Globalization and Redistribution Towards the Poor in Developing Countries: Experiment in India

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Abstract

Can globalization change our willingness to redistribute to the poor? We propose the hypothesis that in developing countries, the 'glitter' of foreign direct investment (FDI) reduces public support for redistribution by creating perceptions of better employment opportunities for the poor. Initial evidence is derived from World Value Survey responses from developing economies. Delving deeper, a framed field experiment in India reveals foreign ownership of low-skilled firms reduces redistribution to the poor. We further find that rich conservatives drive this reduction. This analysis provides the first experimental evidence of the causal impact of globalization on redistribution, mediated by ideology and income.

1. Introduction

How does the expansion of global markets change citizen's support for redistribution? The abundance of existing research on preferences towards redistribution sheds little light on this question. Scholars tend to focus on how rigid micro-level factors such as demographic background, income, and ideology determine initial support for redistribution. We know surprisingly little about if and how external, macro-level economic events induce individuals to alter their position. Interestingly, worldwide surveys indicate significant changes in recent years in the general public's views of poverty and government responsibilities towards the poor (Pew Research Center 2007, 2014, World Values Survey 1995-1998, 1999-2004). These trends are often anecdotally tied to globalization.[1]

We are further motivated by a wide body of research that assumes, but does not test, that globalization increases citizens' demands for redistribution because of the associated economic risks and uncertainties (e.g. Ruggie 1982, Rodrik 1998, Scheve and Slaughter 2004, Wibbels 2006, Rudra 2008, Nooruddin and Rudra 2014, Ehrlich and Hearn 2014).[2] Despite its intuitive appeal, this assumption is questionable: in many countries, globalization may not only be perceived as something that threatens job security. In fact, policymakers in less developed countries (LDCs) heavily advertise one particular aspect of globalization – foreign direct investment (FDI) – as a key solution to poverty.[3]

[1] Globalization refers to the increasing flow of goods, services and capital across national borders.
[2] Important exceptions are Margalit (2013), Fisman, Jakiela, and Kariv (2014) and Walter (2010). The first two explore the impact of economic recession (which is distinct from --but arguably related to-- the concept of globalization we emphasize in this analysis) on support for social insurance-type policies in the United States. Walter (2010) analyzes Swiss survey data to assess how citizens employed by sectors exposed to global economic competition support social insurance policies.
[3] Our reference to less developed countries (LDCs) refers to low and middle income countries and nations that do not belong to the Organization for Economic Cooperation and Development (OECD).

The presence of multinationals may be a welcome signal of a promising economic future for citizens of developing economies, particularly the unemployed poor. The link between globalization and redistribution support also needs to be reexamined given that previous research in this vein lumps together social insurance-type policies and public programs for the poor. Most countries in the world are developing economies, in which social insurance policies tend to be limited (Rudra 2008). Support for pro-poor redistribution policies and programs are far more relevant when addressing redistribution in LDCs.[4]

The aim of this paper is two-fold; we investigate the conditions (if any) under which globalization changes individual willingness to support the poor in LDCs, and which group(s) of individuals is driving this change. We focus on FDI since it is a relatively new phenomenon in LDCs (Kobrin 2005) that manifests in a proliferation of multinational companies (MNCs) and brands that are highly visible to the general public. Policymakers in LDCs often publicly declare that FDI resolves poverty by bringing abundant economic opportunities. Given the mass appeal of this type of rhetoric in low-income countries,[5] FDI is likely to create impressions that economic prospects for the poor have improved, and *decrease* support for redistribution.

We draw from the FDI literature to identify two causal mechanisms that may be driving this relationship: (1) FDI may be viewed as directly helping the poor by increasing their employment opportunities; and/or (2) FDI may signal a general improvement in the economy which indirectly helps the poor by expanding the menu of resources available to them. The first mechanism is realized if foreign firms in LDCs trigger lower public support for the poor when they

[4] Examples of pro-poor redistribution programs in LDCs are conditional cash transfers, food subsidies, and public expenditures for clean water, housing, basic health, and primary education. Note that the rich generally opt out of basic public services in LDCs (see Bearse et al. 2000).
[5] See for example, Rainsford, Sarah. 2014. "Is Cuba ready to open up to foreign investment?" *BBC News*, March 30. http://www.bbc.com/news/world-latin-america-26807489.

appear to provide jobs for the less-educated, such as FDI in food and beverage manufacturing, and other low-skill sectors. Alternatively, the second mechanism indicates that any type of foreign investment – regardless of the sector it enters – reduces redistribution support. This is because MNC proliferation creates optimism about the economy in general, which may trickle down to the poor through channels such as higher welfare spending, lower prices, and more demand for informal and formal unskilled services (maids, tea stall workers, etc.).

We also analyze whether certain socio-demographics react differently to FDI than others. Previous research suggests that responses to globalization are apt to diverge markedly based on income or ideology. Using the framework of Piketty's (1995) seminal model in which both these factors determine redistribution preferences, we anticipate that rich conservatives – who most strongly believe that one cannot escape poverty without effort – change their views about the poor most drastically in reaction to FDI. Their decrease in redistribution support will be larger compared to rich liberals, poor conservatives, and poor liberals.

To assess our arguments empirically, we proceed in two stages. After first exploring initial evidence for our hypothesis in cross-country correlations using the World Values Survey (WVS), we design a framed field experiment in India to investigate if this relationship might be causal and assess the mechanisms behind it. In the experiment, middle- and upper-income subjects, who are the primary taxpayers in LDCs, play a dictator game with poor recipients facing a local economic 'shock' randomly described under neutral or FDI framing. The dictator game, a workhorse in capturing altruistic preferences affecting redistributive preferences and philanthropy (e.g. Fisman, Jakiela, and Kariv 2015, Akbas, Ariely, Yuksel 2014, Fong, Bowles and Gintis 2006, Fong 2004), allows us to measure willingness to pay for redistribution by asking LDC taxpayers if and how much they are willing to share their monetary earnings with the poor.

The results are striking. In our experiment, we find strong evidence that giving to the poor is significantly reduced under the FDI framing compared to the neutral framing. This is only true, however, if the foreign firm enters a low-skilled sector, suggesting that FDI reduces the perceived need to support the poor when it appears to provide direct employment opportunities to this population. Consistent with our predictions from Piketty (1995), we find that this reduction in giving is driven by subjects that self-identify as being both conservative and wealthy. Turning back to the cross-national WVS data, we confirm that the role of ideology and income observed in the experiment is also reflected in the larger sample of responses from LDCs. Together, these results help substantiate a causal link between globalization and redistribution towards the poor in developing countries that is mediated by ideology and income.

To the best of our knowledge, these results provide the first experiment evidence of the causal impact of globalization on pro-poor redistribution. In addition, our analysis makes a substantial departure from previous literature. First, our study focuses on redistribution and FDI in developing nations, as opposed to the more common focus on trade and welfare spending in developed countries. Second, we isolate the impact of FDI on attitudes by skill sector. This is a novel approach, since previous research has not considered that the general public might distinguish between types of FDI and the different benefits (and costs) each might bring. Third, we use both experimental and cross-national evidence, combining literatures in behavioral economics and international political economy (IPE) in the process. Fourth, we observe the impact of ideology as a critical mediating variable in the developing world. This is a unique contribution, since previous research has focused overwhelmingly on how ideological distinctions in rich economies affect redistribution preferences. Finally, our findings challenge the conventional wisdom that globalization unleashes widespread feelings of economic risks and insecurities.

Knowing whether public support for redistribution changes with FDI is critical for government agenda setting, particularly in developing economies. For decades, poverty alleviation has been traditionally been central to their five-year development plans. If it turns out that FDI is good strategy for reducing public pressures to redistribute, governments may focus on encouraging foreign investment and allocating scarce public resources elsewhere. Our findings suggest, however, that such redistribution policy choices in the globalizing environment will not receive unanimous support, risking serious ideological conflicts in the process.

2. Literature and Theoretical Foundations

A voluminous literature in economics and political science focuses on identifying the determinants of individuals' redistribution preferences, and generally assumes that these preferences are fixed. These studies predict redistribution preferences based on demographic attributes, such as gender, age, race, and religion (e.g. Svallfors 1997, Ponza et al. 1988, Luttmer 2001, Scheve and Stasavage 2006, Jaeger 2009, Finseraas 2009), ideological differences (e.g., Ravallion and Lokshin 2000, Fong 2001, Alesina and Angeletos 2005, Krawczyk 2010), economic self-interest, with support for redistribution lowest amongst individuals who earn high incomes (e.g. Benabou and Ok 2001, Moene and Wallerstein 2002, Alesina and La Ferrara 2005); a nd inequality aversion (e.g., Ebert and von dem Hagen 2000, Mittone 2003, Luttens and Valfort 2012, Terra and Mattos 2013).

