries tend to redistribute more than majoritarian countries. Existing explanations (Persson and Tabellini; Iversen and Soskice) focus on the strategic behavior of parties. By contrast, we emphasize that pivotal voters around the median of the income distribution apparently want more redistribution in PR countries and ask why this is so. Our explanation hinges on the idea that median-income earners will be inclined to form a redistributive alliance with low-income voters when the bottom half of the income distribution is compressed and the upper half is dispersed. Using several different statistical models, we show that the 50-10 wage ratio is associated with less redistribution while the 90-50 wage ratio is associated with more redistribution. We argue further that the association between PR and coordinated wage bargaining explains why the income distribution of PR countries is more favorable to redistributive politics.

Inequality and Labor Market Coordination

Pablo Beramendi (Duke) & David Rueda (Oxford)

In this paper we argue that to understand the observable associations between institutions and inequality today, it is critical to see the selection of economic institutions, and in particular wage bargaining centralization agreements, as the outcome of a distributive conflict in which inequality itself plays a prominent role. Decreasing inequality facilitated the adoption of encompassing wage centralization agreements during the early 20th century in Europe, thereby creating a long-term association between low inequality and high centralization that, for a large subset of cases, remained stable throughout the century. We develop a theoretical argument as to why inequality should lead to lower levels of coordination and test it against competing hypotheses on the basis of a database on eleven OECD nations between the 1910s and the 1950s.

Chair: *Nancy Bermeo (Oxford)*

Discussant: *Thomas Plümpert (Essex)*

12:30 – 14:00

Lunch

14:00 – 15:30

Experimental Approaches to Inequality

The Behavioral Foundations of Social Politics: An Experimental Approach

Benjamin Barber, Pablo Beramendi, & Erik Wibbels (Duke)

The dominant theoretical approaches in the comparative political economy of the welfare state provide two competing accounts for why some governments spend more on social policies than others. In the first, poor voters seek to increase their current income by taxing the rich, and social policy serves to redistribute income from the rich to the poor. In the second account, voters seek social insurance against future job loss, and social policy serves as an insurance mechanism rather than a redistributive one. Both of these theoretical accounts are based on unexamined behavioral assumptions. Most importantly, they share the assumption that voters can clearly distinguish between the redistributive and insurance elements of public policy and, therefore, that individual-level characteristics (income, labor market risks) systematically shape preferences over social policy. Our goal with this research is to examine the soundness of these behavioral assumptions. We do so with an experiment designed to assess preferences for policies that are purely redistributive, purely insurance, and those that combine elements of both. In the experiment, subjects earn money by answering math problems correctly and then vote on a tax rate that determines the amount of redistribution and insurance. Existing research in behavioral economics raises doubts about the capacity of participants to distinguish between the insurance and redistributive elements of public policy.

The Singer not the Song?: Evidence From a Field Experiment in British Columbia, on the impact of Leaders and the Messages they Convey

Torun Dewan (LSE), Macartan Humphreys (Columbia), & Daniel Rubenson (Ryerson)

Are leaders effective because of some innate qualities—for example, clarity, trustworthiness or focality—or because of the particular arguments they employ? To analyze these effects systematically we need variation in both messages and leaders. Whilst these conditions are satisfied in many political settings, and in particular during political campaigns, observational studies are likely to produce biased estimates of these effects due to correlation, selection-bias and endogeneity. We describe a hierarchical model which allows us to untangle the effects of leader qualities from those of the arguments leaders use. We implement this model using data from a unique field experiment: working together with the BC-STV campaign in the May 2009 British Columbia referendum on electoral reform, we randomly assign canvassers to voting areas, who randomly assign messages to households. We analyze leadership effects in two ways: (i) by estimating the between voting area differences in opinion that are due to the assignment of different canvassers; and (ii) by allowing some of the messages to be endorsed by leading public figures. Surprisingly, neither of these strategies yields any evidence of leadership effects: a fairly substantial overall campaign effect is entirely due to the arguments used by the campaign, not to individuals making the case for reform.

Democratic Inequality and the Economic Vote

Ray Duch & Philip Rehm (Oxford)

Bartels (2008) in his recent book, *Unequal Democracy*, speculates that “...a great deal of economic inequality in contemporary America is a curious byproduct of peculiarities in voting behavior utterly unrelated to voters’ taste or tolerance for inequality” (p. 125). The conclusion is based on the analysis of ANES election data. He demonstrates that voters, in particular low-income voters, focus very myopically — and in an entirely non-self interested fashion — on short-term economic outcomes; moreover on short-term outcomes that favor the most affluent in American society. Bartels argues that because of this myopia the less-well off segments of the American electorate have discounted economic improvements that have objectively benefited them and have favored very short-term economic improvements. The result is that they reward incumbents who on balance have generated economic outcomes that have hurt them. This behavior has led to the electoral success of Republican presidential candidates that have implemented policies that have significantly increased economic inequality in America. This in fact may have implications for electoral contexts in addition to the U.S. As Duch and Stevenson (2008) have recently established for 20 countries — and as Bartels points out for the U.S. context — the economic vote is large and pervasive throughout developed democracies. If the Bartels result regarding the economic vote is correct and if it generalizes to most other democratic contexts, it suggests a fascinating unintended consequence of electoral democracy.

