Introduction

The context:

- Increase in inequality in OECD countries, and political instability
- Defending the top 1%? (Alvaredo & al, 2013 vs. Mankiw, 2013)
- Redistributive policies: one of the main economic challenge

Objectives of the presentation:

- To provide some empirical and experimental evidences on the preferences for redistribution, and on the observed heterogeneity
- To think about the puzzle: $\nearrow$ inequality but $\searrow$ redistribution (Piketty & al, 2014)

Not in this talk:

- Theory of optimal taxation and efficiency/equity trade-off
- Redistributive preferences induced by existing tax systems

Overview

1. Why do redistributive issues matter?
2. Redistribution as democracy
3. Redistribution as fairness
4. Redistribution as insurance
5. Perceptions and interpersonal comparisons

Why do redistributive issues matter?

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

1.1. Is income fairly distributed?

Top 1% vs. Bottom 50% national income shares, 1980-2016

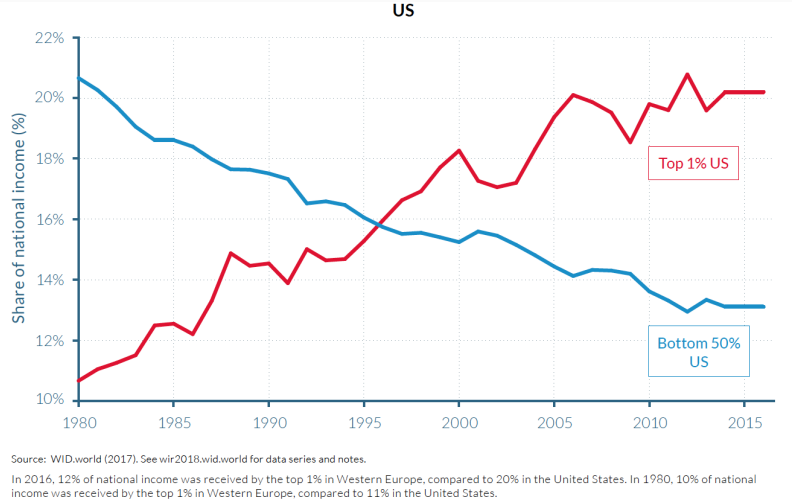


Figure E3, Page 12, in the Word Inequality Report 2018

(http://wir2018.wid.world/)

1.1. Redistribution approx. by public spending

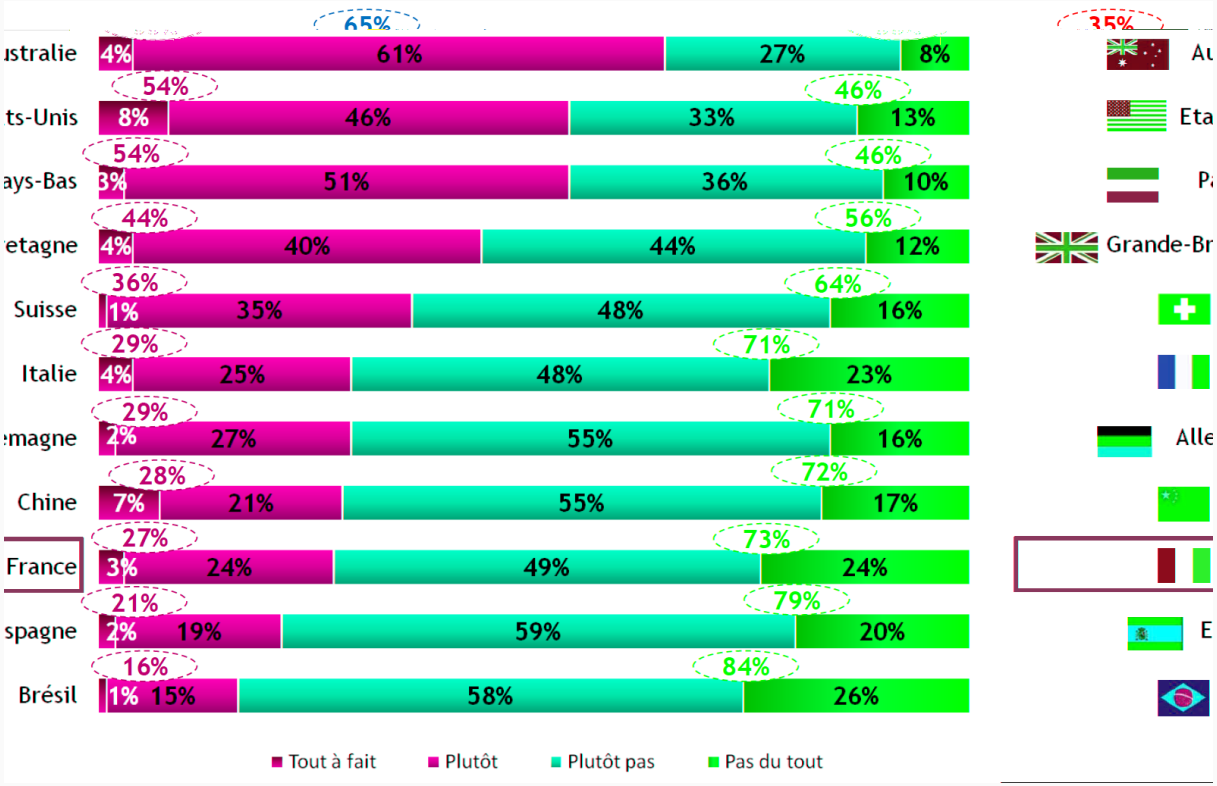
Table 1 Public Spending in OECD Countries (2000–2010, Percent of GDP)

	US *(1)*	Germany *(2)*	France *(3)*	UK *(4)*	Total OECD *(5)*
Total public spending	**35.4%**	**44.1%**	**51.0%**	**42.1%**	**38.7%**
Social public spending	**22.4%**	**30.6%**	**34.3%**	**26.2%**	**25.1%**
Education	4.7%	4.4%	5.2%	4.8%	4.9%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4.8%	6.5%	Pensions	6.0%	10.1%	12.7%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Piketty and Saez (2013, Page 397)

1.1. Is the society perceived as fair?

Nowadays, do you think that the society is fair?



