Violence, Corruption, and the Redistributive Preferences of Business Interests: Evidence from Mexico

Pre-analysis Plan

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Objectives

The business sector has diverse and disproportionate influence on public policy and inequality (Przeworski and Wallerstein, 1988; Bernhagen, 2008; Hacker and Pierson, 2010; Bartels, 2016). Although scholars typically viewed business interests as uniformly opposed to progressive taxation and social spending (Esping-Andersen, 1985), researchers in recent decades have increasingly documented systematic variation in business attitudes on social policy (Hall and Soskice, 2001; Swenson, 2002; Mares, 2003; Paster, 2013). However, these more recent studies focus on business interests in advanced democracies, and rarely investigate dynamics in the developing world. This constitutes a significant gap: like their counterparts in advanced democracies, business interests in the developing world have varied yet robust political influence (Weymouth, 2012). Moreover, such firms may face unique contextual factors that influence their redistributive attitudes. Neglecting to account for ways in which particular conditions in the developing countries help shape the attitudes of business interests thus limits our understanding of development and inequality in the developing world.

The main objective of this study is to use evidence from a survey experiment of firm managers and capital investors in Mexico to help address this gap. Specifically, we focus on the ways in which two prominent facets of politics in the developing world—corruption and violence—influence business attitudes toward taxation and social spending. Our focus on corruption and violence stems from the broader observation that developing states often exhibit deficiencies in state institutionalization and capacity (Besley and Persson, 2011). Because we utilize a within-country design, and because residents of developing countries are routinely exposed to general deficiencies in the state provision of public goods, the study does not capture the general impact that state weakness has on business attitudes in the developing world, relative to

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their counterparts more advanced democracies. Rather, by disaggregating the issue, the study is designed to provide insights into variation in business redistributive preferences *within* the developing world. Specifically, corruption and violence are manifestations of weak state institutions that vary within and between developing countries. Building upon existing work, we expect that concerns about widespread corruption and violence help shape the redistributive attitudes of members of the business community.

**Research Design**

The study will be set in Mexico. In the last decade, Mexico has experienced levels of organized violence comparable to war zones (Molzahn, Rios and Shirk, 2012), and pervasive corruption (Transparency International, 2017). As a result, violence and corruption have meaningful impacts on attitudes in business sector (World Economic Forum, 2017). Our access to a large business association in Mexico provides us with an opportunity to closely examine attitudes.

Data will be collected from a convenience sample of members of one of Mexico’s largest business association. The association has over 14,000 member companies, employs 4.8 million workers, and is responsible for roughly 30% of the country’s GDP. This business association regularly surveys its members. We will provide questions that will be added to the regular survey of business managers and capital investors. The survey will be distributed electronically via email, and no identifying information will be recorded. We expect a sample size between 1500-2000 cases.

The survey instrument will consist of three parts: 1) an experimental priming, 2) questions on attitudes toward taxings and various redistributive polices, and 3) a battery of questions about the characteristics of the firm. Here we provide a brief overview of each part. The survey, in Spanish, is in the Appendix.

In the first part of the survey instrument, respondents will be randomly assigned to one of three groups. To prime concern over violence, respondents in the *violence group* will read a statement highlighting the effects of violence on the business sector. Respondents will then be asked to write down their potential concerns over violence. We will do the same with a *violence group*. Respondents in the *control group* will view a similar statement that highlights the negative effects of poor performance of the postal service. They will then be asked to write down their potential concerns on these issues. We include the control group as a baseline in order to isolate the effects of concerns over violence or corruption, rather than the effect of simply
receiving information that reflects poorly on the government or business conditions more generally. As a manipulation check, we end with a question on the effects of violence and corruption on Mexican businesses. The prompts for each experimental group are listed in Figure 1.\footnote{Collecting this data is an expensive exercise and a unique opportunity. To the extent of our knowledge no researcher had ever had the opportunity to candidly question a business group of this magnitude in the developing world. Thus, we will use the same survey vehicle (different treatment sample), to gather information about corruption and attitudes toward various redistributive policies.}

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\textbf{SCREEN RANDOMLY DISPLAYS ONE OF THE FOLLOWING PROMPTS} \\
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\textbf{[VIOLENCE GROUP]} Violence affects employers a lot. We lose millions of pesos due to robbery and extortion by criminal groups. What is the most serious repercussion that the high levels of violence have had on businesspeople in Mexico? Please write in detail your concerns about this subject. \\
\textbf{[CORRUPTION GROUP]} Corruption affects employers a lot. We lose millions of pesos that end up in hands of corrupt governments. What is the most serious repercussion that corruption has had on businesspeople in Mexico? Please write in detail your concerns this subject. \\
\textbf{[CONTROL GROUP]} The inefficiency of the Mexican postal affects our capacity to do business. The service promises to arrive in days but in reality often takes a month, with some parcels not arriving at all. What is the most serious repercussion of the low quality of the Mexican postal service for businesses in Mexico? Please write in detail your concerns about this subject. \\
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\caption{Experimental Prompts}
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After the experimental priming, respondents will answer questions on their attitudes toward redistribution. Broadly, we conceptualize redistribution in terms of A) taxation, and B) welfare spending.