Chair: *(Oxford)*

Discussant: *Meredith Rolfe (Oxford)*

15:30 – 16:00

Coffee

16:00 – 17:30

Efficiency, Redistribution and Reform

Privatization in Europe:

Systemic Left-Wing Strength, Power Resources, and Productive Efficiency

Tim Hicks (Oxford)

I present a theoretical account of the politics of privatization that leads to predictions regarding the effect of partisanship that are contingent on the long-run strength left-wing parties in a political system. However, in marked contrast to predictions derived from a traditional interest group approach, my claim is that a stronger Left constituency will make it more likely that left-wing parties will engage in privatization programmes that are likely to be at least partially detrimental to traditionally left-leaning interest groups. At root, left-wing parties face a trade-off between protecting the basis of their electoral strength and enhancing macro-economic performance. The balance of this trade-off varies based on the prevailing level of left-wing strength. A two-stage tobit approach is used where the first stage estimates systemic left-wing strength and the second employs this estimate as an explanatory variable in models of privatization effort. Results from 14 Western European countries over the period 1980-2000 lend support to the theoretical claims.

**Coordinated Capitalism in the United Kingdom:
Wage Bargaining and British Social Democracy**

Mark Wickham-Jones (Bristol)

This archival-based paper offers an analysis of the attempt by the British Labour party to establish coordinated capitalism in the United Kingdom during the 1980s and 1990s. Long regarded as insouciant on the management of inflation, during the late 1980s, Labour endeavoured to develop a more persuasive strategy. In part, the party's approach relied on the establishment of close relations with Europe and in particular with British membership of the European exchange rate mechanism. But membership of the Euro simply aligned sterling with the deutschmark. Control of inflation required accompanying policy interventions. Labour's response was to explore the development of a coordinated, centralised and synchronised form of wage bargaining across the British economy. Such proposals drew heavily on European experience and, given the historic commitment to free collective bargaining and union sensitivities on the subject, had to be developed in secrecy. Ultimately the proposal failed not because it was rejected by the party but because the party lost the April 1992 general election. This paper places Labour's proposals in the context of European anti-inflationary strategies and examines their development including an assessment of the difficulties such measures involved.

Street Protests and the Politics of Reform

Johannes Lindvall (Oxford)

This paper proposes a theoretical framework for the analysis of conflicts between governments and pressure groups over social and economic policy reform. The main result is that protests are most likely when pressure groups are moderately strong and concerned that their strength will decline in the future, for such groups are strong enough to mobilize opposition but not strong enough to make credible deals with the government. A case study of French politics in the 1990s and 2000s and a comparative analysis of political strikes in Europe from 1980 to the present illustrate the theoretical results. The model has implications for the more general theoretical and political problem of how distributive conflicts play out in different institutional environments.

Chair: *David Rueda (Oxford)*

Discussant: *Jonas Pontusson (Princeton)*

17:30 – 18:30

Reception

19:00

Dinner (by invitation)

Saturday 9 May

8:30 – 9:00

Coffee

9:00 – 10:30

International Political Economy of Redistribution

Tax Competition, Fiscal Policies and Income Redistribution:

A Simultaneous Equation Model

Thomas Plümper & Vera Troeger (Essex)

When capital is not perfectly mobile, tax competition does not cause a convergence towards a zero percent tax rate on capital. Rather, tax competition distinguishes winners (countries in which net capital imports increase) and losers (countries in which net capital exports increase). In this situation, governments in countries which lose tax competition command over five major adjustment strategies: they can increase effective capital taxation and effective labor taxation to stabilize revenues, they can reduce government consumption and social security transfers, and they can substitute revenues by running larger deficits. In practice, governments will chose a combination of adjustment strategies, which depends on the size of the country, the share of immobile tax bases, and initial conditions such as the level of debt, government spending and social security transfers. The impact of tax competition on income redistribution and income inequality, then, depends not only on the adjustment strategies, but also on the way in which countries redistribute income. Since tax competition exert a larger effect on tax policies than on fiscal policies, countries which dominantly redistribute income via the tax system (Anglo-Saxony and to a lesser extent Scandinavian countries) are more likely to experience an increase in income inequality than countries which dominantly redistribute income via social security transfers (continental European welfare states). We test the hypotheses derived from this logic using a simultaneous equation model. We find general support for most predictions derived from the models.

