

THE LEGITIMACY OF ECONOMIC INEQUALITY

An Empirical Approach to the Case of Chile

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*The Legitimacy of Economic Inequality:
An Empirical Approach to the Case of Chile*

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To my parents, Margarita Valenzuela and José Castillo

ABSTRACT

This research is an empirical study of the legitimacy of economic inequality with a focus on the case of Chile. Chile is an appealing case study in this regard because it has been one of the countries with the highest indexes of economic inequality over the past several decades. Theoretical perspectives based on the rational interest of the median voter have pointed out a negative association between high levels of inequality and legitimacy. Nevertheless, empirical evidence indicates that an unequal distribution of income is not necessarily challenged by the majority of a society, a phenomenon associated with the concept of *legitimacy of economic inequality*. Most empirical studies of this topic to date have considered social contexts that are not characterized by (comparatively) high levels of income inequality; thus, the impact of the level of inequality on its legitimacy remains largely unclear. The present study aimed at bridging this research gap, guided by the question: **How do high levels of income inequality in a society influence the legitimacy of economic inequality?**

Using data obtained by comparative public opinion projects including the International Social Survey Program (ISSP) and the International Social Justice Project (ISJP), this research considered individual preferences for occupational earnings inequality (the *just earnings gap*) as the main object of study. The central hypothesis was that individual preferences are strongly influenced by contextual standards such as the current income distribution, leading individuals of countries with high levels of inequality to have stronger average preferences for economic inequality (the so-called *existential argument*). Empirical evidence of legitimacy was related to two central dimensions based on David Beetham's *multidimensional concept of legitimacy*: (a) consensus regarding the inequality in the distribution of earnings in Chile and (b) the impact of the country level of income inequality on individual preferences for a larger *just earnings gap*. The empirical analysis provided partial evidence regarding the consensus about inequality in Chile, whereas in an international comparative framework, countries with higher levels of income inequality showed a stronger preference for a larger *just earnings gap*.

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INTRODUCTION

Social inequality is a topic of central interest for several disciplines, particularly economics, political science, and sociology. The growing concern with this topic in recent years has been associated with increasing levels of inequality within and between societies (Bergesen & Bata, 2002; Birchfield & Dion, 2007; Neckerman & Torche, 2007), bringing into consideration the issue of the legitimacy of distributive and political systems. According to Habermas, one of the central problems in the social sciences is “the distribution of the social product in an unequal but legitimate form” (Habermas, 1973, p. 132), a problem that certainly requires increased attention in societies with high and growing levels of inequality. The literature dealing with this phenomenon generally takes one of two main viewpoints. The first is a theoretical-normative approach that considers the existence of high levels of inequality a problem because it threatens the moral grounds of distribution in society (Sen, 1992) and has negative impacts in the forms of democratic instability, low economic growth, and/or the erosion of social cohesion (Lipset, 1959). The second approach is centered on explaining and describing the social structures of stratification in modern societies as well as accounting for the distributive rules that shape the structures of inequality. This approach assumes that inequality is a

characteristic of all complex societies and does not rule out the possibility that economic inequality is supported by part of the population, a possibility related to the concept of legitimacy.

Providing support for economic inequality appears paradoxical. It contradicts a basic rational choice argument, which posits that a high level of economic inequality would be regarded as illegitimate. Such an argument is referred to in the literature as the *Meltzer-Richard hypothesis* (Meltzer & Richard, 1981; Borge & Rattsø, 2004), which predicts pressure for redistribution from the side of the median voter (Milanovic, 2000) in a context of high economic inequality. Therefore, to point out that economic inequality can be *legitimate* seems counter-intuitive vis-à-vis the rational interests of the actors. Such an idea finds its roots in the legitimacy concept of Max Weber. Weber was the first scholar who made reference to a belief in legitimacy or *Legitimitätsglaube* (Weber, 1947[1922]) for explaining submission to external structures of authority. Key to this conceptualization is the idea of *voluntary submission*, the suppression of the individual will on behalf of some external demand. This idea, initially applied to the concept of authority, has been expanded to encompass the distribution of goods and rewards in society (Della Fave, 1980, 1986a; Kreidl, 2000a; Stephenson, 2000; Wegener, 1992), thus linking beliefs regarding distribution and the legitimacy of economic inequality.