IFOP – Jean Jaures Fondation (Survey, 2010)

La perception des inégalités – Regard Croisé sur 12 pays

Strongly Agree / **Agree** / **Disagree** / **Strongly Disagree**

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

1.2. Economics and public intervention

Usual justification of the role of the State (Mueller, 2003):

- Allocative efficiency in the presence of market failures (public goods, externalities, economies of scale)
- Redistribution (social welfare maximisation under utilitarianism)

No consensus on redistribution: A normative issue

- Opposite fairness principles (from Marx to Nozick)
- Political debates: trickle-down economics (Trump!)

From 'market failures' to 'failure of the markets' (Stiglitz, 2012):

- Rent-seeking and economic instability
- Inequality, no longer an incentive: the Great Gatsby curve
- Inequality and growth, no longer a trade-off (Aghion & al, 1999)

1.2. Why not a demand for more redistribution?

'*Is there any point to which you would wish to draw my attention?*'
'*To the curious incident of the dog in the night-time.*'
'*The dog did nothing in the night-time.*'
'*That was the curious incident*', remarked Sherlock Holmes.

Hochschild (1981): 'What's Fair?
American's beliefs about distributive justice', Page 1

1.2. The motives of redistribution

People may ask redistribution, because:

- It is allowed by democracy (self-interest?)
- It reflects fairness concerns
- It offers a social insurance

Preferences for redistribution may be influenced by:

- Personal history and personal situation
- Culture, social identity, education or socio-demo characteristics
- Perceptions of the reality or relative concerns, ...

Redistribution as democracy

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

2.1. Does inequality imply demand for more redistribution?

The median voter benchmark (Meltzer & Richards, 1981)

- Simple static model, diff. productivities, lump-sum transfer, linear income tax, utility depends on consumption
- Under majority rule, the optimal tax rate maximizes consumption for the voter with median productivity
- *Prediction*: Lowering the median voter income from the mean, implies an increase in the demand for redistribution

But the reality is more complex . . .

- Paradox of voting (Downs, 1957) and distrust in the government's ability to change the situation (Sitglitz, 2012)
- Democracy may be 'captured' (Acemoglu & al, 2015)
- That depends on the structure of the 'politic offer' (Roemer, 1998)
- It is impacted by 'group identification' (Costa-i-Font & Cowell, 2015)

2.1. Impacts of identity and culture

Macro-level differences between democracies:

- European countries tend to have stronger redistributive preferences than people in the US (Alesina & Glaeser, 2004)
- Stronger preferences in former socialist countries than in Western nations (Corneo & Gruner 2002)

Is 'social identity' an explanation?

- relatively homogeneous areas tend to have more income redistrib. and public spending (Alesina & al, 1999, Luttmer, 2001)
- Alesina & Glaeser (2004) also find a negative correlation between 'racial fractionalization' and the level of social spending.

Culture has a persistent effect (Luttmer & Singhal, 2011)

2.1. Luttmer & Singhal (2011)

In Europe, immigrants' preferences for redistribution are related to average preferences in their birth countries

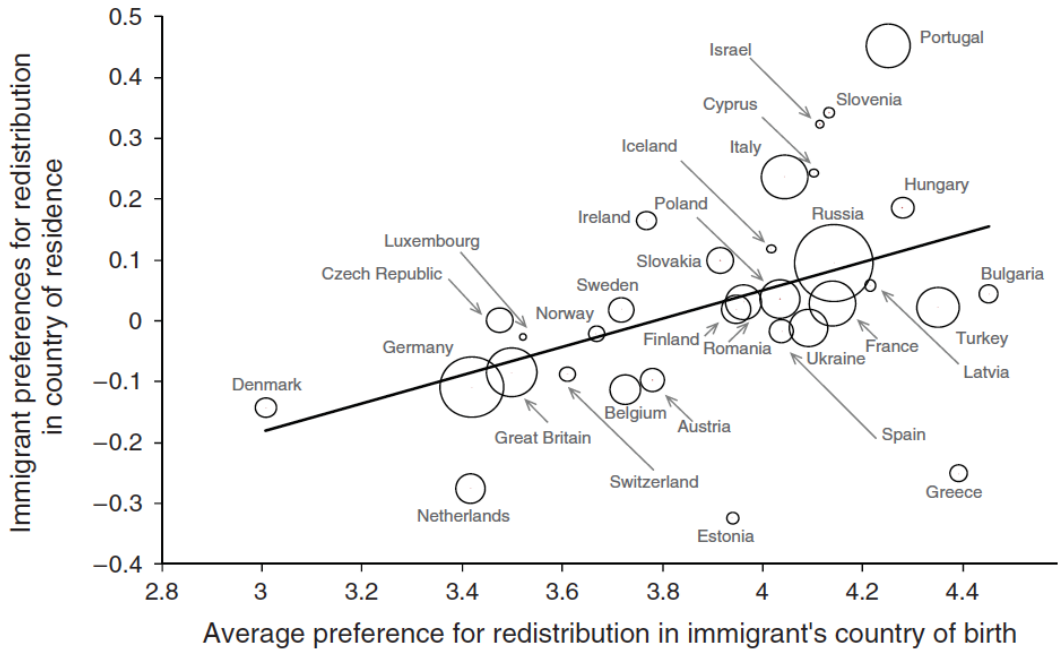


FIGURE 1. IMMIGRANT PREFERENCES FOR REDISTRIBUTION BY PREFERENCES IN COUNTRY OF BIRTH

Notes: Immigrant preference for redistribution in country of residence is measured in deviation from the mean preference of natives in the country of residence. It is then averaged over all countries in which immigrants from a given birth country currently reside. Thus, the country labels indicate countries of birth. The size of each circle is proportional to the number of immigrants from the indicated country in the ESS dataset. The regression line has a slope of 0.30 with a standard error of 0.08. The adjusted R^2 equals 0.40.

