The Political Geography of Inequality

Regions and Redistribution

This book is a study of redistribution and inequality in political unions. It addresses two questions: why some political systems have more centralized systems of interpersonal redistribution than others, and why some political unions make larger efforts to equalize resources among their constituent units than others. This book presents a new theory of the origin of fiscal structures in systems with several levels of government. The argument points to two major factors to account for the variation in redistribution: the interplay between economic geography and political representation on the one hand, and the scope of interregional economic externalities on the other. To test the empirical implications derived from the argument, the book relies on in-depth studies of the choice of fiscal structures in unions as diverse as the European Union, Canada, and the United States in the aftermath of the Great Depression; Germany before and after reunification; and Spain after the transition to democracy.

Pablo Beramendi is an Associate Professor of Political Science at Duke University. His research focuses on the political economy of redistribution and inequality. Previously, he has taught at the Maxwell School of Syracuse University and in the Department of Politics at the University of Oxford. He is also a research associate at the Juan March Institute (Madrid) and a former research Fellow at the Science Center (Berlin). Among his published works are articles on the determinants of taxation and inequality; the role of inequality in shaping electoral turnout; and the relationship between federalism, inequality, and redistribution.
Cambridge Studies in Comparative Politics

General Editor
Margaret Levi  University of Washington, Seattle

Assistant General Editors
Kathleen Thelen  Massachusetts Institute of Technology
Erik Wibbels  Duke University

Associate Editors
Robert H. Bates  Harvard University
Stephen Hanson  University of Washington, Seattle
Torben Iversen  Harvard University
Stathis Kalyvas  Yale University
Peter Lange  Duke University
Helen Milner  Princeton University
Frances Rosenbluth  Yale University
Susan Stokes  Yale University
Sidney Tarrow  Cornell University

Other Books in the Series
David Austen-Smith, Jeffry A. Frieden, Miriam A. Golden, Karl Ove Moene, and Adam Przeworski, eds., Selected Works of Michael Wallerstein: The Political Economy of Inequality, Unions, and Social Democracy
Lisa Baldez, Why Women Protest: Women’s Movements in Chile
Robert Bates, When Things Fell Apart: State Failure in Late-Century Africa
Mark Beissinger, Nationalist Mobilization and the Collapse of the Soviet State
Nancy Bermeo, ed., Unemployment in the New Europe
Carles Boix, Democracy and Redistribution
Carles Boix, Political Parties, Growth, and Equality: Conservative and Social Democratic Economic Strategies in the World Economy

Continued after the Index
The Political Geography of Inequality

Regions and Redistribution

PABLO BERAMENDI
Duke University
To Marta, for the hours stolen
Contents

List of Tables xi
List of Figures xii
Acknowledgments xv

1 Regions and Redistribution: Introduction and Overview 1
2 A Theory of Fiscal Structures in Political Unions 23
3 The Road Ahead: The Empirical Strategy 46
4 The European Union: Economic Geography and Fiscal Structures under Centrifugal Representation 67
5 North America’s Divide: Distributive Tensions, Risk Sharing, and the Centralization of Public Insurance in Federations 103
6 Germany’s Reunification: Distributive Tensions and Fiscal Structures under Centripetal Representation 135
7 Endogenous Decentralization and Welfare Resilience: Spain, 1978–2007 175
8 The Legacy of History 206
9 The Political Geography of Inequality: Summary and Implications 234

Appendix A Chapter 2 249
Appendix B Chapter 4 253
Appendix C Chapter 7 257
Appendix D Chapter 8 – Sources and Descriptive Statistics 258
References 263
Index 283
## Tables