Tax-related questions will first present questions about support for spending on different policies. Specifically, we use a seven-point scale to measure support for public spending toward improving public education (Q2.1), social assistance programs (Q2.2), military operations (Q2.3), police training/wages (Q2.4) or justice reform (Q2.5). Additionally, because many social welfare policies are funded by a mixture of public and private funds (Mares, 2003), we probe attitudes toward Mexico’s social security system (IMSS). For employees hired under IMSS, the employer contributes a fixed amount toward health insurance, pensions, and social security. However, employers can legally bypass contributing to these social insurance programs by hiring employees as honorarios, i.e. private contractors. Here, we use a
seven-point scale to measure attitudes toward the IMSS (Q2.6). We specifically ask the extent to which respondents believe the IMSS is a waste of money and prefer to hire employees as honorarios. Finally, we ask them about their willingness to reduce income tax even if it could imply reducing social spending (Q2.7). We also use a seven-point scale.

To assess preferences for public debates on anti-violence strategies often pit “law and order” security strategies, which aim to coercively confront violent actors, against welfare based strategies, which aim to decrease the likelihood that citizens resort to illegal and violent behavior. We thus include a forced-choice question on preferences for coercive versus welfare-based anti-violence strategies (Q2.8).

Finally, we will then probe respondents declared preference to avoid paying taxes. Because this is a potentially sensitive issue, we will use a list experiment aimed at protecting anonymity and eliciting unbiased answers (Q3). Instead of directly asking about openness to avoid paying taxes, the list experiment splits respondents into two groups, with one group receiving a list of non-sensitive strategies that members of the business community might use to improve the fiscal health of their firm. The other group will receive the same list, plus an item on saving money in accounts outside of the country. Respondents in each group will be asked how many of the strategies they would be open to using in their firm. This strategy allows us to measure differences between the two groups without being able to identify individual responses of the sensitive item. In other words, despite the sensitivity of the topic, responses to the question will not put respondents at risk (for a more detailed discussion of this strategy, see Blair, Imai and Lyall (2014)).

In the third part of the survey, respondents will answer a battery of questions on key firm-level moderating and control variables of interest (Q4). These questions will query the location of the firm, the consumers to whom it sells, the goods or services it produces/sells, the number of employees, company revenue, whether the firm exports, whether the firm pays for private security, and the education and skill profile of its employees. Specific wording for these questions is based on established business surveys such as the World Bank Enterprise Survey and the INEGI Business Census.

**Hypotheses**

**H1A(B): Concerns over violence lead to increased (decreased) support of progressive taxation**
• Mechanism (H1A): Individuals exposed to violence are generally more willing to contribute to public goods (Gilligan, Pasquale and Samii, 2014; Hopfensitz and Miquel-Florensa, 2014). Thus, when business leaders are concerned over violence, they may be more willing to support policies taxing their own communities.

• Mechanism (H1B): Violence has been shown to lead to in-group favoritism (Bauer et al., 2013; Cecchi et al., 2015). Thus, concerns over violence may make business leaders generally less amenable to perceived threats to their communities via taxation.

• Heterogenous treatment effects:
  – Consumer profile: Treatment effects (in either direction) may be larger for leaders of firms that sell primarily to domestic household consumers. Such firms are particularly financially vulnerable to violence-related losses due to drops in consumption. Concerns over violence may thus drive leaders of such firms to A) see progressive taxes as a way of pooling resources from less financially-vulnerable firms, or B) see progressive taxes as particularly threatening to their financial viability.

H2A(B): Concerns over corruption lead to increased (decreased) support of progressive taxation

• Mechanism (H2A): Business understands corruption as motivated by low bureaucratic salaries (Becker and Stigler, 1974; Van Rijckeghem and Weder, 2001; Di Tella and Schargrodsky, 2003; Van Veldhuizen, 2013), and low state capacity to monitor/punish these bureaucrats (Olken, 2007; Lessmann and Markwardt, 2010). Taxation and spending may increase the capacity of the state to operate with transparency, and create positive incentives for citizens/bureaucrats (Persson and Rothstein, 2015). As a result, taxing may reduce corruption and improve the growth of the economy (Dzhumashev, 2014). Business may also request more redistributive policies to correct inequalities created by corruption (Alesina and Angeletos, 2005).