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

2.2. Macroeconomics determinants

Inequality and change in inequality impact preferences:

- In Europe, growing income inequality leads to more individual support for redistribution (Olivera, 2015)
- The actual level of redistribution operates in the opposite direction (low support for more redistribution in the Scandinavian countries)

The impact of economic crisis differs between countries:

- Significant increase in support for redistribution in Europe, correlated to (youth) unemployment (Olivera, 2014)
- It has remained flat in the US by some measures, and decreased for others (Kuziemko et al., 2013) ...
  ...but ind. who experienced a recession when young support more redistribution (Giuliano & Spilimbergo, 2016)

2.2. Kuziemko & al (2013)

US: 'Does the government should reduce differences?

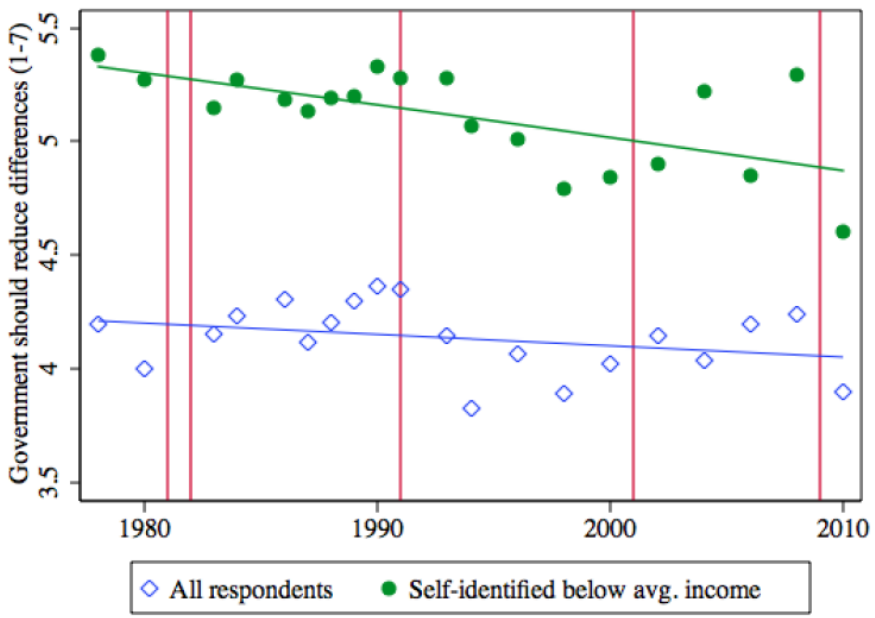


Figure 1: The government should reduce income differences (scale from 1–7, GSS)

This figure depicts responses since 1978 in the US General Social Survey (GSS) on whether the government should reduce income differences. The empty diamond series is for all respondents while the full circle series if for respondents with below average income. Regression fits are depicted for each series. The graph uses the *eqwlth* variable from the GSS (though subtracts it from eight so that it is increasing in support for redistribution).

2.2. Individual characteristics affect preferences

Alesina & Guilano (2011) for a survey:

- Gender: women are more pro-redistribution (Buser & al, 2016)
- Ethnicity: African-Americans more likely to redistribute
- Education: Higher achievements reduce the proba. of supporting redistribution (Neher, 2012)
- Political ideology: left-wing ind. are more pro-redistribution
- Employment status: Unemployed ind. are more favorable to redistribution, but not robust in the US
- Age: an inverted U-curve, with a decline for elderly over time in the US (Ashok & al, 2015)
- Marital status: Marriage as an insurance effect (Hess, 2004), which implies lower demand for redistribution

(Persistent effects even after controlling for income)

Redistribution as fairness

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

3.1. Theories of justice

Redistribution can be justified be appealing to normative arguments, as developed in the modern theories of justice

Equality of opportunity (Roemer, 1996):

- Inequality resulting from 'circumstances' is unfair (should be compensated)
- Inequality as a consequence of 'effort' is fair (individuals are held responsible for)

A the same time, large experimental evidence on inequality aversion

- The huge literature on the Dictator Game
- Reference-dependent preferences (Fehr & Schmidt, 1999)

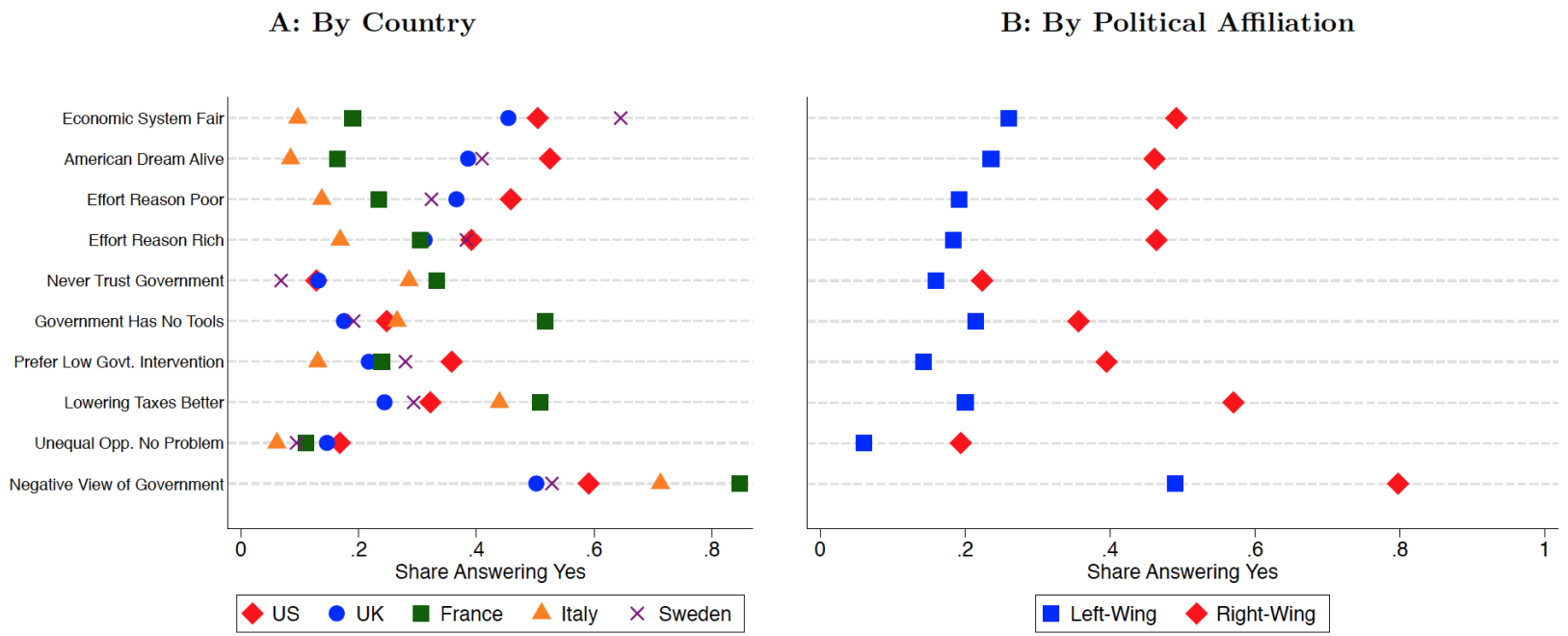
Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