Several empirical studies have made use of the concept of legitimacy to explain support for an unequal distribution of rewards in society, particularly from 1990 onwards (Evans & Kelley, 2006; Gijssberts, 1999; Kelley & Evans, 1993; Kluegel, Mason, & Wegener, 1995; Mason & Kluegel, 2000). Research in the area of legitimacy has been closely related to research into distributive justice, since “the stability of a society, the absence of anomie, of normlessness, or even revolt, depends on a conception of justice that, if it is accepted by its members, provides legitimacy to the social institutions and the state” (Wegener, 2000, p. 75). The link between legitimacy and justice research has grown within the framework provided by comparative public opinion research into justice and inequality. In this framework, individuals preferences for inequality (*what ought to be*) are contrasted with the current

distribution of goods and rewards in society (*what is*). The level of income inequality that characterizes a society has become a central variable for the analysis of individual distributive preferences within different contexts. In this line of research, empirical evidence has shown that economic inequality is not necessarily evaluated as unjust (Hadler, 2005; Osberg & Smeeding, 2006). However, most empirical studies have not considered societies with high levels of income inequality among the countries that they have analyzed. The present dissertation aims at bridging this research gap, guided by the research question: **How do high levels of income inequality in a society influence the legitimacy of economic inequality?**

The difficulties encountered in addressing this research question to date have been related to two major concerns, which this study attempted to overcome:

- i. The first concern is related to the lack of participation of countries with high levels of economic inequality in comparative public opinion research on topics of inequality, distributive justice, and legitimacy. The implementation of specialized public opinion studies is a costly enterprise, not only in terms of the economic resources required, but also in terms of the academic capacities required for active participation. Since most countries with high levels of inequality are also characterized by high poverty indexes, the economic gap between countries often leads to an academic research gap. As a result, and somewhat paradoxically, to date the impact of economic inequality on the legitimacy of inequality has been primarily studied in countries with comparatively low levels of income inequality.

The focus of this research in a country with high inequality level as Chile opens the possibility to start facing this shortcoming. Currently, Chile is among the group of 15 countries throughout the world with the highest levels of income inequality (UNDP, 2007), a situation that has remained stable over the past decades. Chile has not had remarkable changes in income distribution since the recovery of democracy in 1990, despite the central place that this issue has acquired in the political agenda of the post-authoritarian governments over the past 19 years. My interest in this situation motivated me to propose the inclusion

of Chile in the *International Social Justice Project* (ISJP), the most comprehensive comparative public opinion research program addressing issues related to distributive justice. It is also because of this reason that this study was developed at the Humboldt University in Berlin, since the ISJP is coordinated from the Institute of Social Sciences of this university.

- ii. The second limitation, which had been identified in previous research, relates to difficulties associated with the concept of legitimacy itself. Despite its widespread use in the social sciences, this concept lacks a clear definition, and as such is primarily used as a synonym for other terms, such as political support, evaluation of distribution, satisfaction, consensus, and/or stability (Easton, 1965; Fraser, 1974; Gibson, Caldeira, & Spence, 2005; Gilley, 2006b; Grimes, 2006; Ullrich, 2000). Due to the *diffuse* character of legitimacy (Zelditch, 2001), the areas of research pursued under this label have been quite different from one study to another. It is therefore difficult not only to identify a common research agenda in this area, but also to compare evidence obtained from previous research as well as to accumulate knowledge that orients further studies (Beetham, 1991a; Zelditch, 2001).

Conceptual problems with the concept of legitimacy can be traced back to Weber's inclusion of the term in sociology. Specifically, his definition of legitimacy as *der Legitimitätsglaube* has raised a series of questions in the literature, such as: Does a phenomenon stop being legitimate when a critical mass no longer believes in its legitimacy? Is simply asking individuals about their beliefs sufficient to determine the legitimacy of the phenomenon under study? The controversial character of the Weberian conception has been discussed by several scholars attempting to define the specific character of the belief in legitimacy and/or including elements to be considered in addition to individual beliefs. The diversity of approaches and the lack of exchange among them constitute major obstacles for the empirical study of legitimacy, which requires a definition of suitable for operationalization and analysis.

The problems of the diffuseness within the legitimacy literature and the difficulties that it creates for empirical study were addressed by David Beetham in *The Legitimation of Power* (1991a). Specifically, Beetham proposed a *multidimensional concept of legitimacy* that attempts to overcome previous confusion in the literature by specifying the basic elements or dimensions that must be taken into account when studying legitimacy. The majority of the theoretical section of this dissertation is based on this concept, since Beetham's multidimensional proposal presents two main advantages in addressing the research question. On the one hand, it is a comprehensive concept that allows for identification of previous theoretical and empirical contributions in particular dimensions of legitimacy, thus providing a common research agenda that orients future research. On the other hand, it offers criteria for evaluating the legitimacy of a particular situation in empirical terms.