**A Political-Institutional Model of Real Exchange Rates,
Competitiveness, and the Division of Labor**

Torben Iversen (Harvard) & David Soskice (Oxford/Duke)

This paper addresses three unsolved puzzles in comparative political economy. The first is a purchasing power parity (PPP) puzzle: why do some countries have persistently higher real exchange rates than others when the law of one price implies convergence? The second is a competitiveness puzzle: Why are those countries with above-average price levels often stellar export performers? The final is a division of labor puzzle: Why do countries at comparable levels of development nevertheless differ notably in terms of the share of workers employed in sectors with different levels of productivity? In this paper we present a simple solution to these puzzles that emphasize how collective wage bargaining and skill formation systems, by altering the level and dispersion of wages, produce the observed patterns. The solution provides an understanding of cross-national differences in wage equality, employment, and competitiveness, and we show how these are underpinned by distinct partisan political coalitions.

The Institutional Dimensions of High-Skilled Immigration Policy Changes

Lucie Cerna (Oxford)

The paper examines differences in countries high-skilled immigration policies (HSI), both cross-nationally and over time. It provides a political economy explanation for when a change in HSI policy can take place. Preferences of actors remain constant and institutions hardly change. However, coalitions between actors (i.e. high-skilled native labour, low-skilled native labour and capital) vary. Actors gain or lose power, depending on the institutionalisation between labour market actors and political parties, as well as the institutionalisation of high-skilled workers and parties/districts. The institutionalisation of high-skilled labour becomes a significant factor in determining whether high-skilled labour gains representation in lobbying for more restrictive HSI policies. The paper establishes the following four hypotheses. Hypothesis 1: If there is a link between union and political party, then the policy output will be more restrictive towards HSI. Hypothesis 2: If there is a party representation of high-skilled labour, then the policy output will be more restrictive towards HSI. Hypothesis 3: If there is a district or state representation of high-skilled labour, then the policy output will be more restrictive towards HSI. Hypothesis 4: If there is no connection between unions and parties, no party representation and no district/ state representation of high-skilled labour, then the policy output will be more open towards HSI. The paper tests the hypotheses by examining policy changes over time in four countries: Germany, Sweden, the United Kingdom and the United States.

Chair: *Pablo Beramendi (Duke)*

Discussant: *Johannes Lindvall & Philipp Rehm (Oxford)*

10:30 – 11:00

Coffee

11:00 – 12:30

Individual Preferences and Distributive Politics

Core Voters or Swing Voters?

The Distributive Politics of Higher Education Spending

Timo Idema (Oxford)

This paper proposes several improvements to the literature on how political parties target distributive benefits to core and swing voters for electoral gain. I propose a conceptual redefinition of core and swing voters to extend their applicability to the analysis of multi-party systems. Instead of using voting data as is common in the literature, I propose to identify swing-voters by using survey data from the European Election Studies to identify the number of parties included in an individual's consideration set. This is the subset of parties that an individual reasonably considers when choosing to vote. Instead of using geographical expenditures as a measure of targeted expenditure I propose to look at programmatic expenditures that are biased in their consumption towards certain socio-economic groups. If such socio-economic groups are over-represented amongst a party's core or swing voters, then parties can use such expenditures to target resources towards them. I test this theory for the case of higher education expenditures in fourteen European countries. Children of higher educated parents are significantly more likely to enroll in university than children of parents with less education. Consequently, more educated parents prefer higher per student expenditures on tertiary education. I find evidence that parties spend more on higher education when a large share of their swing voters is highly educated. I find little support for the core voter hypothesis.

Testing Models of Distributive Politics Using Exit Polls to Measure Voter Preferences and Partisanship

Valentino Larcinese (LSE), James M. Snyder, Jr (MIT), & Cecilia Testa (Royal Holloway)

This paper tests various hypotheses about distributive politics by studying the distribution of federal spending across U.S. states over the period 1978-2002. We improve on previous work by using survey data to measure the share of voters in each state that are Democrats, Republicans, and independents, or liberals, conservatives and moderates. We find no evidence for the "swing voter" hypothesis - that is, no significant association between the amount of federal funds a state receives and the fraction of independents or moderates in the state. We also find no evidence for the "battleground state" hypothesis - no significant association between the amount of federal funds and the degree of partisan balance in a state. We find mixed evidence for the "partisan supporters" hypothesis, which conjectures that politicians will favor areas that contain a large percentage of their core supporters.

Electoral Incentives, Group Identity, and Preferences for Redistribution

Francesc Amat (Oxford) & Erik Wibbels (Duke)

In this paper, we build on recent work by Glaeser (2005), Scheve and Stasavage (2006) and Huber and Stanig (2007) to theorize the conditions under which politicians have electoral incentives to provoke group identities and how this have a subsequent impact on individual preferences for redistribution. We argue that those strategic incentives respond to between group inequality, the relative size of groups and electoral institutions. Thus, individual-level preferences for redistribution respond to both individual characteristics (group identification and position in the income distribution) as well as national level characteristics. We contribute to recent work suggesting that strong group-based identification reduces preferences for redistribution by arguing that the strength of those identifications is conditioned by national politicians with varying incentives to mobilize group identities. We test this argument using hierarchical linear modelling to analyze individual-level and national-level data across countries (ISSP, WVS), across U.S. states, and across Spanish regions.

Chair: *Johannes Lindvall (Oxford)*

Discussant: *James Alt (Harvard)*