This strand of social policy research emphasizing static preferences has thus far existed in mutual isolation from both experimental and IPE research on the suggested malleability of redistribution preferences. For decades now, IPE

scholars have been analyzing how international markets change redistribution support.[6] A caveat is that this literature has not disentangled pro-poor redistribution from social insurance. The focus has been on how globalization increases citizen perceptions of their own economic insecurity, and thereby strengthens their support for redistribution policies proxied, most often, by observable changes in broad categories of public spending. The logic of the argument suggests, however, that their predictions should bear out for universalistic social insurance policies that protect them from economic risks.

More pertinent to our study of pro-poor redistribution are experiments in behavioral economics. These experiments have shown that giving to the economically disadvantaged can change in response to experimental manipulations of information about the poor.[7] For example, giving decreases with information that suggests that the recipient of the funds is not hardworking (Fong and Oberholzer-Gee 2011, Esarey, Salmon, Barrilleaux 2011) or could have made other choices (Cappelan et al. 2014).[8] Conversely, support for the poor increases when information suggests the recipient's need is more dire (Branas-Garza 2006).

This analysis is amongst the first to combine these typically separate literatures to explore the hypothesis that macroeconomic events such as the arrival of FDI in LDCs can trigger micro-behavioral changes in ordinary citizens, revising beliefs about the need to support the poor. Our analysis rests on the

[6] Scholars in IPE apply embedded liberalism theory to predict that expanding markets increase public social spending because perceptions of increased economic instability and insecurity prompt demands for redistribution (Ruggie 1982, Polanyi 1944).

[7] Note that information does not have to be completely convincing to change behavior; individuals have been shown to give out of a sense of obligations and are quick to seize on credible excuses to give less (Dana, Weber and Kuang 2007, Linardi and McConnell 2011).

[8] Information that the recipient is a drug addict instead of disabled reduces giving (Fong and Oberholzer-Gee 2011). Willingness of a third party to redistribute between the winner and the loser of a lottery decreases when there is a perception that the unlucky lottery participant could have chosen a different game, even when the other game would not have paid more (Cappelan et al. 2014).

assumption – consistent with previous literature – that ceteris paribus, higher willingness to 'give' to the poor is associated with greater demand for government sponsored pro-poor redistribution programs (see Fong, Bowles and Gintis 2006, Fong 2004), particularly in developing countries where philanthropic institutions are relatively weak.

Hypothesized Impact of FDI on Pro-poor Redistribution

In the current era of global market expansion, the growing presence of multinationals can proxy as 'information' about greater opportunities and resources available to the poor. This reaction to international markets is distinct from the widespread feelings of economic risks and uncertainties, as previous IPE research predicts. On the contrary, in recent times, LDC policymakers have been heavily advertising FDI as a symbol of progress and key to national poverty reduction, a stark contrast from the dependency era. Take for instance statements by Zambia's foreign minister:

> *There is no country that has fought poverty without attracting FDI*, …so let us not resist and discourage FDI since it is good for us as capital for job creation and technology transfer
>
> *The Post* (Zambia), (emphasis ours) August 9, 2009[9]

Similarly, the headline of an article about FDI in Bangladesh from The *Financial Express-Bangladesh*, October 26, 2014 stated '*More FDI needed to generate employment, cut poverty*'.[10] Even more tellingly, in communist Cuba, popular sentiments towards FDI have markedly changed. It is well known that

[9] *The Post* (Zambia), August 9, 2009, " Zambian minister urges opposition parties not to resist foreign investment."
[10] The Financial Express, October 26, 2014. http://www.thefinancialexpress-bd.com/2014/10/26/63045.

FDI has been associated with Western imperialism for decades in Cuba. Yet now, Cuban officials such as Trade Minister Rodrigo Malmierca publicly discuss FDI and its benefits, particularly how the new foreign investment law will help Cuba access export markets and create jobs.[11]

The purposeful linkage between FDI and poverty reduction through job creation makes political sense, given that a large percentage of the poor in these nations are unemployed while the rich already have jobs. Indeed, various international organizations, the popular press, and scholars often portray FDI as a panacea for improving employment in developing economies (Feldstein 2000, Doanh 2002, OECD 2002, World Bank Group 2010, Harding and Javorcik 2011).[12] This is particularly true if foreign investment is concentrated in low-skill labor-intensive industries (Hu and Jefferson 2002, OECD 2002, Fu and Balasubramaniam 2005).[13]

At the same time, scholars have found that FDI improves the economy in a number of ways that are not necessarily (directly) connected to job promotion, such as through increased domestic productivity, lower prices, transfers of technology and skills, and increased government revenues and efficiency (Aitken et al. 1997, Markusen and Venables 1999, Sjoholm 1999, Feldstein 2000, Blalock and Gertler 2008). Given the well-documented finding that the public in LDCs associates Western brands with higher quality and higher status, the

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[11] "Is Cuba ready to open up to foreign investment?" *BBC News*, March 30 2014. http://www.bbc.com/news/world-latin-america-26807489.

[12] See also Rajon, Shahabuddin. 2015. "Attracting FDI for jobs, growth." *The Financial Express*, February 28. http://www.thefinancialexpress-bd.com/2015/02/28/82990. Note that for international economists, the relationship between FDI and employment in LDCs is more controversial.

[13] Ibid. See also Yulisman, Linda. 2015. "Tax breaks for labor-intensive industries." *The Jakarta Post*, March 3. http://www.thejakartapost.com/news/2015/03/03/tax-breaks-labor-intensive-industries.html; Singh, Praveen K. 2009. "Govt eyes FDI from Germany, France to boost textile growth." *The Financial Express*, July 31. http://archive.financialexpress.com/news/govteyesfdifromgermany-francetoboosttextilegrowth/496155.

presence of foreign firms in LDCs may induce a general, difficult-to-define optimism that things are better for all.[14]

The critical question for this analysis is which of these mechanisms is actually operating among the (tax-paying) *public.*[15] We now only know what scholars and pundits identify as broader societal impacts of foreign investments, and how LDC citizens covet Western brands. Applying these insights, we surmise FDI may signal to the public that: 1) more job opportunities for the poor now exist, albeit conditional on whether foreign firms enter low-skill sectors; or 2) overall economic conditions have improved, regardless of which sector FDI enters.

Our primary hypothesis is thus:

H1: FDI reduces support for pro-poor redistribution

One of two alternative causal mechanisms may be driving H1:

H1a: The presence of FDI will reduce support for pro-poor redistribution only *if it enters sectors typically associated with job creation for the less-educated (i.e. low skill sector).*

H1b: The presence of FDI will reduce support for pro-poor redistribution regardless of the sector that it enters *if the public links FDI to overall improvement in economic conditions, and not only through direct job creation*.

[14] This preference for Western brands is well documented in the anthropological and marketing literatures. For example, Batra et al. (2000) discuss several reasons why consumers perceive foreign brands as superior to domestic ones, such as their desire to participate in global community, exposure through movies, their relative scarcity, "inferiority complex", etc. Our preliminary surveys in India confirmed this view. Our respondents stated that they viewed American firms more favorably than domestic ones because it has "higher wages" and "better pay packages", and is "easier to climb up the ladder", "more professional" and "more stable".

[15] Given the weak tax collection technology in LDCs, the poor pay less taxes because they are geographically dispersed, work and reside in the informal sector, and/or are located in distant rural areas (Tanzi and Zee 2000).

It is ultimately an empirical question whether and how FDI actually changes attitudes. If our predictions are wrong and FDI triggers perceptions of risk and insecurity – as the broader IPE literature contends – then FDI might increase support for pro-poor redistribution.

FDI may not change all citizen redistribution preferences in the same way

At the same time, citizens may not uniformly buy into this advertising of 'FDI is good for the poor'; income and ideology are likely to be key mediating variables. Previous empirical research indicates that high-income groups in developing economies tend to be the most sanguine about FDI and the widespread benefits it brings to society (Mayda and Rodrik 2005, Pandya 2010). At the same time, scholars find that the rich are less supportive of redistribution, based on rational self-interest (Alesina and La Ferrara 2005) and lower empathy because of their social distance to the poor (Piff et al. 2010, Stellar et al. 2012, Mayo and Tinsley 2009).[16] Scholars have also identified conservatives as more likely to prioritize market development (Conover and Feldman 1981, Jost, et al. 2003), while also inherently less supportive of redistribution. They attribute poverty to individual responsibility and laziness, which is aggravated when incentives for hard work are dulled (see Fong 2001). Interestingly, recent empirical evidence suggests that conservatives' willingness to give to the poor is more sensitive to experimental manipulation and shocks than any other groups (Cappelen et al. 2014, Karadja et al. 2014).[17]

To disentangle how income and ideology might mediate the impacts of FDI, we apply Piketty's (1995) redistribution model. This model is unique in that it allows both these variables to covary in determining pro-poor redistribution

[16] Extreme generosity exists among a small minority of the rich (Auten and Rudney 1990).
[17] Ideology is associated with a person's willingness to use redistribution to reduce income inequality that is caused by luck, but it is not related to preferences for inequality that are not related to luck (Esarey, Salmon, Barrilleaux 2011).

preferences. 'Rich conservatives', for instance, may support levels of redistribution markedly different from 'poor conservatives'. We predict that rich conservatives will be most sensitive to the belief that FDI provides new opportunity for the poor, and reduce giving by the greatest amount. We provide a short summary of the mechanism here (see complete discussion in Theoretical Appendix).