3.2. Luck or effort, fair or unfair?

Alesina, Glaeser and Sacerdote (2001): strong positive correlation between the share of social spending over GDP and the % of respondents to the WVS who think that income is determined mostly by luck

Alesina & al (2018): also heterogeneity in fairness views?

FIGURE 7: PERCEPTIONS OF GOVERNMENT AND FAIRNESS



3.2. Fairness views vs. social beliefs

Fairness views (fair vs. unfair) have to be controlled for diff. in social beliefs on the origins of inequality (luck vs. effort)

Alesina & Angeletos (2005): Same fairness views, but interacting with diff. social beliefs, could lead to two diff. equilibria:

- low taxes and a belief that the income-generating process is fair because effort prevails (an 'American' equilibrium)
- high taxes and the belief that the process is unfair because luck prevails (an 'European' equilibrium).

Typology of fairness views (Almas & al, 2010):

- Libertarian: both ineq. due to luck and diff. in productivity are fair
- Meritocratic: only ineq. due to diff. in productivity are fair
- Egalitarian: all ineq. are unfair fair

3.2. Experimental results

Almas & al. (2010): Dictator game experiment with production phase (partially-random, effort and luck) $\rightarrow$ high heterogeneity, with non-trivial shares of participants in each the three fairness views

Almas & al. (2017): Americans accept significantly more inequality than Norwegians do ($\text{Gini}_{US} = 0.43$ vs. $\text{Gini}_{Norway} = 0.24$), but are not more meritocratic (over-optimism on the 'American dream')

Fig. 3: Implemented inequality

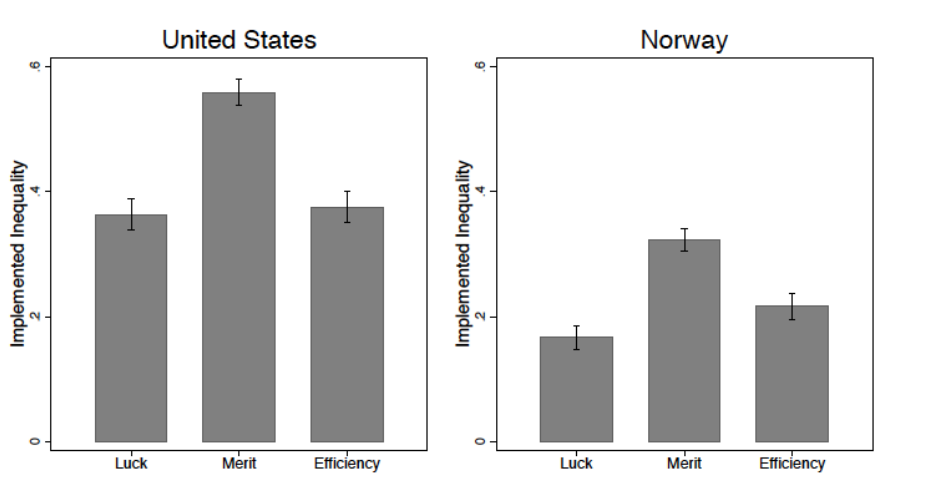
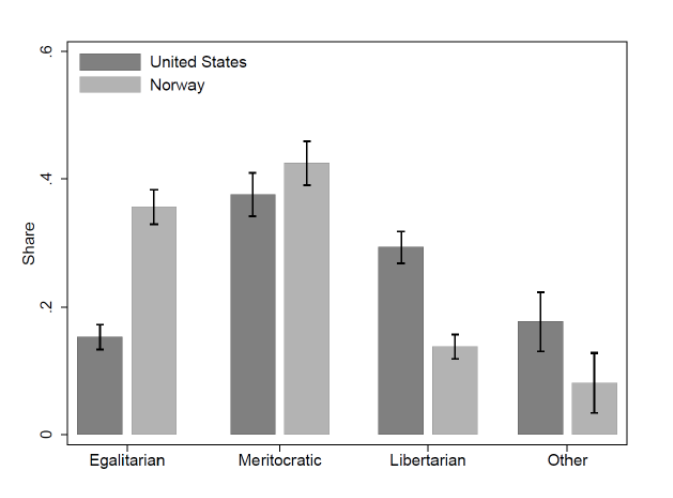


Fig. 4: Fairness types



Redistribution as insurance

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

4.1. An insurance provided by the State

Future income in the society are uncertain

- Different advantages of the secure property rights to improve self-situation (Buchanan & Tullock, 1962)
- Redistribution from the rich to poor insures individuals against the possibility to be poor: insurance contract

Uncertainty in the theory of redistribution

- Social welfare max. and the impartial observer (Harsanyi, 1955)
- Redistributive taxation as a trade-off between insurance and incentives (Varian, 1980)
- 'Insurance club' (Arrow & Lind, 1970), and adverse selection problem as market failure, justify state provision of insurance

4.1. Risk aversion matter

Demand for redistribution depends on future expected prospects

- Subjective perceptions of future mobility, but also 'objective' measures of expected gain and loss (Alesina & La Ferrara, 2005)
- Higher amongst those who expect their welfare to fall (Ravallion & Loskin, 2000)
- Also depends on expectation on relative social position (Corneo & Gruner, 2002)

Durante & al (2014): an experiment to control the different motives for redistribution (income max., risk aversion, social pref.)