• Mechanism (H2B): Business wants to avoid providing resources to a kleptocratic state that operates without transparency, and with ill-incentivized bureaucrats (Liu and Feng, 2015; Liu and Mikesell, 2014). They may also want a corrupt state if it benefits them. Corruption has given the ruling class time to develop ways of prospering within an environment that favors them (Acemoglu, Johnson and Robinson, 2002; Engerman and Sokoloff, 2012).

• Heterogenous treatment effects:
  – Consumer profile: Treatment effects (in either direction) may be larger for leaders of firms that are not geographically movable or have operated in the same territory for longer periods (cannot migrate to “more functional” states to produce), have larger profits (can take the risk to pay
the cost of investing on increasing state capacity), are formal (already pay a larger percentage of their income in the state), and are smaller or do not export. Corruption affects particularly smaller firms but has no impacts on exporters or foreign- and publicly-owned firms (Paunov, 2016).

**H3A(B): Concerns over violence lead to increased (decreased) support for welfare programs**

- Mechanism (H3A): Business interests may view redistributive welfare policies, which provide legitimate economic opportunities to potentially violent actors (Becker, 1968; Humphreys and Weinstein, 2008; Blattman and Annan, 2016), as relatively low-risk strategies for addressing violence.
- Mechanism (H3B): Research suggests that affinity toward welfare recipients is important in driving support of redistributive spending (Alesina and Glaeser, 2004; Chen and Li, 2009), and that exposure to violence hardens inter-group hostilities (Rohner, Thoenig and Zilibotti, 2013; Mironova and Whitt, 2014; Beber, Roessler and Scacco, 2014). If business leaders view the recipients of welfare or social insurance programs to be largely outgroups, concerns over violence may thus lower their support of such programs.
- Heterogenous treatment effects:
  - For publicly-funded programs: consumer profile. Firms that sell primarily to domestic household consumers are particularly financially vulnerable to violence-related losses due to drops in consumption. Concerns over violence may lead leaders of such firms to increasingly support public welfare programs in order to encourage household consumption.
  - For employer-supplemented programs: employee profile. Firms relying on a skilled and educated workforce are particularly vulnerable to violence-related losses due to drops in human capital. Given that firms that rely on skilled and educated workers are generally more supportive of employer-supplemented welfare programs (Mares, 2003), concerns over violence-related losses may drive leaders of such firms to increasingly support such programs.

**H4A(B): Concerns over corruption lead to increased (decreased) support for welfare programs**

- Mechanism (H4A): Corruption is larger in states with worse levels of economic development (Treisman, 2007), less middle class (Neudorfer, 2015; Wiemann, 2015), and less education (Persson and Rothstein, 2015).
- Mechanism (H4B): Business wants to avoid providing resources to a kleptocratic state that operates without transparency, and with ill-incentivized
bureaucrats (Liu and Feng, 2015; Liu and Mikesell, 2014). They may also want a corrupt state if it benefits them. Corruption has given the ruling class time to develop ways of prospering within an environment that favors them (Acemoglu, Johnson and Robinson, 2002; Engerman and Sokoloff, 2012).

- Heterogenous treatment effects:
  - Consumer profile: Support for welfare strategies will be more common for leaders of firms that are geographically movable or does not have operated in the same territory for longer periods (can migrate to “more functional” states to produce), have larger profits (can take the risk to pay the cost of investing on Long term policies), or operate in non-violent municipalities (can wait for longer term solutions).

**H5A(B): Concerns over violence increase (decrease) preferences for welfare anti-violence strategies relative to coercive anti-violence strategies**