2.1 The Geography of Income Inequality and Preferences for Fiscal Structures  
   *page* 31

3.1 Case Selection and Empirical Strategy 57

5.1 Intercensus Net Migration Ratios, by Province, Canada 1901–1921 112

5.2 Interstate Mobility in the United States 114

5.3 Intercensus Net Migration Ratios, by Province, Canada 1921–1941 115

5.4 The Legislative Process of the American Social Security Act 131

6.1 The Allocation of Tax Sources by Level of Government 139

6.2 Interregional Redistribution before Reunification, 1979–1989 140

6.3 Interregional Redistribution in Germany with and without Eastern Länder 147

6.4 Incorporating the East: A Multidimensional Effort 152

6.5 The Effort to Incorporate the East: Map of Preferences 154

6.6 The Allocation of Interregional Transfers in Germany, 1991–1994 161

6.7 The Redistributive Impact of the FA System 163

6.8 Partisan Composition of Regional Parliaments since 1990 165

6.9 The Allocation of Interregional Transfers in Germany, 1995–2002 173

7.1 The Limits of the Federalization Process 178

7.2 General Elections: Distribution of Seats in the Spanish Central Parliament – Lower Chamber 181

7.3 The Geography of Income and Inequality in Spain: An Overview 188

7.4 The Structure of ACs’ Revenues, 1986–2002 191


7.6 The Legislative Production of the New Constitution of Catalonia 200
Tables

7.7 The ACs Before the Reform of Regional Financing in Spain, 2008–2009 201
8.1 Dimensions of the Geography of Income Inequality, 1980–2000 210
8.2 Decentralization of Interpersonal Redistribution in Advanced Democracies, 1980–2000 213
8.3 Determinants of Interregional Inequalities in Political Unions around the World: Dimensions of the Geography of Income Inequality, 1980–2000 214
8.4 Decentralization of Interpersonal Redistribution in Political Unions around the World, 1978–2001 222
8.5 Does Inequality Reproduce Itself? Determinants of Overall Economic Inequality in OECD Countries (1980–2000) 225
8.6 Interregional Redistribution in Political Unions 231
B.1 Mixed Level Estimates of Individual Preferences for the Harmonization of Social Welfare Systems within the European Union 253
B.2 Logit and Probit Estimates of Support for Welfare Centralization among European Social Democratic Parties and Trade Unions 254
B.3 OLS Estimation of Countries’ Position over the EU’s role in Social Policy during the Constitutional Convention 255
D.1 Economic Geography, Interpersonal Redistribution, and Income Inequality in Advanced Industrial Societies (Tables 8.1, 8.2, and 8.5 in text) 258
D.2 Economic Geography, Interpersonal Redistribution, and Interregional Redistribution around the World (Tables 8.3 and 8.4 in text) 259
D.3 Advanced Industrial Societies (Tables 8.1, 8.2, and 8.5 in text) 259
D.4 Sample Including Advanced and Developing Countries (Tables 8.2 and 8.4 in text) 261
Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Fiscal Structures and Income Inequality in Political Unions</td>
<td>7</td>
</tr>
<tr>
<td>2.1</td>
<td>The Political Process</td>
<td>26</td>
</tr>
<tr>
<td>2.2</td>
<td>The Geography of Income and Institutional Preferences</td>
<td>30</td>
</tr>
<tr>
<td>2.3</td>
<td>Preferences for Fiscal Structures When the Poor Region Is Highly Specialized</td>
<td>36</td>
</tr>
<tr>
<td>2.4</td>
<td>The Conditional Relationship between Economic Geography and Representation</td>
<td>44</td>
</tr>
<tr>
<td>2.5</td>
<td>Determinants of Targeted Interregional Transfers: Expected Relationships</td>
<td>45</td>
</tr>
<tr>
<td>4.1</td>
<td>Unbalanced Policy Integration in the European Union (1957-2004)</td>
<td>69</td>
</tr>
<tr>
<td>4.2</td>
<td>Relative Composition of EU Expenditure, 1958-2001 (percent)</td>
<td>70</td>
</tr>
<tr>
<td>4.3</td>
<td>Distribution of CAP Expenditure by Country (as a percentage of total CAP expenditures)</td>
<td>72</td>
</tr>
<tr>
<td>4.4</td>
<td>Distribution by Country of Structural and Cohesion Funds</td>
<td>73</td>
</tr>
<tr>
<td>4.5</td>
<td>The Geography of Income Inequality in the European Union</td>
<td>78</td>
</tr>
<tr>
<td>4.6</td>
<td>Labor Markets and Mobility in the European Union</td>
<td>80</td>
</tr>
<tr>
<td>4.7</td>
<td>Preferences about Social Policy Centralization in the European Union</td>
<td>86</td>
</tr>
<tr>
<td>4.8</td>
<td>Attitudes toward Welfare Centralization among European Social Democratic Parties and Labor Unions</td>
<td>88</td>
</tr>
<tr>
<td>4.9</td>
<td>The EU’s Role in Social Policy as a Function of the Geography of Inequality</td>
<td>92</td>
</tr>
<tr>
<td>4.10</td>
<td>Interregional Redistribution and Mobility in the EU: 1990-2003</td>
<td>100</td>
</tr>
<tr>
<td>5.1</td>
<td>Evolution of GNP per Capita in Canada and the United States (1926-1945)</td>
<td>108</td>
</tr>
<tr>
<td>5.2</td>
<td>Evolution of the Unemployment Rate in Canada and the United States (1926-1945)</td>
<td>109</td>
</tr>
<tr>
<td>5.3</td>
<td>The Geography of the Depression in the United States and Canada</td>
<td>110</td>
</tr>
</tbody>
</table>
Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4</td>
<td>The Timing of Migration out of the South</td>
<td>115</td>
</tr>
<tr>
<td>6.1</td>
<td>The Geography of Unemployment before and after Reunification</td>
<td>144</td>
</tr>
<tr>
<td>6.2</td>
<td>The Geography of Income Inequality before and after Reunification</td>
<td>145</td>
</tr>
<tr>
<td>6.3</td>
<td>The Evolution of Inequality in Germany</td>
<td>148</td>
</tr>
<tr>
<td>6.4</td>
<td>The Evolution of Social Security Transfers in Germany</td>
<td>157</td>
</tr>
<tr>
<td>6.5</td>
<td>The Growing Leverage of Smaller Parties in the Federal Parliament</td>
<td>164</td>
</tr>
<tr>
<td>7.1</td>
<td>Evolution of Spain’s Fiscal Structure</td>
<td>183</td>
</tr>
<tr>
<td>7.4</td>
<td>Income per Capita and Inequality across Regions in Spain</td>
<td>187</td>
</tr>
<tr>
<td>8.1</td>
<td>Economic Geography and Interpersonal Redistribution: Political Contingencies</td>
<td>211</td>
</tr>
<tr>
<td>8.2</td>
<td>Conditional Effect of the Geography of Inequality I</td>
<td>217</td>
</tr>
<tr>
<td>8.3</td>
<td>Conditional Effect of the Geography of Inequality II</td>
<td>217</td>
</tr>
<tr>
<td>8.4</td>
<td>Predicted Levels of Decentralization of Interpersonal Redistribution as a Function of the Geography of Income Inequality and Representation</td>
<td>218</td>
</tr>
<tr>
<td>8.5</td>
<td>The Conditional Effect of Income Geography on the Decentralization of Redistribution</td>
<td>222</td>
</tr>
<tr>
<td>8.6</td>
<td>Income Geography and Representation as Determinants of the Level of Decentralization of Redistribution in Political Unions Worldwide (predicted values)</td>
<td>223</td>
</tr>
<tr>
<td>8.7</td>
<td>Representation and the Self-Reproduction of Inequality</td>
<td>227</td>
</tr>
<tr>
<td>8.8</td>
<td>Impact of Representation and Mobility on Interregional Transfers (predicted values)</td>
<td>232</td>
</tr>
</tbody>
</table>
Acknowledgments