- Subjects are assigned unequal initial earnings under various conditions (randomly, place of origin, performance, skill), and are ask to choose a proportional tax, with equal division
- Each of the three motives matter but: own income max. when uncertainty solved, and negative effect of a high confidence in performance or a low perceived income risk

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

4.2. Social mobility as the main determinant

Insurance demand is related to prospect of upward mobility . . .

- Do the person's chance of success depend on her family background?
- Beliefs of intergenerational mobility impact support for redistrib.
- Is the US the land of opportunity?

. . . and can explain tolerance for inequality

- The 'tunnel effect' (Hirschman, 1973; Ravallion & Loskin, 2000)
- Learn from personal dynastic income mobility and the relative importance of effort affect preferences (Piketty, 1995)
- But: The 'Great Gasby curve' holds

4.2. The POUM hypothesis

Benabou & Ok (2001) The 'prospect of upward mobility' hypothesis is compatible with rational expectations, as soon as the mobility process is 'concave'

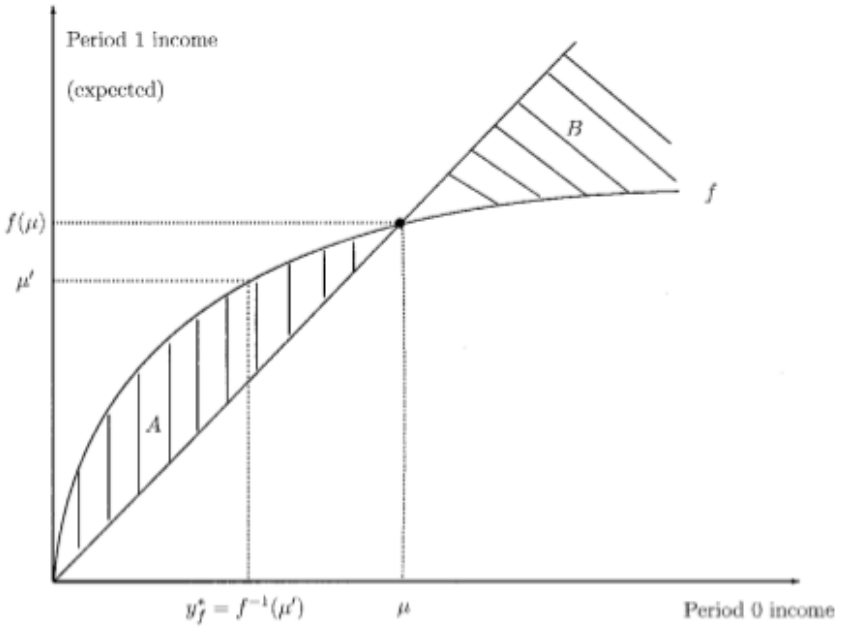
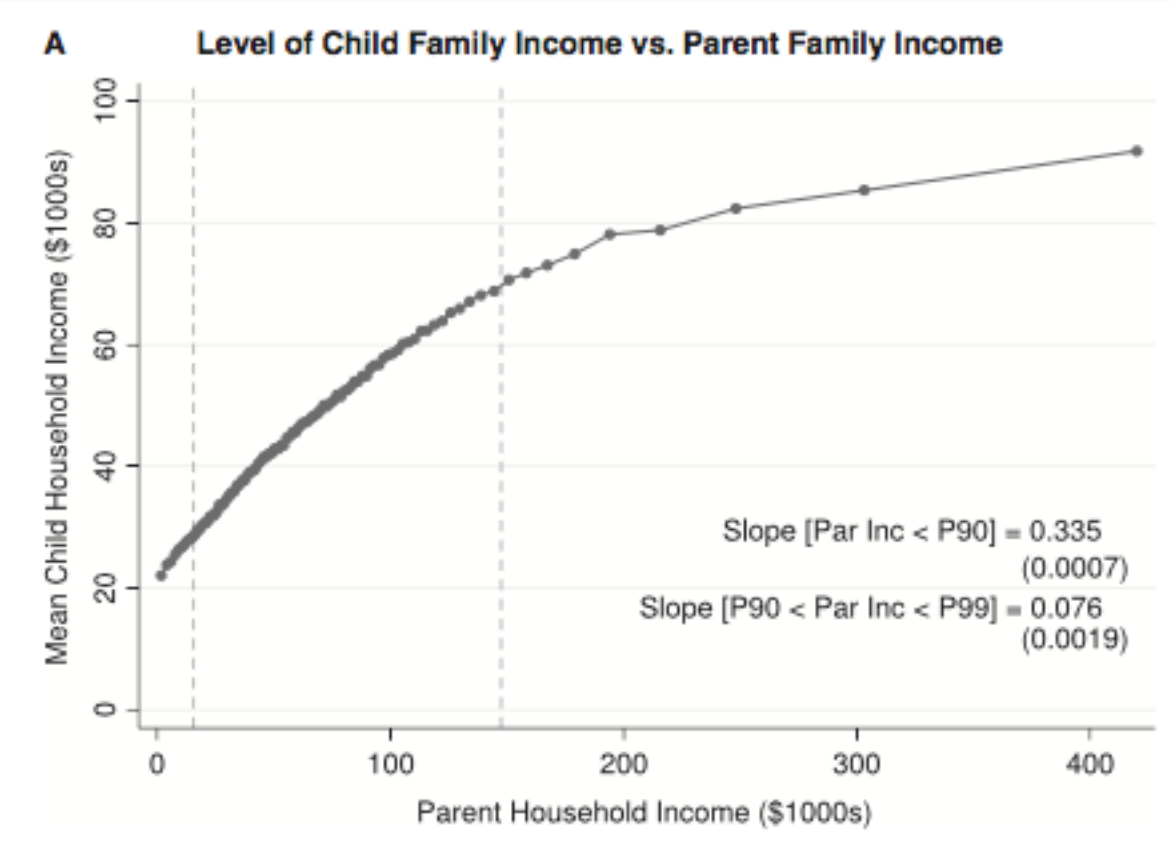