The two mentioned contributions of this research—the inclusion of Chile (i) and the use of the multidimensional concept of legitimacy (ii)—have different emphasis in this study. Although this research started with a focus on the case of Chile, difficulties in identifying a clear concept of legitimacy suitable for empirical research led to a reorientation toward prioritizing the development of a conceptual explanatory model of legitimacy to be subsequently applied to the Chilean case. In other words, this research is not restricted to the description of a particular country's situation, but rather encompasses a general proposal for the empirical study of the legitimacy of economic inequality based on Beetham's multidimensional concept. Overall, this proposal considers the traditional aspect of legitimacy based on individual beliefs (the *subjective* dimension), but specifying that the beliefs must refer to the justification of economic inequality. Besides the subjective dimension, two additional dimensions are incorporated: the *consensual* and the *contextual* dimensions. The *consensual* dimension refers to the degree of agreement or consensus within a society regarding the justification of economic inequality, whereas the *contextual* dimension deals with the congruence between the level of economic inequality of a particular society and individual justifications of it or, in Homans' (1976) terms, the equivalence between *what is* and *what ought to be*.

A key aspect within this proposal is the definition and empirical assessment of individual justifications of inequality, from which emerges the link between legitimacy and social justice research. Empirical social justice research is an interdisciplinary field of studies mostly concerned with individual conceptions of how goods and rewards should be distributed within society (J. Berger, Zelditch, B. Anderson, & B. P. Cohen, 1972; R. Cohen, 1987; Frohlich, Oppenheimer, & Eavey, 1987; Kluegel et al., 1995; Jasso & Wegener, 1997; Wegener, 1999). An important aspect of social justice literature is the evaluation of rewards according to occupations, a research area known as the *justice of occupational earnings*. The literature on the justice of occupational earnings encompasses relative deprivation theory (Crosby, 1979; Runciman, 1966), equity theory (Adams, 1963), status value theory (J. Berger et al., 1972; Ridgeway, 1991), and justice evaluation theory (Jasso, 1980), all of which address the individual's experience of justice/injustice as well as the measurement of it. Building on this literature, I propose a means for the empirical assessment of the individual justification of inequality – the *just earnings gap* – which is the main dependent variable of this study. The *just earnings gap* assesses individuals' beliefs regarding occupational earnings based on their responses to questions about just salaries for low- and high-status occupations. With this conceptualization, it is possible to address the justification of inequality within large societies via public opinion studies such as the ISJP and the ISSP, both of which include items regarding just occupational earnings.

In addition to an empirical assessment of the justification of inequality, social justice theories provide the theoretical framework for the central hypothesis of this research. In this regard, two main determinants of justice standards are highlighted in the literature: the *utopian* and the *existential* (Kluegel, Csepeli, Kolosi, Orkeny, & Nemenyi, 1995; Shepelak & Alwin, 1986). The *utopian* determination of justice standards finds its roots in the normative literature of social justice, which argues for the existence of universal ideals of justice that orient social action, such as the principle of utility (Mill, 1863) and the principle of difference (Rawls, 1971). On the other hand, the *existential* perspective proposes that individual standards of justice are context dependent since the meanings of what is just changes over time and

space (Walzer, 1983). Authors such as Berger et al. (1972) have suggested that what individuals consider just is generally oriented by the actual distribution of goods in a particular society instead of a general utopian principle of justice. In terms of the justice of earnings, this argument means that the evaluation of occupational earnings is based on the current distribution of earnings within a particular society. Extending this idea to the study of legitimacy, *societies with higher levels of inequality would show a stronger preference for earnings inequality than societies with lower levels of inequality.*

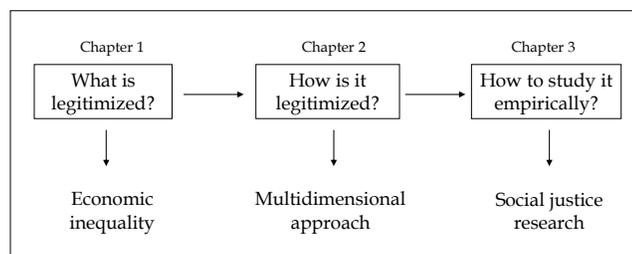
The central research hypothesis of this research builds on the existential determination of standards of justice regarding occupational earnings. In this sense, it is expected that countries with high levels of inequality, such as Chile, show evidence of legitimacy of economic inequality. In accordance with the multidimensional concept of legitimacy, the search for evidence is based on two main criteria: *consensual* legitimacy and *contextual* legitimacy. Consensual legitimacy refers to an overall agreement regarding the justification of inequality despite different positions in the stratification structure. If those at the top and at the bottom of the hierarchy share a similar preference for differences in earnings (just earnings gap), this will be interpreted as a sign of legitimacy of economic inequality. In other words, it is expected that status characteristics (independent variable) do not have a significant impact on the just earnings gap (the dependent variable). On the other hand, the analysis of the relationship between individual justifications of inequality and the level of income inequality (independent variable) delivers information regarding the *contextual* dimension of legitimacy. If the existential determination of standards of justice regarding occupational earnings holds, citizens of countries with higher levels of economic inequality, such as Chile, would be more likely to justify larger differences in earnings compared with countries with less inequality.