According to Piketty (1995), perceptions of existing opportunities for the poor are a critical factor in determining support for redistribution. These depend, specifically, on 'structural' factors such as the supply of jobs for the poor. At the same time, the subject's ideological predispositions, or the extent to which they perceive that 'effort' is rewarded in society, also impacts redistribution support. If one believes effort determines outcomes more than structural conditions, redistribution is less preferable. Through an evolutionary process, Piketty's model arrives at four social classes that are defined concomitantly by income and ideology. Rich conservatives place the greatest weight on the role of effort; rich liberals and poor conservatives rank second, and poor liberals last (see Piketty 1995: 570). This implies that rich conservatives are least likely to think that structural conditions alone help the poor escape poverty. Holding returns to effort constant, if information such as government rhetoric on FDI suggests that structural conditions for the poor have improved, rich conservatives will have to revise their beliefs about social mobility upwards by the largest extent, thus triggering the largest drop in redistribution support.

This leads us to the hypothesis below:

H2: If FDI signals better opportunity for the poor (either through direct job creation or overall improvement in the economy), the impact of FDI on the willingness to support the poor will be the most negative among rich conservatives.

3. Methodology

Cross-national survey

We first turn to global survey data to get an initial sense of the relationship between FDI and redistribution support. Starting from the 1970s, the World Value Survey (WVS) has interviewed individuals around the world, asking questions about a wide range of issues, including support for redistribution. We use the question "*How much is the government doing against poverty?"* which was asked in 1990, 1995, and 1999. FDI data on the LDCs that were surveyed with this question was available for 1990 and 1995, a period where FDI investment was concentrated in low-skill sectors in LDCs (UNCTAD 2013).[18] The largest proportion of FDI outflow during that period came from the United States, which continues to be the most dominant source of FDI to date (Shankar, 2008).

The responses from 40,608 individuals in 27 developing countries range from 1, for "Too Much", to 3, for "Too Little". We then use an ordered logit to regress these responses against FDI as a percentage of GDP with a large set of country level and individual level control variables.[19] Model 1 (in Table 1) shows that respondents in countries with larger FDI presence are less likely to think that government is doing too little for poverty. Model 2 shows that this is true when we substitute changes in FDI (ΔFDI) for the level of FDI (*FDI%*).[20] To retrieve coefficients that are more easily interpretable, we also estimate a linear probability model with a binary dependent variable that is 1 when the response to

[18] FDI skill classification calculated from International Monetary Fund (2006, 2007) and World Economic Outlook (April 2007 and October 2007). See also World Investment Report 2013.
[19] The summary statistics for our main variables as well as country level and individual level control variables and the full table can be seen in Appendix Tables 1 and 2.
[20] Note that while *FDI%* is available for 27 LDCs that were surveyed with the question above, ΔFDI can only be computed for 11 countries. These countries are listed below Appendix Table 1.

the question is "Too Little" and 0 otherwise, and regress it against Δ*FDI*. We find that a 1% increase in FDI (as a percentage of GDP) within a country is correlated with a 3.7% decrease in demand for government action against poverty. The negative coefficients for FDI across all models suggest that citizens of poor countries have lower demands that governments take actions against poverty as FDI increases.

Table 1: Correlation between "How much is the government doing against poverty?" and FDI (% of GDP and change in % of GDP)

VARIABLES	(1) Ordered Logit	(2) Ordered Logit	(3) LPM
FDI %	-0.0411** (0.0163)		
ΔFDI		-0.144*** (0.0185)	-0.0366*** (0.00395)
Observations	40,608	15,946	15,946
# Countries	27	11	11

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1
Country level control variables include trade as a % of GDP, GDP per capita, polity, and employment rate. Individual level control variables include ideology, income, age, gender, number of children, and employment status.

Although Table 1 provides evidence consistent with H1, endogeneity may be a confounding issue. Countries with prominent or increasing FDI presence may be systematically different from countries where FDI is scarce in ways that also affect their citizens' concern for the poor. The mechanisms linking globalization and redistribution support are difficult to test using available observational data. For example, in order to arbitrate between H1a and H1b, comparable cross-national FDI data disaggregated by skill sectors is needed but is often missing. Lastly, the WVS is a public opinion survey where the dependent variable is an

expression of political support for pro-poor programs, not the willingness to actually pay for them through redistributive taxation. We therefore turn to a framed field experiment to more rigorously test H1 and empirically evaluate causal mechanisms.

The experiment

The dictator game has long been a workhorse to measure altruism, and has also been used to capture preferences for redistributive taxation. Our experiment is essentially a two-round dictator game where dictators are presented with poor recipients who receive economic 'shocks' defined by either neutral or FDI framing. We recruit 'dictators' from the middle to upper class. LDCs generally have large informal sectors, and low levels of tax collection because of weak tax administration systems; it is therefore the middle- and upper-income groups paying the bulk of taxes that finance pro-poor redistribution in these nations (Tanzi and Zee 2000). The treatment will randomly reveal to a dictator 1) that the firm near his/her recipient's residence is owned by a company from the United States – the dominant source of global FDI – and 2) whether the firm is high- or low-skilled. Our design isolates the effect of FDI on redistribution preferences through randomization and overcomes 'cheap talk' in support of redistribution by asking individuals who will be paying for pro-poor redistribution to actually share money with the poor. This is the first experiment where globalization is used as a randomized treatment.

We conducted our experiment in India during the summer of 2013 through winter 2014. India is a good representative of a developing country that has attracted a large amount of FDI in recent times, while still struggling to overcome its serious poverty challenges. FDI in India also shares some interesting characteristics with FDI in other developing countries: the United States (US) is the biggest investor, and substantial FDI is now focused on both low-skill

industries such as food and garment manufacturing, as well as high-skill industries such as information technology (IT).[21]

We recruited dictators in areas where the middle class (and higher) are present: university classrooms, community meetings, corporate offices, malls and restaurants. We ultimately recruited 163 subjects in three different states covering both North and South India (Karnataka, Tamil Nadu, Maharashtra). We then recruited another 166 subjects through Amazon Mechanical Turk, an online crowdsourcing platform. This population is an ideal population for recruiting the middle class since Indian M-Turk workers are highly educated.[22] In total, we had 329 participants in 10 experimental sessions, with subjects ranging from business and marketing professionals, secretaries, information technology workers (at different skill levels), retirees, service workers, housewives, and university students. The project was presented to them as a fifteen-minute survey about how individuals make decisions about money, with a 1:5 chance to receive up to Rs.1000 (US $16.50) as compensation for their time.

Before subjects began the survey, we randomly matched them with actual poor recipients that lived in one of two slums located near certain industries: (1) a US-owned low-skilled food and beverage firm in Gurgaon; or (2) a US-owned high-skilled telecommunications firm in Hyderabad.[23] However, we only informed them that they each had been matched with an individual identified and

[21] The US is the leading investor in India followed by Japan and the Netherlands; this is based on average FDI flows from 2008-2012 (see UNCTAD 2014).
[22] 50% have a college degree and 30% have a graduate degree (Iperiotis, 2010).
[23] There is no deception in our experiment: together with our local NGO partners, Sphoorti (http://www.sphoorti.org/) in Hyderabad and Sri Sai Prerna Avm Vikas Kendra (http://www.srisaiprerna.org) in Gurgaon, we identified slums that are located near actual US low-skilled firm or a US high-skilled firm (but not both at the same time). We were agnostic about the specific type of industry: our only requirement was that both skill levels are represented and the NGO is able to confirm personal information about the recipients and guarantee that the funds reach the intended recipients. In the end, the recipient of our dictator games are individuals who were living at or close to the internationally defined poverty levels, and living near Qualcomm in Hyderabad (Andra Pradesh) and Pepsico in Gurgaon (Haryana).

verified by local Indian nongovernment organizations (NGOs) as making poverty-level wages (Rs.100/day) last year. The photos, names, and demographic information of these individuals were enclosed in folders that were placed in plain view during the experiment but could be opened only *after* the session. We did this in order to remind the participants that they were giving to an actual person, while preventing any bias in giving with regards to ethnicity, gender, and/or caste.

After we informed participants that they would be making several "money-related" decisions and one of them would be randomly selected for payment, we presented them with the first decision (Redistribution Decision, or RD1*)*.[24] The primary goals of this round were to measure the baseline level of altruism of respondents, and to ensure that the selection of the city had no effect on redistribution decisions. Subjects were provided only two bits of information: (1) the income level of the recipient; and (2) the recipient's city of residence (Hyderabad or Gurgaon), which were randomly assigned. Parenthetically, subjects were asked to state both their donation and their take home pay in every giving decision to confirm that they understood the decision problem.

You have Rs.1000. The person in the picture (Person A) resides in (city name) and made only Rs.100/day last year. How much do you want to give to Person A?