FIGURE I
Concave Transition Function
Note that $A < B$; therefore $\mu' < f(\mu)$. The figure also applies to the stochastic case, with f replaced by Ef everywhere.

Checchi & Filippin (2004) show that preferred taxation declines with a transition matrix consistent with the POUM hypothesis (experiment)

4.2. The POUM hypothesis (2)

Chetty & al (2014): 1980-1982 birth cohorts; child income is the mean of 2011-2012 family income ($\approx$ 30 years old); parent income is mean family income from 1996 to 2000; income in 2012 dollars



(centile means for parents, plotted with the mean level of child income)

4.2. Mobility process vs. beliefs

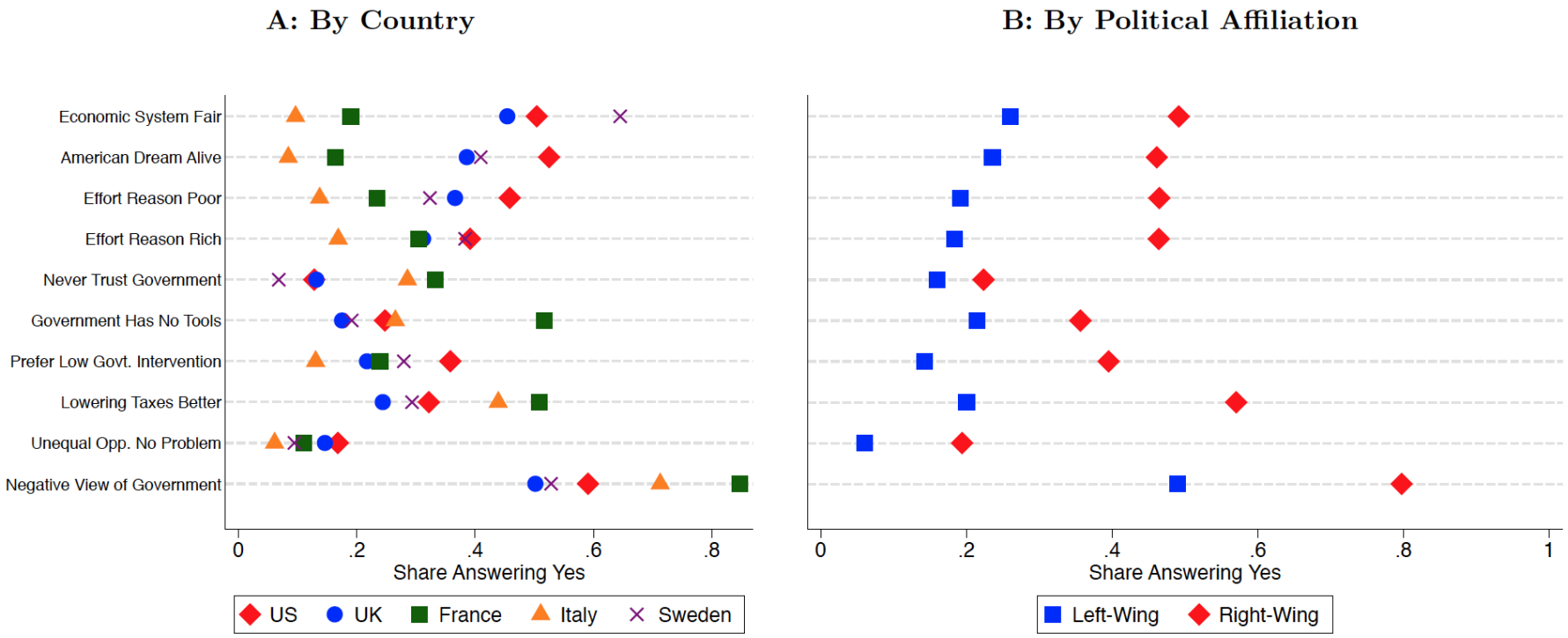
Alesina & al (2018) conducted cross-country survey and experiments to investigate how beliefs about intergenerational mobility affect preferences for redistribution (France, Italy, Sweden, UK, US)

The main results are:

- Americans are more optimistic than Europeans about social mobility
- (controlled) pessimistic information about mobility increases support redistribution
- Strong political polarization: left-wing respondents more pessimistic and more sensitive to pessimistic information