Organization of the Chapters

This dissertation is primarily organized into a theoretical section and an empirical section. The theoretical section is composed of three chapters that address the main concepts of this research—economic inequality, legitimacy, and social justice

research—which can be conceived as partially encompassing aspects of the overall research question, as represented in the following scheme:

Figure 1: Structure of the theoretical section



Chapter 1 addresses the topic of economic inequality and describes the Chilean case. As economic inequality is the phenomenon to be studied under the optic of legitimacy, this chapter addresses the relevance of economic inequality, the main approaches to its study; and the role that the issue of legitimacy play in the general understanding of economic inequality. The chapter highlights the study of inequality both *within* and *between* societies, the latter consideration being particularly oriented towards understanding economic inequality in non- industrialized societies (Briceno-Leon, 2002; R. Cohen & Kennedy, 2000; Elizaga, 2006). The chapter concludes with the description of Chile’s political and economic situation over the past 30 years, providing the background for the analysis of the high levels of income inequality that have characterized the country’s recent history.

Chapter 2 examines the concept of legitimacy and its study from a social science perspective. Before applying the concept of legitimacy to the study of economic inequality, I discuss the general definition of the term based on Beetham’s criticism of Weber’s concept of *Legitimitätsglaube* (Beetham, 1991a, 1991b, 1993, 2004). From this debate, I propose an adaptation of Beetham’s general multidimensional concept of legitimacy to the empirical study of the legitimacy of economic inequality. The second section of the chapter presents a review of the research in the area of legitimacy based on two main objects of study – authority and inequality – and two levels – the micro level and the macro level. In this framework, it is possible to locate the present study in the area of legitimacy of inequality at the macro level. Building on the previously reviewed perspectives regarding legitimacy, the final section of

this chapter specifies the empirical assessment of each legitimacy dimension for the study of economic inequality, followed by an introduction to the basic explanatory model that orients the empirical analysis.

Chapter 3 introduces the topic of social justice and its link with legitimacy research. After discussing the origins of this perspective and its distinction from the normative study of justice, the chapter focuses on the justice of occupational earnings as a relevant aspect in the study of legitimacy, particularly in public opinion research (Gijsberts, 1999; Kelley & Evans, 1993; Kluegel, Mason, & Wegener, 1999; Lippl, 1999; Wegener, 1992). Building on the theories of status value (J. Berger et al., 1972) and justice evaluation (Jasso, 1978, 1980; Jasso & Rossi, 1977; Jasso & Wegener, 1997), I propose the use of the *justice earnings gap* as a measurement of the justification of economic inequality. In addition to discussing the research into the justice of occupational earnings, this chapter introduces two further elements from the justice research literature related to the utopian-existential determination of justice standards: *justice ideologies* and the *perception of inequality*. *Justice ideologies* represent general normative preferences regarding distribution, i.e. the utopian perspective, whereas the *perception of inequality* represents the influence of the immediate context, i.e. the existential perspective. If, as Homans proposes, “Justice depends on expectations, and expectations in the long run on actualities” (1976, p. 244), *perception of inequality* should have a positive impact on what is considered just earnings differences. In this case, *what is* would be influencing *what ought to be*, leading to a higher preference for inequality in contexts of high inequality. The chapter concludes by presenting an integration of social justice research into the multidimensional legitimacy model, a general explanatory framework which constitutes the basis of the research hypotheses.

Chapters 4, 5 and 6 represent the empirical section of this work. Chapter 4 describes the datasets, variables, and methods of analysis. This study analyzed three public opinion survey datasets: the Chilean data of the International Social Justice Project (ISJP 2006), the Factorial Survey of Occupational Earnings (FSOE, applied together with the ISJP in Chile), and the International Social Survey Program (ISSP 1999, social

inequality module). Each dataset covered different aspects of the research hypotheses and placed emphasis on different dimensions of the explanatory model of legitimacy. The methods proposed for testing the hypotheses comprise structural equation models (Bollen, 1989; B. Muthén, 2002; B. Muthén & L. Muthén, 2007) and multilevel models (Heck & Thomas, 1999; Kreft & de Leeuw, 1998; Skrondal & Rabe-Hesketh, 2005).