Your answer:

(1) *I would like to donate Rs. _____ to Person A.*

(2) *Your take home compensation:*

Rs.1000 – your donation to Person A. = Rs_____

[24] This eliminates concerns that a participant would 'hedge' across scenarios: for example, if all scenarios would be implemented, one who had given a lot in one scenario will then give a little in the next scenario.

The treatment

In the second scenario, we establish the FDI treatment by further randomizing subjects matched with recipients living near the low-skill sector into Low (Skill) Baseline and Low (Skill) FDI treatments. Subjects matched with recipients living near the high-skill telecommunications sector are randomly assigned into High (Skill) Baseline and High (Skill) FDI treatments. We then reveal information about the economic opportunities local to their potential recipient. Those in the FDI treatment will be informed that the nearby industry is foreign owned, while this information is omitted for the subjects in the Baseline treatment. For example, participants in the Low Baseline group view the following message:

You have Rs. 1000. The person in the picture (Person A) resides in Gurgaon and made only Rs. 100/day last year. 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?

Your answer:

(1) I would like to donate Rs. _____ to Person A.

(2) Your take home compensation:

Rs.1000 – your donation to Person A. = Rs_____

The low-skill FDI group received identical information, except for the second sentence, which was modified to *"There is a food and beverage industry owned and operated by a US company close to Person A's neighborhood."* The phrase "*owned and operated by a US company"* thus constituted our entire experimental treatment. Participants assigned to the high-skill industry treatment received identical information except for the name of the city ("*Hyderabad"* instead of

"*Gurgaon"*) and the industry ("*telecommunications"* substituted for "*food and beverage"*). We will refer to the amount donated here as Redistribution Decision 2 (RD2); this is our dependent variable of interest.

Survey

We also presented subjects with a survey containing standard demographic questions (age, gender, occupation), as well as measures of ideology and relative wealth. Measuring differences in ideology in developing economies can be a daunting challenge since traditional left-right/conservative-liberal distinctions do not exist across this diverse set of countries. In our analysis, we will follow the convention in the microeconomics literature and consider ideology to based on whether a subject attributes poverty to luck (liberal) or laziness (conservative). Specifically, we ask: *"Why do you think the person in the picture (Person A) was making only Rs.100 a day?"* Subjects choose between: *"Person A does not like to work hard"* and *"Person A is unlucky and born to a poor family"*. For our measure of income, we ask people to place their current income on a scale of 1-10. "1" denotes that the individual considers herself to be very rich, and "10" suggests that the respondent views herself to be very poor.[25]

Econometric strategy

In summary, we employ a between-subject treatment, randomizing dictators in each of the ten sessions into the four treatment groups: Baseline Low (Skill), FDI Low, Baseline High and FDI High. Subjects in Baseline Low and FDI Low were matched with recipients near a US food and beverage firm. Likewise, subjects in Baseline High and FDI High were matched with recipients residing

[25] This income scale is reversed in the actual wording of the survey: *"On a scale of 1-10 with 1 being the lowest income and 10 being the highest income in India, where would you place your last year's income? (If you are a student, think of your family's income)"*

near a US telecommunications firm. The key treatment is that only subjects in FDI High and FDI low were told that the firm belongs to a US company.

To assess our proposed hypothesis, we run the following regression models:

$$RD2_{ij} = \alpha + \beta FDI_{ij} + \gamma X_{ij} + \Theta_j D_j \quad (1)$$

$$RD2_{ij} = a + b\ FDI_{ij} + c\ FDI_{ij} \times Income_{ij} + d\ FDI_{ij} \times Liberal_{ij} + e\ X_{ij} + f_j D_j \quad (2)$$

The dependent variable is Redistribution Decision 2 (RD2) of individual i in session j. The treatment dummy is $FDI_{ij,}$ which indicates whether or not the individual is in the FDI treatment. In addition, we include $X_{ij,}$ a vector of individual level covariates such as age, gender, initial altruism (RD1), ideology, and income, and D_j, session fixed effects.

Eq. (1) will test H1. If the public links FDI to job creation, the presence of FDI will affect pro-poor redistribution only if it enters the low-skill sector. Therefore, support for H1a is observed if $\beta<0$ in low-skill treatment *and* $\beta=0$ for subjects in the high-skill treatment. On the other hand, if the public links FDI to an overall improvement in economic conditions, the presence of FDI will reduce support for pro-poor redistribution regardless of whether subjects believe that FDI directly increases the poor's job opportunities. Support for H1b will therefore be observed if $\beta<0$ for subjects in both high-skill and low-skill treatments. However, finding that $\beta>0$ would suggest support for existing arguments in the IPE literature that FDI increases feelings of insecurity and increases redistribution support.[26]

[26] Similarly, we compare the coefficient of the High (Skill) treatment to the Low (Skill) treatment to isolate the mechanism: if $\beta=0$ in the High treatment and $\beta>0$ in the Low treatment, insecurity is perceived to affect only those directly employed in it. If β has the same positive sign in High as it has in Low, insecurity is perceived to be systemic. This may happen if citizens associate the presence of western firms with imperialism.

To explore H2 and assess whether a particular group is driving the outcomes, Eq. (2) includes an interaction between the FDI treatment and income (FDI_{ij} x $Income_{ij}$) and a separate term for the interaction between FDI and ideology (FDI_{ij} x $Liberal_{ij}$). The interaction terms allow *b*, the coefficient on FDI_{ij}, to be interpreted as the effect of FDI on the highest income conservatives. H2 is supported if $b<0$ while $c>0$ and $d>0$, indicating that the reduction in giving due to FDI is driven by rich conservatives and not by poor liberals.

4. Experimental Data and Results

Out of our 329 subjects, 285 (87%) fully completed both the basic demographic survey and the two donation scenarios. The rest of this paper will focus on these individuals. Overall, our sample is demographically and economically diverse. The age of subjects ranges from 17 to 87 years old, with an average age of 32.3 (SD: 10.6) years old. About one third of our subjects are female and more than half are liberals.[27] On a scale of 1(highest income) to 10 (lowest income), subjects on average place themselves as middle-class (mean: 5.92, SD: 1.67).[28] The average initial redistribution (*RD 1*) before the treatments is Rs. 330 (SD: 291.89). At 33% of the total endowment, this amount is in line with giving in other dictator games (Engel 2011).

Randomization into the four treatments appears to work: there are few statistically significant differences in any demographic factors or initial giving (RD1) between treatments.[29] Additionally, city names do not appear to affect

[27] Recall that we make this distinction based on the survey question on why the recipient is poor.
[28] The distribution of income is symmetric with median and mode of 6.
[29] See Appendix Table 3. Subjects are slightly older in Low FDI than in High FDI (p=0.03). Otherwise, the smallest p-value in paired t-tests of the five above variables across all treatments is 0.18, which comes from the comparison of females in Base Low and Base High.

giving: mean RD1 to recipients in Gurgaon (Low Skill treatments) is Rs. 339.27 (SD: 296.10), while mean RD1 to recipients in Hyderabad (High Skill treatments) is Rs. 320.88 (SD: 288.29). We therefore proceed with confidence that differences in RD2 can be attributed to the treatments and *not* the city names.

Testing Hypothesis 1 (H1)

Redistribution amounts decrease by an average of Rs. 64.83 (SD: 189.13) when dictators are given information about economic opportunities around their recipients. Average RD2 is Rs. 265.34 (SD: 265.00). Table 2 below summarizes the effect of FDI framing for the low-skill (Panel A) and high-skill (Panel B) sectors. The p-value indicates the results of a one-sided t-test of the hypothesis that FDI reduces pro-poor redistribution.

The differences are striking: in Panel A, we see that 31% of subjects became less willing to share their earnings upon learning that the person with whom they are matched resides near a low-skill industry. This proportion increases dramatically to 53% when subjects learned that this low-skill industry is associated with a US company. This difference is significant (pval<0.01). Average RD2 is Rs. 319.40 in Baseline (a Rs. 40.07 reduction) and Rs. 237.27 in the FDI treatment (a Rs. 84.42 reduction). The difference is statistically significant (pval=0.037) for the absolute value and marginally significant (pval=0.107) when assessed as a change from the original split.

On the other hand, Panel B shows that FDI in the high-skill sector does not have a significant effect. 43% of subjects are less willing to give upon learning that the recipients of their funds reside near a high-skill industry. This proportion remains at 44% with the additional information that the high-skill industry is US owned. Although average RD2 in Baseline is somewhat smaller (Rs. 234.44) than average RD2 in the FDI treatment (Rs. 275.23), this difference is not significant.

Table 2: Summary of effect of FDI framing on Redistribution Decision 2

Variable	Baseline Mean	FDI Mean	Effect of FDI	p-val
Panel A: Low Skill	(N=67)	(N=77)		
Proportion of subjects reducing redistribution	0.31	0.53	+0.22	0.004
	(0.47)	(0.50)		
Redistribution Decision 2	319.40	237.27	-82.13	0.036
	(295.88)	(249.91)		
Panel B: High Skill	(N=70)	(N=71)		
Proportion of subjects reducing redistribution	0.43	0.44	+0.01	0.46
	(0.50)	(0.50)		
Redistribution Decision 2	234.44	275.23	+40.78	0.8273
	(229.13)	(279.45)		

Standard deviation in parentheses. P-value for test of H1: FDI framing < neutral framing (one sided t-test) in last column.

