

Globalization and Preferences for Redistribution in Developing Countries

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Puzzle

- Inequality in less developed countries (LDCs) has been increasing, particularly in response to trade and FDI

Acemoglu, 2003, . Helpman 2004, Andersen 2005, Feenstra and Hanson 1997, Melitz 2003, Alvarez et al. 2005, Verhoogen 2008, Hoekman and Winters 2005; Goldberg and Pavcnik 2007, Schank et al. 2010 and Pavcnik et al. 2004

- LDC government welfare assistance has been decreasing concomitant with globalization

Mosley 2003; Kaufman and Segura 2001; Garrett 2001; Nooruddin and Simmons 2009; Rudra 2002, 2008; Segura-Ubiergo 2007; Wibbels 2006; Wibbels and Arce 2003.

No government consequences?

Micro-level determinants: is this because citizens feel that the poor need less help because of globalization?

Visualize the poor in developing countries.
What image do you see?



If you had \$100, how much would you share
with them?

Now visualize the poor in developing countries where FDI is prevalent.
What image do you see?



If you had \$100, how much would you share with them?

Our hypothesis

1. FDI in LDC creates the perception that the poor now has more social mobility.
2. This upward bias is quickly realigned to reality for the poor but remains for the rich due to lack of exposure to the poor's actual social mobility.
3. As a result, FDI reduces rich's willingness to provide for the poor

Roadmap

- Theory:
 - Piketty (1995)
 - FDI shocks beliefs about social mobility
- Cross-country survey of attitudes about the poor
(World Values Survey)
- Framed field experiment across 3 states in India
(dictator game with low income recipients)

Theoretical foundations: Piketty (1995)

- “altruistic” redistribution preferences are determined by beliefs about social mobility.
- Beliefs may not be correct since they are inherited and learning is limited to personal experience.

Our paper:

- A shock that introduces an upward bias to beliefs about the poor’s mobility is more likely to remain uncorrected for the rich.
- This shock will result in decreased support for pro-poor redistribution that will be most pronounced for the rich.

FDI in LDC -> perception that the poor is doing better

*“There is no country that has fought poverty without attracting FDI,
...so let us not resist and discourage FDI”*

*The Post (Zambia), August 9, 2009, “Zambian minister urges
opposition parties not to resist foreign investment.”*

However, so far the FDI has yet to bring benefit to the poor
(infant mortality, access to clean water, GDP/cap)

Chakraborty and Basu 2002, Ray 2012, and Rudra 2012

World Values Survey: Hypotheses

1. Y=Demand for pro-poor policies

$$Y = a + b_1 \text{FDI} \quad \mathbf{b_1 < 0}$$

$$Y = a + b_1 \text{FDI} + b_2 \text{Income} + b_3 \text{ FDI} * \text{Income} \quad \mathbf{b_3 < 0}$$

2. Y=Perception of poor's social mobility

$$Y = a + b_1 \text{FDI} \quad \mathbf{b_1 > 0}$$

$$Y = a + b_1 \text{FDI} + b_2 \text{Income} + b_3 \text{ FDI} * \text{Income} \quad \mathbf{b_3 > 0}$$

FDI and Attitudes about the poor

	Eliminating inequality is important (1-5)	Gov needs to do more for poor (1-5)	Gov should provide for everyone (1-10)
FDI (% GDP)	-0.144***	-0.0454***	-0.216**
	0.024	0.0154	0.092
Pseudo R2	0.0413	0.0355	0.018
Observations	15,249	40,608	95,930
# Countries	14	32	50

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	Poor has chance to escape poverty	Poverty caused by not working hard	
FDI (% GDP)	0.045**	0.017	
	0.018	0.020	
Pseudo R2	0.0351	0.0377	
Observations	25,258	22,577	
# Countries	33	33	

