Social Mobility and Redistributive Politics

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Motivation

▶ Since Tocqueville (1835): differences in support for redistribution linked to mobility rates

▶ Yet, empirical studies showed similar mobilited rates in the US and Europe (Lipset and Bendix (1959), Lipset (1966, 1977, 1992))

Persistence of voting patterns across time and place

Table 1: Percentage of votes for left-wing parties as a function of individual mobility experience

| | | Respondent's income | |
		Low income	High income
	Low income	72%	38%
Parents income			
	High income	49%	24%

- ▶ Stability of voting patterns depending on parents' income class
- ▶ Contrary to straight economic rationality: only current income should matter
- ▶ Hence, need to provide a framework to account for those stylized facts

A common framework to think about redistributive politics

▶ Basic idea: voters may develop views about redistributions based on their mobility experiences and not because of different objective functions

▶ Agents have same *a priori* distributive goals and try to learn from their income trajectory

▶ Agents want to learn how the probability of promotion is related to effort or luck

▶ In the long run, some dynasties *support higher redistributive taxation and supply less effort*, while other *supply more effort and support lower redistribution*.

▶ Leads to a multiplicity of steady-states, which explains why countries can remain in different redistributive equilibria while having same mobility rates

A Model of Income Inequality and Redistribution

▶ Each period is a different generation $t = 1, 2, \ldots,$

▶ Continuum of agents $i = [0; 1]$ with 1 offspring per dynasty

▶ 2 possible pre-tax incomes: $y_{it} = y_0$ or y_1, with $y_1 > y_0 > 0$.

▶ L_t (resp. $H_t = 1 - L_t$) mass of aggents born at t in low-income families

▶ Material welfare is: $U_{it} = y_{it} - C(e_{it})$, with $C(e) = e^2/2a, a > 0$

▶ Conditional probabilities to receive high-income based on social origins and effort is:

$$\text{proba}(y_{it} = y_1 | e_{it} = e, y_{it-1} = y_0) = \pi_0 + \theta e$$
$$\text{proba}(y_{it} = y_1 | e_{it} = e, y_{it-1} = y_1) = \pi_1 + \theta e$$
$$\pi_1 > \pi_0 > 0$$

A Rational-Learning Framework

- (π_0, π_1, θ) taken as given
- Assume that effort and social origins are not publicly verifiable
- Optimal redistributive policy is a lump-sum tax: τ
- Timing of actions
    - Agent chooses e_{it}
    - Realization of income shock y_{it}
    - Agents vote over τ_{t+1}
- 4 types of voters: SL_t, DM_t, UM_t, SH_t; All consider that $\pi_0 < \pi_1$ is a bad thing
- When voting all maximize $V_{t+1} = \int_{i \in Lt+1} U_{it+1} di$: All voter are going to balance social benefits of equalizing opportunities with the incentive costs of taxation $(e(\tau_{t+1}, \theta))$
- Socially optimal tax rate: $\tau_{t+1}(\pi_1 - \pi_0, \theta)$ increasing in $(\pi_1 - \pi_0)$, decreasing in θ

Dynastic Learning

▶ Now assume that agents have different beliefs about (π_0, π_1, θ), in particular disagree on relative importance of $\pi_0 - \pi_1$ and θ

▶ Assume there is a true stationary set $(\pi_0^*, \pi_1^*, \theta^*)$

▶ In this settings, i learns only from its own experience, not from others' beliefs nor income distribution

▶ Bayesian rationality, but not common knowledge of Bayesian rationality

▶ Initial state of the economy is $(L_0, H_0, \tau_0, (\mu_{i0})_{i \in I})$, where $\mu_{i0}(.)$ is the initial prior of dynasty i

▶ Timing
  ▶ $t = 0$, i chooses $e_{i0}(\mu_{i0}, \tau_0)$ maximizing its expected private welfare
  ▶ Rationally updates beliefs μ_{i0} given income achievement y_{i0}
  ▶ Vote for τ_1, supporting what i believes to be socially optimal $\tau_{i1}(\mu_{i1}(.))$
  ▶ Transmit its posterior to its offspring

Steady-State Political Attitudes

▶ Convergence because martingale theorem applies (what i expects its offspring to know next period is exactly what i knows today)

▶ To be stable need that a dynasty will never modify its beliefs, whatever the observed income trajectory (because they lad to expectations that entail no contraction with experience)

▶ Although long-run beliefs might be wrong every single SS will exhibit voting patterns from Table 1

▶ In the long run, all dynasties believe that $pi_0 - pi_1$ is on average $pi_0^* - pi_1^*$, but have different estimates of θ

▶ Because all dynasties are mobile, there are proponents of all redistributive policies in all income groups

▶ Same beliefs lead some dynasties to supply less effort and to support more redistribution $\Rightarrow$ in SS more left-wing voters in lower class

Long run distribution of political attitudes

$$UM_\infty(\theta) = (\pi_0^* + \theta^* e(\tau_\infty, \theta))L_\infty(\theta)$$
$$DM_\infty(\theta) = (1 - \pi_1^* - \theta^* e(\tau_\infty, \theta))H_\infty(\theta)$$
$$SM_\infty(\theta) = (\pi_1^* + \theta^* e(\tau_\infty, \theta))H_\infty(\theta)$$
$$SL_\infty(\theta) = (1 - \pi_0^* - \theta^* e(\tau_\infty, \theta))L_\infty(\theta)$$

▶ Fractions of mobile θ-dynasties decreases (resp. increases) with θ compared to θ-dynasties that are stable at high-income (resp. low-income)
▶ Mobile as a whole have intermediate political orientation compared to the stable
▶ In the long-run: social origins have an effect on political attitudes only bc. informative about the type of dynasty one belongs to

Welfare Analysis

▶ From this model, we can infer that countries (even w/ same structural parameters $(\pi_0^*, \pi_1^*, \theta^*)$) are at different SS equilibria

▶ Without knowing true parameters, difficult to compare welfare in countries

▶ Could be that too much redistribution in the US and too litle in Sweden, depending on the true returns to effort: US would not be working enought for instance

▶ Can refine looking at GNP per capita and mobility rates, but no clear picture between EC countries, US, and Scandinavia for instance

▶ Western EU as mobile as the US: little reason to preserve individual incentives

Conclusion

▶ 2 main objectives of this paper:
  ▶ Theoretical foundations to understand better political economy of redistribution and important stylized facts about social mobility and political attitudes toward redistribution
  ▶ Richer picture of redistributive politics than standard public-choice model that shows importance of belief systems for generation and dynamics of inequality

Thank you!