The effect of the FDI framing can be better seen in the kernel density plot of Redistribution Decision 2 (Figure 1). In the left panel (Low Skill treatments), we can see that the light line (FDI) spikes high above the dark line (Base) at low contribution levels. This indicates that FDI framing in the low-skill sector decreases average giving to the poor by increasing the frequency of smaller donations. On the other hand, the two densities in the right panel (High Skill treatments) overlap throughout all donation levels, suggesting that FDI framing makes little difference on generosity to the poor living near the high-skill sector. Overall, Table 2 and Figure 1 suggest that FDI only affects willingness to support the poor in the low-skill sector. This is consistent with H1a (FDI benefits those that it can directly employ), and not H1b (FDI brings overall economic improvement and benefits even those that are not directly working within the sector).

Figure 1: Kernel density estimate of RD2 in Low Skill treatments (Left) and High Skill treatments (Right)

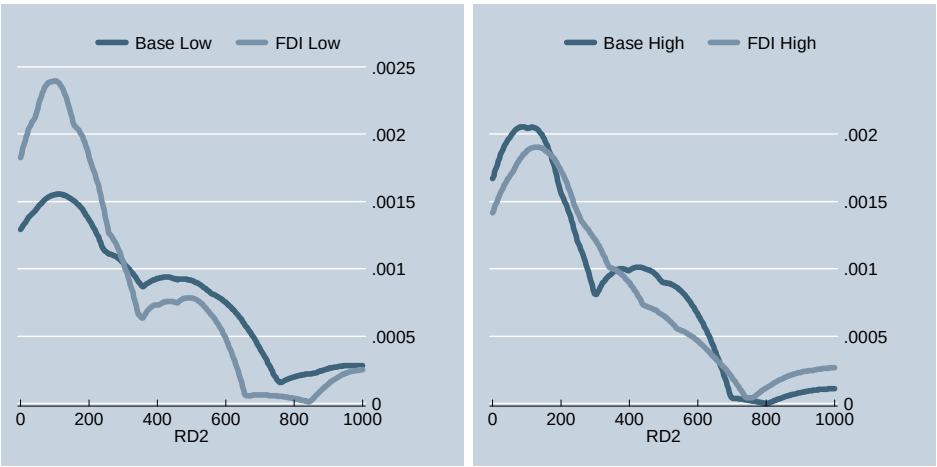


Table 3 more rigorously tests our hypothesis by regressing Redistribution Decision 2 on FDI. We pool all data together in Models 1 and 2 (using *FDI, High Skill*, and *FDIxHigh Skill* as treatment dummy variables) and separate them by sector in Models 3-6. All the regressions include session fixed effects, utilize heteroskedastic robust standard errors, and include *Age*, *Female*, *Liberal*, and *Income* as control variables. In Models 4 and 6, we add subjects' redistribution decision before being informed about recipients' economic opportunity (RD1) to control for subject's initial willingness to care for the poor.[30]

[30] We confirm that none of the control variables are affected by the treatments in the regression table in Appendix Table 4.

Table 3: Effect of FDI framing on pro-poor redistribution (OLS)

	All		Low Skill		High Skill	
	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	RD1	RD2	RD2	RD2	RD2	RD2
FDI	-38.48	-86.78**	-90.33**	-62.35**	49.97	39.57*
	(44.95)	(42.89)	-43.45	(30.72)	(41.32)	(22.87)
High Skill	-54.00	-95.11**				
	(44.97)	(41.69)				
FDI x High Skill	53.74	134.2**				
	(63.99)	(59.84)				
Lower Income	-14.80*	0.0949	13.20	27.71***	-11.54	-6.299
	(8.288)	(8.669)	(12.60)	(10.41)	(11.32)	(6.652)
Liberal	96.72***	100.4***	84.60*	13.85	120.4***	65.16***
	(31.07)	(27.46)	(43.46)	(32.97)	(34.68)	(21.92)
Age	-0.914	-0.778	-0.493	0.232	-1.525	-0.294
	(1.572)	(1.574)	(2.232)	(1.529)	(2.193)	(1.197)
Female	-18.03	-6.612	-27.47	-8.183	26.68	29.63
	(33.24)	(30.51)	(46.56)	(38.89)	(41.52)	(39.55)
RD1				0.648***		0.722***
				(0.0858)		(0.0762)
Constant	317.2***	225.1***	175.5*	-60.64	182.1	-1.033
	(76.49)	(72.67)	(90.16)	(70.28)	(111.0)	(63.10)
Observations	285	285	144	144	141	141
R-squared	0.247	0.216	0.232	0.593	0.256	0.738

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Session FE included.

Before looking at RD2, we explore the determinants of initial redistribution preferences by regressing RD1 against the treatment dummies and demographic characteristics. Model 1 confirms that RD1 does not differ across treatments. It also confirms that those who self-identify as lower-income give less, and those who believe that the poor are unlucky (liberals) give more. Moving on to Model 2, we see that RD2 differs significantly across treatments. The FDI coefficient suggests that FDI framing has a negative effect on RD2 in the low-

skill sector (-86.78, pval=0.04) while the effect of high-skill FDI – represented by the linear combination of *FDI* and *FDIxHigh skill* – is positive but not statistically significant (-95.10+134.26 = 47.47, pval=0.23)[31]. Moving on to consider the impact of FDI by sector, in Models 3 and 5 we employ the econometric specification from Eq. (1). The results confirm H1a and the initial findings in Table 2 – FDI framing decreases RD2 in the low-skill sector (-90.33, $p<0.05$) – but do not have an effect in the high-skill sector (49.97, $p>0.10$).

We include a control for initial altruism (RD1) in Models 4 and 6 to better isolate the *change* in redistribution support. The coefficient on RD1 suggests that subjects give Rs. 65-72 as RD2 for every Rs. 100 given in RD1. The substantial increase in R2 indicates that the inclusion of initial altruism significantly improves the fit of the model. This model again confirms that FDI framing in the low-skill sector significantly decreases redistribution support (-62.35, $p<0.05$). At the same time, however, FDI framing in the high-skill appears to marginally increase redistribution (39.57, $p<0.10$). This increase was unanticipated. Our theoretical intuition was that if sectoral differences matter, the High Skill FDI treatment, which is commonly associated with opportunities for the well-educated, should have no impact on pro-poor redistribution. It may well be that our finding is India-specific, driven by the recent growth and proliferation of information technology (IT) industries. Widespread knowledge of exceptional skill requirements for employment in foreign IT firms may be encouraging higher redistribution support because its presence suggests fewer low-skilled jobs, which supports the insecurity hypothesis. Regardless, it is worth emphasizing this finding appears only marginally significant and is not robust across all models.

Just as importantly, findings from Table 3 confirm that alternative causal mechanisms are not likely to be at play. First, given that we find that the effect of

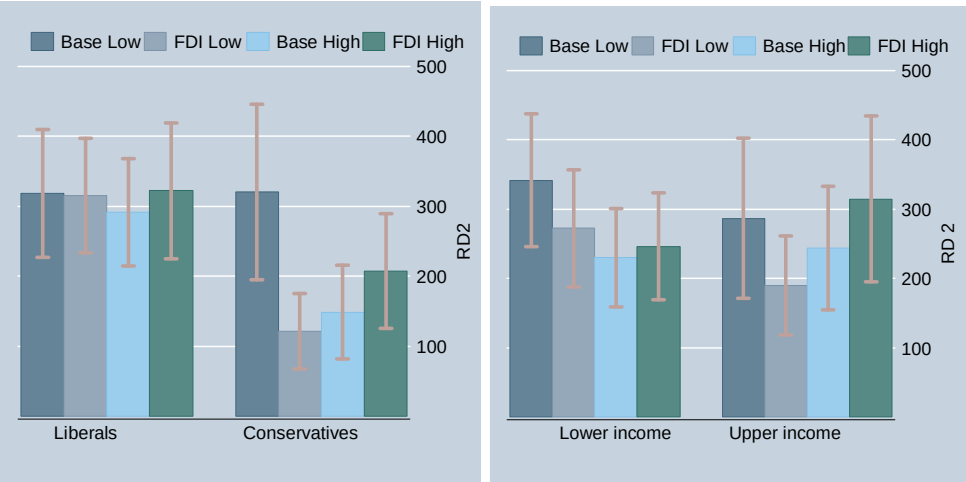
[31] P-value from STATA lincom command.

FDI framing depends on skill sector, the behavioral change that we observe cannot be driven by a general optimism about the economy due to the entrance of foreign firms (H1b). It also could not have been caused by a general aversion to foreign firms (such as through anti-imperialist or anti-US sentiment), since redistribution did not increase in response to all types of US firms. Second, the decrease in redistribution support in the low-skill sector challenges IPE research that predicts that FDI will generally increase demand for redistribution. Instead, the sectoral-specific impact of the FDI treatment suggest that the public is quite discerning about different types of FDI and associates FDI in the low-skill sector with job creation for the poor. As far as we know, this is the first result that establishes a causal link between FDI, industry types, and attitudes towards the poor.