4.2. Alesina & al (2018)

FIGURE 7: PERCEPTIONS OF GOVERNMENT AND FAIRNESS



Perceptions and interpersonal comparisons

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

5.1. Norton & Ariely (2011)

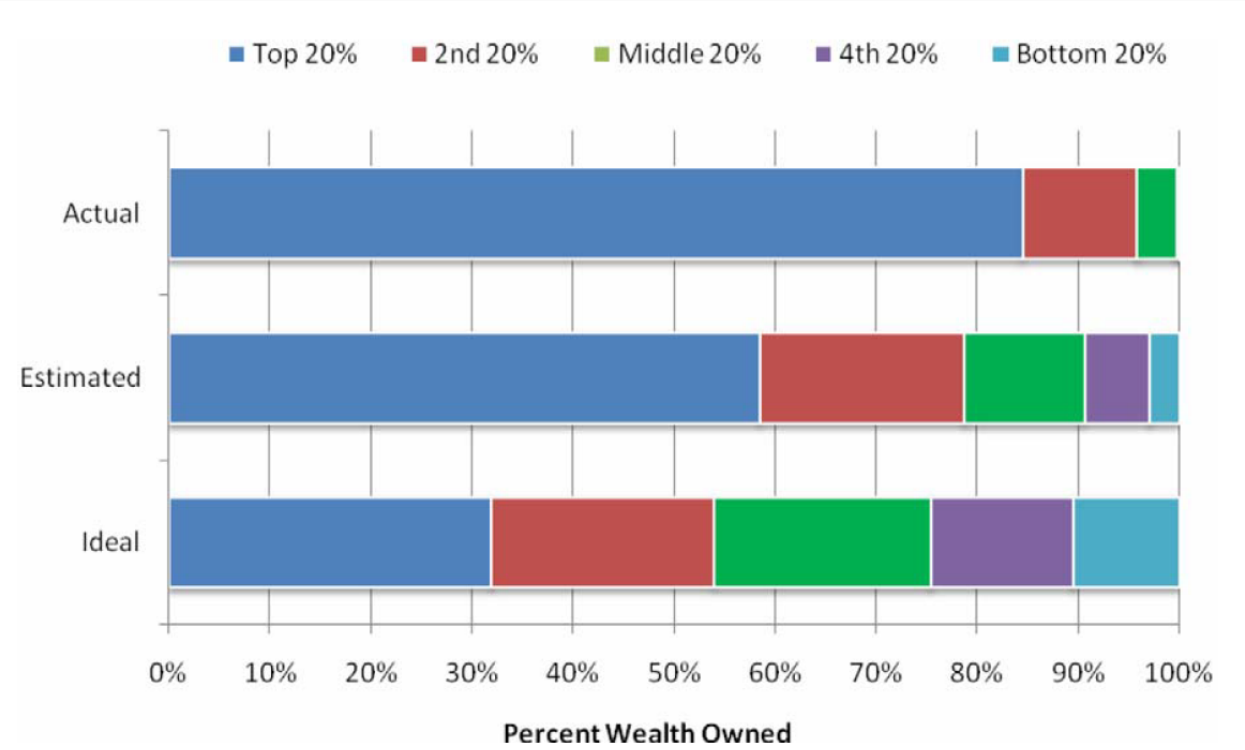


Fig. 2. The actual United States wealth distribution plotted against the estimated and ideal distributions across all respondents. Because of their small percentage share of total wealth, both the "4th 20%" value (0.2%) and the "Bottom 20%" value (0.1%) are not visible in the "Actual" distribution.

Underestimation of the current level of wealth inequality, ideal distributions far more equitable, true for all demographic groups

5.1. What about information of inequality?

Misperceptions of inequality imply biased pref. for redistribution

- The Norton & Ariely's results seem to be confirmed by other empirical studies (Norton & Hauser, 2017)
- Even if still discussed : Does the americans under or over-estimate the rise of income inequality? A debate (Chambers et al., 2014)
- Actual inequality not related to pref. for redistrib., perceived inequality is (Niehues, 2014; Gimpelson &Treisman, 2018)

But information modifies preferences . . .

- An overestimation of relative or absolute position, implies an increase in redistributive demand (Cruces & al, 2013: in Argentina)
- and conversely (Karadja & al, 2017: Sweden)

5.1. The effect of information in the US: A paradox?

The effect of info. on redistributive demand: rather small . . .

- McCall & al (2017): That sparks skepticism about the existence of economic opportunity, and slightly increases perceived business and government actors responsability to reduce inequality
- Kuziemko & al (2015): Inequality is viewed as a problem, but redistrib. demand is only slightly increased (apart from estate tax)

. . . and the 'exposure to inequality' can affect negatively support for redistribution! (Sands, 2017)

- Using a placebo-controlled field experiment, randomization of the presence of poverty-stricken people in public spaces
- Passersby were asked to sign a petition calling for greater redistribution through a 'millionaires tax'.
- 2,591 solicitations show that in a real-world-setting exposure to inequality decreases affluent individuals willingness to redistribute.

5.1. Sands (2017)

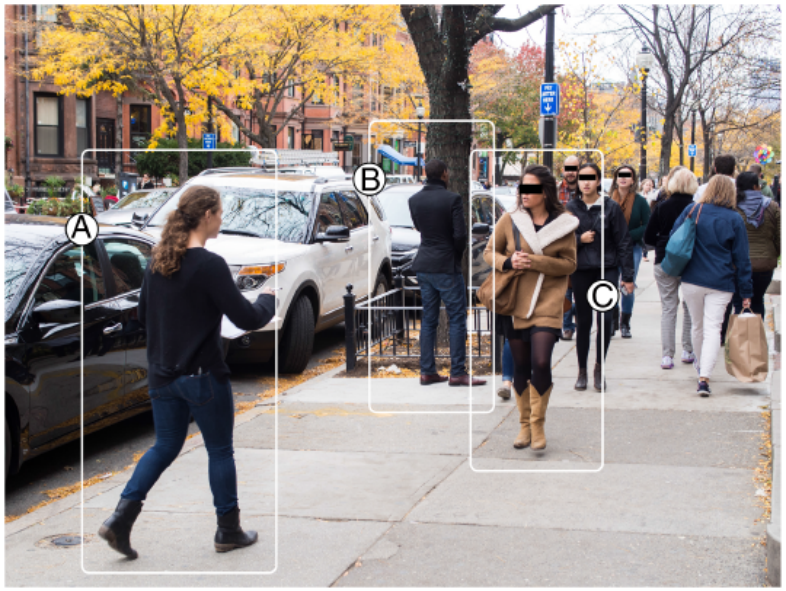


Fig. 1. Experiment in Progress. The petitioner (*A*) approaches a subject (*C*) after the subject passes the confederate (*B*).