- Mechanism (H5A): Studies show that perceived threats of violence may heighten risk aversion, and thus lower levels of support for coercive policies, which risk exacerbating violence (Arian, 1989; Huddy et al., 2005; Brown et al., 2017). This issue is particularly salient in Mexico, where studies show that coercive anti-violent strategies have in many cases led to increases in violence (Dell, 2015; Calderón et al., 2015; Phillips, 2015).
- Mechanism (H5B): Studies show that individuals who perceive a threat of violence may be more likely to support hardline coercive policies (Friedland and Merari, 1985; Arian, 1989; Jentleson, 1992; Herrmann, Tetlock and Visser, 1999; Getmansky and Zeitzoff, 2014). Additionally other work suggests that affinity toward welfare recipients is important in driving support of redistributive spending (Alesina and Glaeser, 2004; Chen and Li, 2009), and that exposure to violence hardens inter-group hostilities (Rohner, Thoenig and Zilibotti, 2013; Mironova and Whitt, 2014; Beber, Roessler and Scacco, 2014).
- Heterogenous treatment effects:
  - Municipal-level violence: Given that coercive strategies have lead to increases in violence in Mexico, leaders of firms operating in areas that have experienced prolonged violence are more likely to have experienced the negative feedbacks from such policies. Among such firms, we might expect concerns over violence to lead to decreased support of coercive security policies, while this might not be the case for firms who have not experienced such dynamics.
  - Employee profile: Firms relying on a skilled and educated workforce are particularly vulnerable to violence-related losses due to drops in human capital. Given that firms that rely on skilled and educated workers are generally more supportive of employer-supplemented welfare programs (Mares, 2003), concerns over violence-related losses may drive leaders of
such firms to increasingly support such programs.

– Consumer profile: Firms that sell primarily to domestic household consumers are particularly financially vulnerable to violence-related losses due to drops in consumption. Concerns over violence may lead leaders of such firms to increasingly support public welfare programs in order to encourage household consumption.

H6A(B): Concerns over corruption increase (decrease) preferences for welfare anti-violence strategies relative to coercive anti-violence strategies

• Mechanism (H6A): We could expect that justice departments are more corrupt than welfare oriented government areas, due to its closer links to organized crime (Dal Bó, Dal Bó and Di Tella, 2006). If business wants to avoid providing resources to a kleptocratic state they may prefer to support welfare oriented areas (Liu and Feng, 2015; Liu and Mikesell, 2014).

• Mechanism (H6B): Corruption is larger when probability of enforcement is low (impunity) (Becker and Stigler, 1974). Implementing law enforcement measures that reduce impunity, even if it is in the area of violence, may indirectly reduce corruption.

• Heterogenous treatment effects:
  – Consumer profile: Support for welfare strategies will be more common for leaders of firms that are geographically movable or does not have operated in the same territory for longer periods (can migrate to “more functional” states to produce), have larger profits (can take the risk to pay the cost of investing on Long term policies), or operate in non-violent municipalities (can wait for longer term solutions)

Analysis Plan

We will analyze redistributive attitudes in terms of three outcomes: support for taxation, support for social spending, and preference on types of social spending. For taxation, our measurement will be the average of Q2.1- Q2.5, average and individual answers to Q2.6-Q2.7, and Q3. For support for social spending, we will calculate individual average of answers to Q2.1-2.2. For type of social spending, we will calculate individual answers to Q2.1-2.5, comparison between two bundled (Q2.1-2.2 vs. Q2.3-2.5), and Q2.8.

We will calculate the in Average Treatment Effect (ATE) using a simple difference of means approach. Specifically, if $T_V$ is violence treatment, $T_C$ is corruption treatment, we $T_0$ is control, we will measure the ATEs in terms of,
\[ \phi(T_V) = E[Y(T_V) - Y(T_0)] \]
\[ \phi(T_C) = E[Y(T_C) - Y(T_0)]. \]

In addition to average effects across the entire sample, we also posit hypotheses on heterogeneous treatment effects, in which the effects of concerns about violence and corruption vary depending on the ways in which respondents are vulnerable to costs related to violence- or corruption-related costs. Even with theoretically-informed hypotheses, however, there are still well-known difficulties in specifying the correct functional form among possible interaction specifications. To help overcome these difficulties, we will use Kernel Regularized Least Square (KRLS) strategies to estimate Marginal Conditional Average Treatment Effects (MCATEs) (Hainmueller and Hazlett, 2013; Grimmer, Messing and Westwood, 2017). KRLS strategies build upon machine learning techniques to learn the target function from the data. Specifically, building upon our discussion in the theory, we will run KRLS models that include our treatments and variables for firm industry, size, profitability, local violence, and local inequality to explore MCATEs. This analysis will allow us to identify the extent to which priming violence or corruption may have different impacts on redistributive attitudes for different types of firms.

Heterogeneous effects will be measured using Q4.1-4.10, and with additional variables to measure local violence (INEGI/SNSP), Gini (Enamorado/Coneval), and poverty (CONEVAL).

References


Treisman, Daniel. 2007. “What have we learned about the causes of corruption from ten years of cross-national empirical research?” *Annu. Rev. Polit. Sci.* 10:211–244.