Testing Hypothesis 2 (H2)

We next assess H2, which we derived by applying Piketty to a stylized setting which captures the impact of FDI in LDCs: *Rich conservatives demonstrate the largest decrease in support for pro-poor redistribution in response to FDI presence.* Figure 2 provides an initial breakdown on the effect of FDI on RD2 when we separate subjects by ideology (left panel) or income (right panel). The four bars illustrate the mean giving in the four treatments with the 95% confidence interval. It provides prima facie evidence that conservatives are much more sensitive to information about the poor than liberals. In the left panel, the leftmost group of bars shows that giving is relatively constant (approximately Rs. 300) across all four treatments for liberals. However, we can see clearly that giving among the conservatives is sensitive to the treatments, dropping significantly between Base Low and FDI Low, remaining low in Base High, and increasing slightly for FDI High.

Figure 2: RD2 in all treatments by ideology (Left) and by income (Right)



In the right panel, when the sample is split by income, those who rate their income as being above average (Upper Income) exhibit similar reactions to FDI framing in the low-skill sector as those who rate their wealth lower. However, FDI framing in the high-skill sector appears to affect the two groups differently: it increases the willingness of Upper Income to redistribute while leaving the Lower Income unaffected. This is consistent with our speculation that the rich's familiarity with the competitiveness of the high tech sector, particularly when it involves foreign firms, leads to feelings of insecurity.[32] By contrast, lower-income Indians, who are less familiar with technology, may tend to view all high tech firms similarly. Redistribution support in this group is not sensitive to either high-skill treatments: Base High and FDI High. Regardless, it is interesting to see if these findings hold up to more rigorous econometric tests.

To further assess H2, we employ the econometric specification in Eq. (2) in Table 4. Models1-3 focus on the low-skill sector while Model 4-6 focus on the high-skill sector. Models 1 and 4 introduce the mediating effect of ideology by

[32] Finding employment in American IT firms is challenging even for highly educated Indians. See also Anand, Geeta. 2011. "India graduates millions, but too few are fit to hire." *The Wall Street Journal*, April 5, http://on.wsj.com/1w2GXGn.

adding only the *FDI x Liberal* interaction in Table 3; similarly, Models 2 and 5 add only the *FDI x Lower Income* interaction to investigate if rich and poor subjects are affected by the FDI framing differently. Finally, Models 3 and 6 assess both income *and* ideology by including both interaction terms.

Table 4: Effect of FDI framing RD2 by ideology and income

	LOW			HIGH		
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
FDI	-124.53**	-91.90	-162.74*	44.24	74.14	78.98
	(56.19)	(95.93)	(93.96)	(32.25)	(87.40)	(83.08)
FDI x Liberal	100.31		101.60	-7.77		-7.92
	(71.77)		(71.18)	(42.93)		(42.96)
FDI x Lower Income		5.97	7.56	-6.41	-2.17	-2.28
		(20.32)	(19.79)	(6.69)	(13.19)	(13.38)
Lower Income	29.77***	25.42	26.89*	69.13**	63.98***	68.02**
	(10.94)	(15.41)	(15.51)	(29.35)	(21.75)	(29.97)
Liberal	-38.41	15.80	-36.61	-0.27	-0.27	-0.25
	(49.41)	(36.16)	(52.00)	(1.20)	(1.20)	(1.20)
Age	0.42	0.24	0.43	29.61	30.29	30.27
	(1.51)	(1.53)	(1.51)	(39.70)	(38.98)	(39.13)
Female	-10.07	-7.65	-9.41	0.72***	0.72***	0.72***
	(38.43)	(38.54)	(38.18)	(0.08)	(0.08)	(0.08)
RD1	0.63***	0.65***	0.63***		-7.07	-7.09
	(0.09)	(0.09)	(0.09)		(16.79)	(16.84)
Constant	-41.90	-50.69	-29.07	-3.65	-20.21	-22.91
	(74.05)	(76.21)	(77.37)	(66.43)	(74.14)	(74.51)
Observations	144	144	144	141	141	141
R-squared	0.60	0.59	0.60	0.74	0.74	0.74

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Session FE included.

In Models 1 and 4, the effect of FDI framing on conservatives is represented by the coefficient on *FDI*; the results show that FDI framing in the low-skill sector (Model 1) causes conservatives to reduce their redistribution

support by Rs.124.53 but has no impact on liberals. Yet, as expected, both conservatives and liberals appear to be unaffected by FDI framing in the high-skill treatment (Model 4). In Models 2 and 5, the coefficient on *FDI* represents the effect of FDI framing on people who rank themselves in the highest income group. FDI does not appear to systematically affect those who perceive themselves as rich and poor differently in both treatments.

Finally, in Models 3 and 6, the coefficient on *FDI* represents the effect of FDI framing on high-income conservatives. In support of H2, this groups significantly decreases redistribution support in response to FDI in low-skill sector (-Rs. 162.7, pval=0.086), but not its high-skill counterpart (Rs. 78.98, pval=0.34). By contrast, redistribution support from low-income conservatives, as well as liberals from both income groups do *not* appear to change in response to low- or high-skill FDI.[33] Overall these results indicate that, consistent with H2 *and* H1a, upper-income conservatives decrease their support for redistribution in response to FDI framing in low-skill sector only, and *not* the high-skill sector. Rich conservatives thus appear to be showing clear behavioral principles: their decreased support in response to FDI suggests that this group feels most strongly that there is less need to support the poor with the entrance of FDI into the low-skill sectors.

Revisiting the World Values Survey (WVS)

We initially observe a negative correlation in the WVS between increase in FDI and demand for government action against poverty in LDC. Is this correlation also strongest among rich conservatives? To find out, we ran the same

[33] The effect of FDI framing on giving among the lowest income conservatives is -Rs. 87.12 in Low Skill (the linear combination of *FDI* and *FDIxIncome*10,* pval=0.505), and Rs. 8.10 in High Skill (pval=0.93). The effect on the highest income liberals is -Rs. 61.14 in Low Skill (*FDI+FDIxLiberal*, pval=0.552), and -71.06 in High Skill (pval=0.45). For the lowest income liberals RD2 change by Rs. 14.48 in Low Skill (*FDI+ FDIxLiberal+FDIxIncome*10*, pval=0.896), and 0.17 in High Skill (pval=0.998).

regression as Table 4 (Eq. 2) on our earlier WVS sample. The full table can be seen in Appendix Table 5 To compare these results with our experimental results, we calculate the same linear combination of FDI and FDI interactions with ideology and income group as discussed earlier and present the WVS results alongside the experimental results in Table 5 below.

Table 5: Marginal impact of FDI on redistribution

	WVS: support for redistrib.		Effect of FDI on RD2			
	WVS (1995)	pval	Low skill	pval	High skill	pval
Upper income conservative	-0.07	0.001	-162.74	0.086	78.98	0.344
Low income conservative	-0.03	0.001	-87.12	0.505	8.10	0.934
Upper income liberals	0.01	0.723	-61.14	0.552	71.06	0.454
Low income liberals	0.03	0.002	14.48	0.896	0.17	0.998

The results are strikingly similar to the Low Skill treatment in the experiment, and consistent with H2. The WVS results show that as FDI as a percentage of GDP increase by 1%, the likelihood of agreeing with the statement that "government is doing too little for poverty" decreases by 7% among upper-income conservatives, by 3% among conservatives, remains unchanged for upper-income liberals, and actually increases by 3% among lower-income liberals. Together, the WVS and experimental results suggest that there is indeed a causal link between globalization and redistribution towards the poor, and that this link is driven by the way ideology and income filter the perceived implication of macroeconomic shocks on the poor's welfare.

5. Conclusion

Does the glitter of foreign investment in developing countries affect redistribution preferences? To answer this, we consulted cross-national survey

data on a diverse sample of LDCs, and designed a framed field experiment in India. In the latter, survey takers could choose to redistribute a portion of their earnings to the poor living near foreign-owned firms. Our experimental treatment isolates the impact of FDI by varying whether we omit or include this foreign ownership in the description of the firm. The test for the impact of FDI includes two types of industries: one that is associated with low-skill workers (food and beverage) and one that commonly employs high-skill workers (information technology/telecommunication).

We find that mentioning US foreign ownership decreases redistribution support for the poor in the low-skill sector, but does little to change redistribution preferences if the US firm is high-skilled. This suggests that respondents view helping disadvantaged groups as less urgent when FDI enters sectors typically associated with job creation for the poor. Our results thus convey that the general public does not view all types of FDI as unequivocally good for the poor, particularly ones specializing in high-skill goods. We further find that upper-income conservatives are primarily responsible for driving reductions in support for redistribution because of low-skill FDI presence, confirming predictions we derived from applying Piketty's (1995) model to this setting.