That this book has taken a long time to see light is by no means attributable to lack of help. Several people deserve special mention. Tony Atkinson and Gosta Esping-Andersen supervised the dissertation that provided the seeds of this book. Their encouragement, and especially their many theoretical and methodological lessons, remains and will continue to be a major source of guidance. Jonas Pontusson examined the dissertation rigorously and constructively, offering comments and questions that helped a great deal in developing my research agenda thereafter. Carles Boix and Alberto Diaz-Cayeros generously took apart the very first draft in a workshop at the Maxwell School of Syracuse University in the spring of 2006. Their feedback since then has proved invaluable. In addition, Suzanne Mettler, Matt Cleary, Brian Taylor, and Hans Peter Schmitz offered very helpful criticisms. As a result, the book underwent a massive transformation, most of which has taken place at Duke.

During this process, Erik Wibbels has read and commented on every version of this manuscript. He is not only the sharpest of critics but also a most loyal friend. Jonathan Rodden has seen this project evolve since its inception and has been a constant source of encouragement and advice. Herbert Kitschelt has read the full manuscript twice and offered pointed and constructive criticisms. David Soskice’s help to develop the model and his insistence on simplifying the argument have proved invaluable. Finally, since we became friends in the late 1990s, David Rueda has patiently listened to and commented on different parts of the project, always combining constructive criticism and support. This book owes a great deal to their generous friendship, as does my quality of life as an academic.

In addition, many other colleagues and friends have helped at different stages of the project with data, comments, and/or suggestions over the years: John Aldrich, Francesc Amat, Christopher Anderson, Ben Ansell, Krishna Ayyangar, Keith Banting, Marius Busemeyer, Thomas Cusack, Alex Downes, Jose Fernandez-Albertos, Rob Franzese, Sarah Hobolt, Florian Hollenbach, Lisbet Hoogue, Torben Iversen, Seth Jolly, Karen Jusko, Judith Kelley, Desmond King,
xvi

Acknowledgments


At Cambridge two anonymous readers provided excellent and detailed reviews. I am most grateful for the care they took and for requesting a number of modifications that have clearly improved the book. I am also indebted to Margaret Levi and Lew Bateman for their insights, guidance, and nurturing patience. Last but not least, my thanks to Caroline Lees and especially Heidi Young for making sure that the book is understandable to people other than myself.

On a more personal note, I wish to thank my parents. I owe much of my approach to politics to my father, a rare historian with the mindset of a social scientist, and much of my approach to the world to their exemplary fights against the struggles of life. Finally, my deepest thanks go to the true heroine in this story: my wife, Marta. Her unreserved support, patience, and spark as this project stole more and more time from her and our daughter (also Marta) made it all possible. The Martas are the only two people in this world that do not need to open this book to suffer from it. It is for their presence and for my far too long absences that I dedicate it to them.