Effect of FDI on attitudes increasing in income

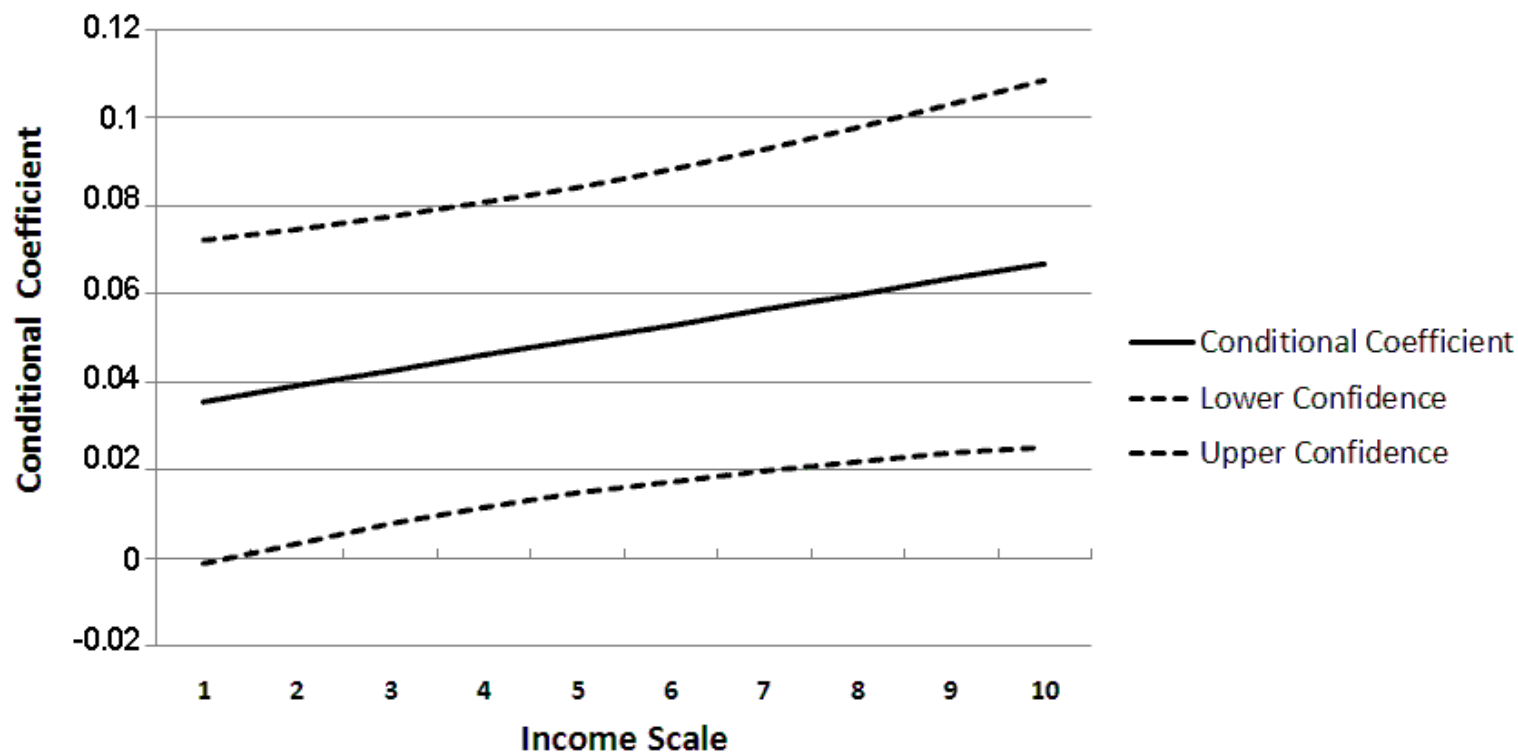
* Demand for pro-poor = $a + b_1 \text{FDI} + b_2 \text{Income} + b_3 \text{ FDI} * \text{Income}$

$b_3 < 0$ for all 3

* Perception of poor's social mobility = $a + b_1 \text{FDI} + b_2 \text{Income} + b_3 \text{ FDI} * \text{Income}$

$b_3 > 0$ for chance, $b_3 = 0$ for role of effort

Effect of FDI on likelihood of agreeing with “The poor has a chance to escape poverty”



Field Experiment: Hypotheses

In LDC, FDI has a causal effect on the rich's attitude towards the poor.

Giving = $a + b_1 \text{FDI}$

$b_1 < 0$

Perception of poor's social mobility = $a + b_1 \text{FDI}$

$b_1 > 0$

Because the benefits of FDI to a country depends the sector (O'Keef and Li 2011), it is likely that the effect of FDI on attitudes about the poor also differs by sector.

Experimental Design



- Dictators: earning average Rs. 1000/day
- Recruited from workplaces, malls, social group, universities
- Recipients: Lower income: Rs. 100/day
- Dictators matched with recipients (Person A, verified by NGO) through pictures in envelopes, but not shown



PERSON NAME:

MR. SANJEET

ADDRESS:

New Palam Vihar, Gurgaon

INCOME:

300 PER DAY



PERSON NAME:

MOHAMAD SAFI

ADDRESS:

NEW PALAM VIHAR GURGAC

INCOME:

200 PER DAY



FDI treatment framed as economic opportunities near the location of the recipient

There is a food and beverage industry close to Person A's neighborhood. The firm employs more than 100 workers and has low skilled workers. Based on this information, how much do you want to give to Person A?

*There is a food and beverage industry **owned and operated by a US company** close to Person A's neighborhood...*

Test low skill FDI (food and beverage) and high skill FDI (IT) .

Poor's opportunity:

*How much do you think Person A will earn per day this year (2013)?
... five years from now (2018)?*

Results

	Donor's giving to recipient (poor)			
	(1)	(2)	(3)	(4)
VARIABLES	All	All	Low Skill	High Skill
FDI Frame	-9.409	-138.2*	-151.7**	104.3
	(77.71)	(72.10)	(68.55)	(67.86)
High skill	27.53	-96.84		
	(46.72)	(71.11)		
High x FDI		250.0**		
		(99.90)		
Random effects	no	yes	yes	yes
Observations	137	137	67	77
R-squared	0.133	0.147	0.218	0.231

Demographic controls included.

Results

	Donor's giving to recipient (poor)				Donor's projection of recipient's wages 2018-2013			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
VARIABLES	All	All	Low Skill	High Skill	All	All	Low Skill	High Skill
FDI Frame	-9.409	-138.2*	-151.7**	104.3	44.19***	72.64*	75.04*	1.662
	(77.71)	(72.10)	(68.55)	(67.86)	(15.88)	(43.37)	(43.43)	(43.59)
High skill	27.53	-96.84			-37.12*	-2.461		
	(46.72)	(71.11)			(20.38)	(42.99)		
High x FDI		250.0**				-60.91		
		(99.90)				(62.59)		
Random effects	no	yes	yes	yes	no	yes	yes	yes
Observations	137	137	67	77	112	112	59	55
R-squared	0.133	0.147	0.218	0.231	0.057	0.069	0.122	0.102

Demographic controls included.

Summary of results:
Effect of FDI on attitudes about the poor

	Support for redistribution	Perceived future opportunities for poor
World Values Survey	-	+
Field Experiment	-	+