Our findings are critical from a theoretical and practical standpoint. First, our analysis lays bare some of the micro-foundations supporting the link between globalization and changing redistribution patterns. We do so by uncovering how and why external, macro-level events linked to globalization can change micro-level support for redistribution. This approach helps bridge a gap between the experimental, behavioral, and IPE literatures. Second, our analysis represents a clear departure from conventional wisdom – based mainly on research in developed nations – which assumes that globalization automatically translates into greater demands for redistribution (Rodrik 1996). We are the first to test this hypothesis in developing economies and suggest that the globalization-

redistribution support link in advanced industrialized economies functions differently in developing nations. We hereby provide a missing piece of the puzzle for why previous research has found that LDC governments have been lowering government welfare assistance concomitant with globalization (Kaufman and Segura-Ubiergo 2001, Rudra 2008). It may well be that demands for poverty reduction policies have been decreasing in response to FDI, especially among conservatives and upper-income groups. Finally, our finding that only low-skill FDI is seen as providing more opportunities to the poor underscores the critical importance for future research (and policymakers) to disaggregate FDI when assessing its distributional impacts.

From a policy perspective, our findings may be good news for LDCs that are attracting large amounts of foreign investment in labor-intensive sectors, provided that this type of investment objectively helps the poor, which this analysis does not explore. Herein lies the rub: previous research finds that FDI – even in low-skilled sectors – is increasing the skill premium for workers.[34] This is because MNCs from developed countries transfer activities that are less-skilled compared to their home country average, but more-skilled compared to the LDC average. Accordingly, poor, uneducated workers – such as recipients in our experiment – may be ill-fitted for employment opportunities in low-skill foreign firms, contrary to public perceptions.

The broader policy question that emerges from this analysis, then, is whether citizens of developing economies may ultimately be encouraging governments to perform in ways that are counterproductive for the poor as FDI increases. Future research should explore whether the welfare improvements that FDI brings to the poor are enough to compensate for any reductions in pro-poor redistribution. Otherwise, if massive numbers of uneducated poor are not

[34] For examples, see Feenstra and Hanson 1997, Lall 2001, TeVelde and Morrissey 2004, Basu and Guariglia 2007.

benefitting from opportunities in low-skill FDI sectors, and redistribution support is falling in tandem, the rising tide of globalization may be leaving many behind in ways not anticipated by previous theory and research.

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Theoretical Appendix

According to Piketty (1995), individuals share the same social objective but have varying beliefs about how much society rewards effort (i.e. their basic ideology), and the extent to which prospects of upward mobility for the rich and poor differ. Ideology effectively mediates individuals' views on prospects of upward mobility of the poor and the rich when the evolution of beliefs is at a steady state. Piketty's model establishes the existence of four social classes: rich conservatives, poor conservatives, rich liberals, and poor liberals. These classes can be ranked by how strongly they believe that outcomes are determined by effort or, conversely, the extent to which they perceive existing structural conditions limit mobility. Since rich conservatives radically discount structural conditions, a relatively sudden and positively perceived change in structural conditions surrounding the poor – such as those associated with FDI – will result in the largest upward revision in their perception of the poor's opportunities, which in turn results in the largest reduction in redistribution.

To elaborate, support for redistributive taxation can be modeled as a function of three unobserved parameters of social mobility: (1) structural conditions determining the baseline transition probability out of poverty for the poor ($\pi_0 \in [0,1]$); (2) structural conditions affecting the likelihood that the rich will remain out of poverty ($\pi_1 \in [0,1]$); and (3) the relative role of effort (θ).[1] Denoting effort as e, the probability that the poor escape poverty is defined as $\pi_0 + \theta e$ while the probability that the rich remain out of poverty is $\pi_1 + \theta e$. All agents share the same principles of distributive justice: unequal opportunities that are beyond one's control should be corrected by government redistribution policies in the interest of the needy. Piketty shows that

[1] π_0 may represent availability and quality of unskilled jobs and the quality of public education while π_1 may represent property rights and inheritance laws and the quality of private education.

this means that if the true parameters of social mobility (π_0^*, π_1^*, θ^*) are common knowledge, everyone will vote for the same optimal tax rate $\tau \in [0,1)$:

$$\tau = H(\pi_1^* - \pi_0^*) / \alpha(y_1 - y_0)\, \theta^{*2} \qquad \text{(A1)}$$

where H is the fraction of the population that is rich, y_1 is the income of the rich, y_0 is the income of the poor, and α is a constant.

However, in actuality, because the true parameters of social mobility (π_0^*, π_1^*, θ^*) are unknown, evolution of beliefs and income will result in a steady state where individuals can be categorized into social classes that hold different (and possibly incorrect) beliefs about social mobility and corresponding preferred levels of redistribution. The reason for these persistent differences is that different beliefs tend to generate information consistent with those beliefs. An agent *i* in generation *t* inherits beliefs about these parameters from the previous generation (π_0^{it}, π_1^{it}, θ^{it}) and then chooses an effort level that would maximize her own income based upon those beliefs (e^{it}). After observing her income (y^{it}), she updates her beliefs to (π_0^{it+1}, π_1^{it+1}, θ^{it+1}) using standard Bayesian updating and then votes on redistribution. Her beliefs are then passed on to the next generation.

Piketty predicts that if agents initially have different beliefs about society's structural parameters, this learning process will result in a situation where:

(1) beliefs about underlying parameters of social mobility (π_0^{it}, π_1^{it}, θ^{it}) may not ultimately converge to the truth (π_0^*, π_1^*, θ^*) but will be stable if they satisfies the following conditions:

$$\pi_0^{it} + \theta^{it}\, e^{it} = \pi_0^* + \theta^*\, e^{it} \qquad \text{(A2)}$$

$$\pi_1^{it} + \theta^{it}\, e^{it} = \pi_1^* + \theta^*\, e^{it}$$

Beliefs that satisfy Eq. (A2) are stable because they lead to "no contradiction between expectations and experience" (566). This is because an individual who puts too much weight

on effort ($\theta^{it} > \theta^{*}$) while simultaneously putting too little weight on predetermined factors ($\pi_0^{it} < \pi_0^{*}$, $\pi_1^{it} < \pi_1^{*}$) will not learn of her mistake since she will choose high effort and earn high income, confirming her (incorrect) expectations. The converse is true for individuals who put too little weight on effort while putting too much weight on structural factors.

(2) Let $\Delta(\tau)$ be the set of all (π_0^{it}, π_1^{it}, θ^{it}) that satisfy the condition above. In any stable steady state, all individuals can be ranked along their position on $\Delta(\tau)$ from the highest weight on effort to the lowest:[2]

$$\theta^{Rich\ cons.} > \theta^{Rich\ liberals} > \theta^{Poor\ liberals} \text{ and } \theta^{Rich\ cons.} > \theta^{Poor\ cons.} > \theta^{Poor\ liberals} \quad \text{(A3)}$$

Applying the conditions in Eq. (2) to Eq. (3) implies the following ranking of the weight placed upon structural conditions (and support for redistribution):

$$\pi_0^{Rich\ cons.} < \pi_0^{Rich\ liberals} < \pi_0^{Poor\ liberals} \text{ and } \pi_0^{Rich\ cons.} < \pi_0^{Poor\ cons.} < \pi_0^{Poor\ liberals} \quad \text{(A4)}$$

$$\pi_1^{Rich\ cons.} < \pi_1^{Rich\ liberals} < \pi_1^{Poor\ liberals} \text{ and } \pi_1^{Rich\ cons.} < \pi_1^{Poor\ cons.} < \pi_1^{Poor\ liberals}$$

Using this theoretical foundation, we predict how the arrival of FDI might affect redistribution preferences. Because much of government rhetoric for bringing FDI to LDCs suggests structural conditions for the poor will improve (a high π_0^{FDI}), the arrival of FDI will induce π_0^{it} to be revised. Since $\pi_0^{Rich\ cons.} < \pi_0^{Poor\ liberals}$ (Eq. A4), revising towards a high π_0^{FDI} will constitutes a larger upward shock for rich conservatives compared to poor liberals. Note that no updates will occur on π_1^{it} and θ^{it} since public advertising of FDI generally omits information about the gains for the rich per se, or its general impact on the role of effort. As a result, FDI will induce the largest reduction in π_1^{it}-π_0^{it}, and, consequently, preferred redistribution level τ^{it} (Eq.

[2] To be specific, in Piketty (1995) rich conservatives are called Stable High. These are rich individuals who inherited conservative beliefs from the previous (rich) generation. The rich liberals are the Upwardly Mobile (UM): newly rich individuals who inherited liberal beliefs from their lower income parents. The poor conservatives (Downwardly Mobile) come from a high income background while the poor liberals (Stable Low) have low income parents. Because the focus of this paper is on how different groups react to FDI and not so much on how they arrive at their current beliefs, we do not elicit the generational background of our subject.

A1) among the rich conservatives. The smallest reduction in preferred redistribution will occur among the poor liberals.

