Abstract to “Four essays on the political economy of social transfers” – Anna Giolbas

This dissertation consists of four papers on the political economy of social transfers. The topic and the theory underlying the papers are introduced in Chapter 1. According to the influential median voter theorem, democratic and unequal countries should have higher levels of redistribution. Empirical studies, however, find controversial evidence on this link.

In Chapter 2, the Non-Contributory Social Transfer Programs (NSTP) in developing countries dataset is introduced. It aims to give a comprehensive overview of large-scale social transfers, i.e. progressive and institutionalized income transfers by the state that intend to mitigate poverty and, often, incentivize households to invest in human capital. The Chapter documents trends in the adoption of programs, describes their design characteristics, and suggests interesting applications of the dataset which are taken up by Chapters 3 and 4.

Chapter 3 explores the link between regime type and adoption of unconditional transfers versus transfers conditioned on beneficiaries’ investments in human capital. Due to the direct nature of benefits, unconditional transfers are more likely to be used to buy off opposition and prevent social unrest. As transfers that are conditioned on education and health pay off only in a relatively distant future, they are rarely initiated for political motives and rather defined by interests of long-term development and human capital accumulation. Using the new NSTP dataset it is found that transfers are indeed chosen so as to be unconditional under less democratic regimes. There is some evidence that conditional transfers are more likely to be adopted in democracies. In particular, democracies tend to increase the number of conditional schemes once any social transfer program is introduced.

Different motives to adopt unconditional and conditional transfers by regime type may explain the ambiguous relationship between democratic rule and the likelihood to have a social transfer of any type.

How rent seeking affects the choice of a targeting mechanism for beneficiaries into social transfer programs is explored in Chapter 4. The NSTP dataset distinguishes six targeting mechanisms: categorical targeting, geographical targeting, community-based targeting, means testing, proxy means testing and self-targeting. The key attribute is the potential for political manipulation which can be assumed to be high if an intermediary is involved in the process of transfer eligibility (community-based targeting and means testing) or if the government can channel funds to specific regions (geographical targeting). A simple retrospective voting model is presented according to which corruptible regimes are more likely to involve an intermediary in the targeting process. Applying an IV approach based on the neighbours’ average rent seeking levels, the prediction of the model is confirmed.

While Chapters 3 and 4 study the determinants of specific design elements of redistributive programs, Chapter 5 focuses on individual demand for redistribution. According to theory, inequality is a key determinant of redistributive demand but it requires that individuals know about current inequality. Yet, recent studies find discrepancies between perceived and objectively measured inequality. Chapter 5 explains the formation of inequality perceptions and their relationship with demand for redistribution. Individual perceptions of inequality and demand for redistribution are extracted from the International Social Survey Programme’s (ISSP) Social Inequality cumulative datasets. The data is available for a set of 21 developed countries in 1992, 1999, and 2009. The results show that perceptions of inequality are indeed determined by objective inequality (Gini index) and other variables that are related to inequality (unemployment and poverty rate) or future inequality (government expenditures in education). Demand for redistribution is found to be only very weakly correlated with objectively measured inequality, however, it very strongly correlates
with inequality perceptions. The findings highlight the importance of perceptions or beliefs for political preferences.