Chapter 5 is centered on the analysis of the Chilean case based on two datasets: the FSOE and the ISJP. The FSOE, designed specifically for the case of Chile, is considered an exploratory study that covers a small sample of respondents from the capital city of Santiago. With this dataset, it was possible to achieve a comprehensive approach to individual beliefs regarding occupational earnings by assessing the impact of various determinants (besides occupation) in the evaluation of just earnings. The analysis of this dataset was centered on testing the assumption behind the *just earnings gap*, namely that occupational status is a relevant component in justice evaluations. This analysis introduces discussion regarding the impact of the perception of inequality on justice judgments, a crucial aspect in forthcoming analyses regarding the existential determination of distribution preferences. The second part of this chapter presents the analysis of the ISJP dataset with an emphasis on the analysis of the *consensual dimension* of legitimacy; that is, the extent to which there is evidence of consensus throughout the population regarding the just earnings gap.

Chapter 6 examines the explanatory model of legitimacy within a cross-national framework. The chapter focuses on the analysis of the ISSP survey of social inequality, which covers 28 countries and allows for estimation of the impact of the countries' income inequality level on individual perceptions and beliefs. The analysis of this dataset was based on a series of multilevel models in which individual level variables, including the just earnings gap, the perception of inequality, and justice ideologies, were predicted by context level variables such as the Gini Index of Income Inequality.

The main findings of the research are summarized in a final section, in which I discuss the principal theoretical and empirical contributions, the main shortcomings, and proposals of avenues for future research.

Chapter 1

ECONOMIC INEQUALITY AND THE CHILEAN CASE

The aim of this chapter is to provide a theoretical framework for the understanding of economic inequality as a relevant object of study in terms of legitimacy, as well as to describe the situation of inequality in the particular case of Chile. The first section of the chapter refers to the study of economic inequality *within countries*, centered on the traditional sociological approaches to stratification and mobility research. This first section not only describes basic concepts in the study of social inequality from social sciences, but also shows how research in the area of social inequality connects with the study of legitimacy. The second section presents the study of economic inequality *between countries*. This perspective focuses on explaining the existence of higher inequality and poverty in some regions of the world (as Latin America) as based on historical power relationships among countries in a global stratification structure. Considering inequality between countries not only helps to understand the situation of economic inequality in Chile, but also introduces the discussion about the relationship between inequality and people's preferences for it, a central aspect to deal with in legitimacy research. The concepts and perspectives discussed in sections

one and two are applied in the description of the Chilean case in section three. This last section also refers to the implementation of public opinion studies in Chile in the area of economic inequality, considered an important antecedent for the empirical study of legitimacy in this society.

1.1 ECONOMIC INEQUALITY WITHIN COUNTRIES

Throughout human history, a main characteristic of all societies has been the existence of unequal distribution of material and symbolic rewards among its members, in which a group of privileged individuals enjoy a disproportionate share of income, power, and other valued resources (Arts & Vermunt, 1989). *Social stratification* is a general term used to describe these systematic structures of inequality, or in the words of Lenski (1966) the study of the distributive process, which is aimed at answering the basic question *Who gets what and why?* The relationship between social stratification and inequality can be summarized as follows: “social stratification means that inequality has been institutionalized, and there is a system of social relationships that determines who gets what, and why [...] Such inequality may or may not be accepted equally by a majority in the society, but it is recognized as the way things are” (Kerbo, 1991, p. 12).

Social differentiation is a pre-condition of social stratification. People are differentiated in terms of biological characteristics, social roles and occupations. As a society becomes more complex, the division of labor increases leading to more differentiation (Durkheim, 1988[1893]). On the other hand, *social stratification* is the condition whereby people have unequal access to valued resources, services and positions in the society, related to different positions in the social structure (Grusky, 2006; K. Davis & Moore, 1945; Parsons, 1970). As a consequence, “inequality exists when socially distinct entities have differential access to strategic resources, and this differentiation gives those with access the ability to control the actions of others” (Paynter, 1989, pp. 369-370). Stratification emerges from social differentiation because social evaluation is often applied to differences in terms of superior or inferior value, and some roles place people in positions where they can obtain a greater share of