Empirical Appendix

Appendix Table 1**:** WVS Summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
WVS response					
"*How much is the gov. doing against poverty?"*[3]	40608	2.75	0.49	1	3
Agree with: "*Gov do too little for poverty*"	40608	0.78	0.41	0	1
Country level variables					
FDI % of GDP	27	3.24	3.86	0.20	20.42
Trade % GDP	27	67.44	34.81	15.67	148.01
Ln GDP per capita	27	7.52	1.06	5.67	9.27
Employment rate	27	54.81	7.27	40.15	75.73
Polity [4]	27	4.28	5.39	-7.00	10.00
ΔFdi as % of GDP	11	1.79	1.24	-0.03	3.66
ΔTrade as % of GDP	15	14.10	16.82	-8.34	58.49
Gdp per capita growth	27	2.84	3.51	-5.96	8.38
Individual level variables					
Age	40608	40.04	15.22	16.00	93.00
Female	40608	0.51	0.50	0.00	1.00
Children	40608	1.88	1.67	0.00	8.00
Income	40608	5.69	2.46	0.00	9.00
Job	40608	0.39	0.49	0.00	1.00

Country level data from the World Bank's *World Development Indicators* (2012).

The 27 LDC countries are Albania, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Brazil, Bulgaria, Chile, China, Colombia, Croatia, Czech Republic, Dominican Republic, Estonia, India, Latvia, Lithuania, Macedonia, Mexico, Nigeria, Peru, Republic of Korea, Republic of Moldova, Romania, Russian Federation, Slovakia, South Africa, Turkey, Ukraine, Uruguay, and Venezuela. The 11 countries for whom change in FDI between 1990 to 1995 can be computed are: Argentina, Brazil, Bulgaria, Chile, China, India, Mexico, Nigeria, Republic of Korea, Romania, South Africa, and Turkey.

[3] "*How much is the gov. doing against poverty"Answers are 1: Too much, 2: Enough, 3: Too little.*

[4] Polity is a scale from -10 to 10, with higher numbers representing greater democracy.

Appendix Table 2: Full table for Table 1: WVS

VARIABLES	Ologit (1)	Ologit (2)	LPM (3)
FDI % of GDP	-0.0411**		
	(0.0163)		
ΔFDI		-0.144***	-0.0366***
		(0.0185)	(0.00395)
Trade % GDP	0.000282		
	(0.00454)		
ΔTrade		0.006***	0.00114***
		(0.00192)	(0.000357)
Polity	0.0128	-0.0197***	-0.00380***
	(0.0226)	(0.00428)	(0.000819)
Ln GDP per capita	-0.0584		
	(0.125)		
Gdp per capita growth		-0.121***	-0.0279***
		(0.00850)	(0.00179)
Employment rate	-0.0345	-0.00340	-0.000593
	(0.0214)	(0.00283)	(0.000545)
Lower Income	-0.00370	0.0181**	0.00379***
	(0.0184)	(0.00743)	(0.00146)
Liberal	1.204***	0.551***	0.0955***
	(0.218)	(0.0595)	(0.00971)
Age	-0.00120	-0.000636	-0.000151
	(0.00241)	(0.00154)	(0.000295)
Female	0.0783**	0.0498	0.00953
	(0.0313)	(0.0362)	(0.00709)
Children	-0.0315	-0.059***	-0.0115***
	(0.0211)	(0.0114)	(0.00226)
Job	0.0208	-0.0853**	-0.0172**
	(0.0676)	(0.0381)	(0.00758)
Observations	40,608	15,946	15,946
# countries	27	11	11

Appendix Table 3: Summary statistics by treatment

Variable	Obs	Mean	Std. Dev.	Min	Max
Base Low					
Female	67	0.39	0.49	0	1
Age	67	31.94	10.48	20	62
Liberal	67	0.61	0.49	0	1
Lower Income	67	5.94	1.98	1	10
RD1	67	359.48	302.46	0	1000
RD2	67	319.40	295.88	0	1000
FDI Low					
Female	77	0.35	0.48	0	1
Age	77	34.45	12.26	18	87
Liberal	77	0.60	0.49	0	1
Lower Income	77	5.96	1.41	3	10
RD1	77	321.69	291.28	0	1000
RD2	77	237.27	249.91	0	1000
Base High					
Female	70	0.33	0.47	0	1
Age	70	32.16	9.7	17	58
Liberal	70	0.6	0.49	0	1
Lower Income	70	5.93	1.51	2	10
RD1	70	316.64	297.43	0	1000
RD2	70	234.44	229.13	0	1000
FDI High					
Female	71	0.28	0.45	0	1
Age	71	30.49	9.45	17	66
Liberal	71	0.59	0.50	0	1
Lower Income	71	5.87	1.79	1	10
RD1	71	325.07	281.04	0	1000
RD2	71	275.23	279.45	0	1000

Appendix Table 4: Control variables do not differ by treatments

VARIABLES	(1) Female	(2) Age	(3) Liberal	(4) Lower Income	(5) RD1
FDI	-0.05	2.10	-0.03	0.02	-42.68
	(0.08)	(1.62)	(0.08)	(0.29)	(45.31)
High skill	-0.05	-0.10	-0.02	-0.03	-54.64
	(0.08)	(1.55)	(0.08)	(0.30)	(44.86)
FDI x High skill	0.01	-3.33	0.04	-0.07	61.50
	(0.11)	(2.19)	(0.12)	(0.40)	(63.72)
Constant	0.36***	31.47***	0.54***	4.85***	262.84***
	(0.07)	(1.19)	(0.07)	(0.25)	(32.21)
Observations	285	285	285	285	285
R-squared	0.13	0.28	0.07	0.06	0.22

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1, Session FE included.

Appendix Table 5: WVS with interactions

Dependent variable: Models 1-3: "How much is the government doing against poverty?" (1 (Too Much) - 3 (Too Little). Models 4-6: "Government is doing too little against poverty," (1 Yes 0 No)

VARIABLES	(1) Ologit	(2) Ologit	(3) Ologit	(4) LPM	(5) LPM	(6) LPM
ΔFdi	-0.233***	-0.196***	-0.275***	-0.059***	-0.048***	-0.0678***
	(0.0381)	(0.0203)	(0.0389)	(0.00843)	(0.00446)	(0.00859)
ΔFdi x Income	0.0170***		0.0154**	0.0042***		0.00384***
	(0.00652)		(0.00653)	(0.00143)		(0.00143)
ΔFdi x Liberal		0.358***	0.353***		0.065***	0.0635***
		(0.0582)	(0.0583)		(0.0104)	(0.0104)
ΔTrade	0.00632***	0.00186	0.00220	0.0012***	0.000286	0.000379
	(0.00192)	(0.00203)	(0.00203)	(0.000357)	(0.000390)	(0.000391)
Polity	-0.0201***	-0.0218***	-0.0221***	-0.0039***	-0.0043***	-0.00438***
	(0.00428)	(0.00435)	(0.00435)	(0.0008)	(0.0008)	(0.000829)
Gdpcapgrowth	-0.116***	-0.116***	-0.112***	-0.027***	-0.027***	-0.0258***
	(0.00867)	(0.00859)	(0.00876)	(0.00183)	(0.00180)	(0.00184)
Employment	-0.00495*	-0.00198	-0.00341	-0.00101*	-0.000293	-0.000674
	(0.00290)	(0.00286)	(0.00292)	(0.00056)	(0.00055)	(0.000567)
Lower Income	-0.0108	0.0144*	-0.0118	-0.00326	0.00297**	-0.00340
	(0.0135)	(0.00748)	(0.0135)	(0.00278)	(0.00147)	(0.00278)
Liberal	0.544***	-0.0393	-0.0373	0.094***	-0.0145	-0.0137
	(0.0595)	(0.106)	(0.105)	(0.00973)	(0.0203)	(0.0203)
Age	-0.00104	-0.000783	-0.00114	-0.000248	-0.000193	-0.000280
	(0.00155)	(0.00154)	(0.00155)	(0.000297)	(0.000294)	(0.000296)
Female	0.0472	0.0505	0.0482	0.00898	0.00975	0.00925
	(0.0363)	(0.0363)	(0.0363)	(0.00710)	(0.00709)	(0.00709)
Children	-0.0561***	-0.0579***	-0.0552***	-0.0108***	-0.011***	-0.0105***
	(0.0114)	(0.0114)	(0.0114)	(0.00227)	(0.00226)	(0.00227)
Job	-0.0884**	-0.0861**	-0.0889**	-0.018**	-0.0174**	-0.0179**
	(0.0381)	(0.0381)	(0.0381)	(0.00758)	(0.00757)	(0.00757)
ΔTrade	0.00632***	0.00186	0.00220	0.0012***	0.000286	0.000379
	(0.00192)	(0.00203)	(0.00203)	(0.000357)	(0.000390)	(0.000391)
Observations	15,946	15,946	15,946	15,946	15,946	15,946
# countries	11	11	11	11	11	11
Pseudo R2 /R2	0.0342	0.0362	0.0364	0.0532	0.0549	0.0554