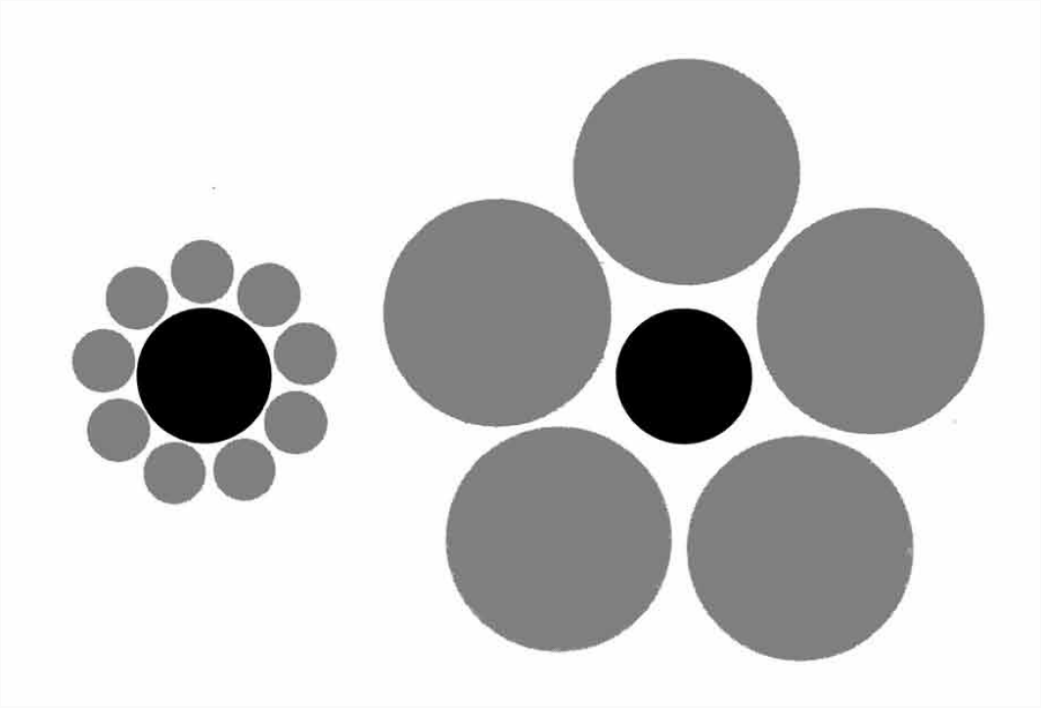
Table 2. Cluster-level treatment effects

	Signed petition			
	Millionaire's tax		Plastic bags (placebo)	
Variable	(1)	(2)	(3)	(4)
Poor actor	−0.044*	−0.082**	0.036	0.027
	(0.024)	(0.035)	(0.030)	(0.047)
Black actor		−0.051		−0.040
		(0.032)		(0.044)
Poor actor × Black actor		0.070		0.013
		(0.047)		(0.061)
Constant	0.114***	0.142***	0.180***	0.205***
	(0.016)	(0.024)	(0.021)	(0.034)
Clusters	38	38	36	36
Residual SE	0.073	0.072	0.089	0.090

Cluster-level treatment effects from ordinary least squares (OLS) regression. Columns 1 and 2 show results for the millionaire's tax and the second two for the placebo petition. Columns 1 and 3 show the main effect of the poor actor treatment, pooling across black and white actors. Columns 2 and 4 include the interaction between race and poverty treatments. $^{*}P < 0.1$; $^{**}P < 0.05$; $^{***}P < 0.01$.

Why do redistributive issues matter?
1.1. Stylized facts
1.2. Redistribution: The left hand of the State
Redistribution as democracy
2.1. The political economy contribution
2.2. Other related determinants
Redistribution as fairness
3.1. Theories of justice
3.2. Pluralism of fairness views
Redistribution as insurance
4.1. The uncertainty of future income
4.2. Social mobility
Perceptions and interpersonal comparisons
5.1. (Mis)perceptions of inequality
5.2. Relative concerns

5.2. Everything is perceived as relative . . .



Dan Ariely (2008): 'Predicting irrational', page 7

5.2. The 'Keeping up with the Joneses' hypothesis

Individuals are concerned by their situations relative to others:

- Relative income in happiness economics (Luttmer, 2005; Clark & al, 2008; Card & al, 2012)
- Relative deprivation and envy in sociology (Runciman, 1966, Schoeck, 1969)
- Games theory and 'inequity-averse' preferences (Fehr & Schmidt, 1999; Bolton & Ockenfels, 2000)

The KuJ hypothesis has robust implications:

- Justifies overconsumption equilibrium (Dupor & Liu, 2003)
- Partially explains the equity premium puzzle (Abel, 1990; Gali, 1994)

But the Joneses are chosen: People tend to compare themselves to similar others (Falk & Knell, 2004)

5.2. KuJ: Impact on redistribution

Relative income concerns has an impact on optimal tax:

- It tends to increase marginal tax rates (Boskin & Sheshinski, 1978, Oswald, 1983)
- The optimal tax affects the economy countercyclically via procyclical taxes (Ljungqvist & Uhlig, 2000)

The 'last-place aversion' paradox (Kuziemko & al, 2014): low-income individuals might oppose redistribution because it could differentially help the group just beneath them

- Americans were asked whether they supported and increasing in minimum wage ($7.25 per hour)
- Large support for those making $7.25 or below, or substantially more
- The most opposed group: Those making just above, in [$7.26;$8.25]
- Results confirmed by lab experiments and GSS data

Conclusion

Support for redistribution is 'paradoxical': US versus Europe.
Americans are more 'optimistic' but not necessarily more 'meritocratic'

One reason is the disconnection between beliefs and reality

- Beliefs on the real level of inequality and redistribution
- Beliefs on the fairness of the income generating process
- Beliefs on upward social mobility, ...

Support for redistribution is also affected by:

- Socio-demo characteristics, culture, ...
- Level of fractionalisation of the society
- Relative concerns and the Joneses' situation

What can economists do? To provide information, data, and contribute to the debate on the question: 'what is fair'.

References

References I