Intergenerational Mobility and Preferences For Redistribution

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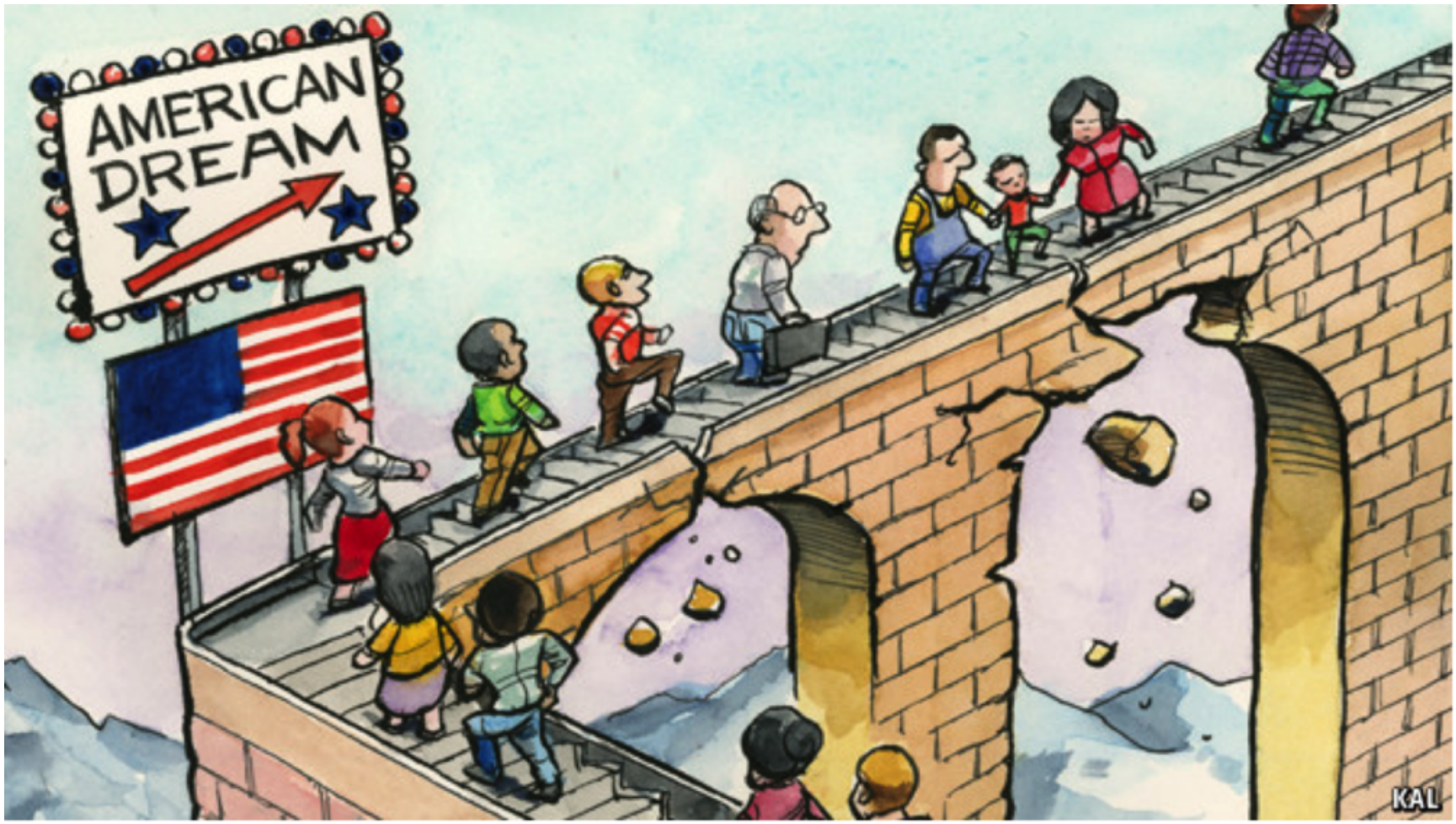

AMERICAN
DREAM
KAL

Typically Documented Views on Social Mobility

Americans:

- Econ system mostly “fair," American dream alive
- Wealth is reward for ability and effort
- Poverty due to inability to take advantage of opportunity
- Effort pays off

Continental Europeans:

- Econ system is more unfair.
- Wealth due to family history, connections, sticky social classes.
- Poverty due to bad luck, society’s inability to help the needy
- Effort may payoff

- 70% of Americans versus 35% of Europeans believe you can climb social ladder if you work hard (WVS)
- Yet, intergenerational mobility on average not higher in the US (Chetty *et al.* 2014)

This Paper: Research Questions

- Do people have realistic views about intergenerational mobility?
- What are their views on the role of effort vs. luck vs. talent?
- Do people perceive intergenerational mobility as an alternative to redistribution?
  - **Equality of opportunities** policies (education, bequest taxes)
  - **Equality of outcome** policies (social insurance, progressive income taxation)?
- Differences by socio-economic background, political views, own mobility experience?
- Causal effect of perceptions on policy choices?

Method: Surveys and Randomized Experiments

- Conduct online surveys on large representative samples in the US, UK, France, Italy, and Sweden ($N = 11,000$).
- Survey structure:
  - Background socio-economic questions, own social mobility experience.
  - **Randomized "information"** experiment to shift social mobility views and test how perceptions influence policy preferences.
  - Views on fairness and reasons for success (order randomized).
  - Perceptions of social mobility in own country (unconditional, priming about effort, talent).
  - Support for various redistributive policies.
  - Views on role and capacities of government (order randomized).

Outline of this Talk

1. Survey and Methodology
2. Data on Actual Social Mobility
3. Perceptions and Misperceptions
4. Correlation of Perceptions with Respondents' Characteristics
5. Perceived Role of Effort and Talent
6. Geography of Perceptions in the U.S.
7. Perceptions and Policy Preferences
8. Randomized Information Experiment
9. Polarization and Views of the Government

Preview of Results

- Americans too optimistic about upward mobility, especially of making it from the bottom to the top (the “American Dream”).
- Europeans too pessimistic, especially about staying stuck in poverty.
- Both Americans and Europeans think that individual work and effort increases chances of getting out of poverty and becoming richer (but not very rich).
- People who believe that upward mobility is low:
  - Have higher support for redistribution, in particular for “opportunities enhancing" policies
  - Prefer a more progressive income tax system
  - Have a mildly higher support for the estate tax or for safety net policies.
- Experimentally shifting perceptions towards more pessimism does not increase support for redistribution.
- Abysmal views on government across countries, especially among right-wing, could explain this.

Related Literature

A lot more than listed here!

Theory: Piketty (1995), Benabou and Ok (2001), Alesina and Angeletos (1995), Benabou and Tirole (2006).

Empirical Evidence on belief difference and redistribution: Alesina and Glaeser (2004), Alesina and La Ferrara (2005), Alesina and Giuliano (2011)

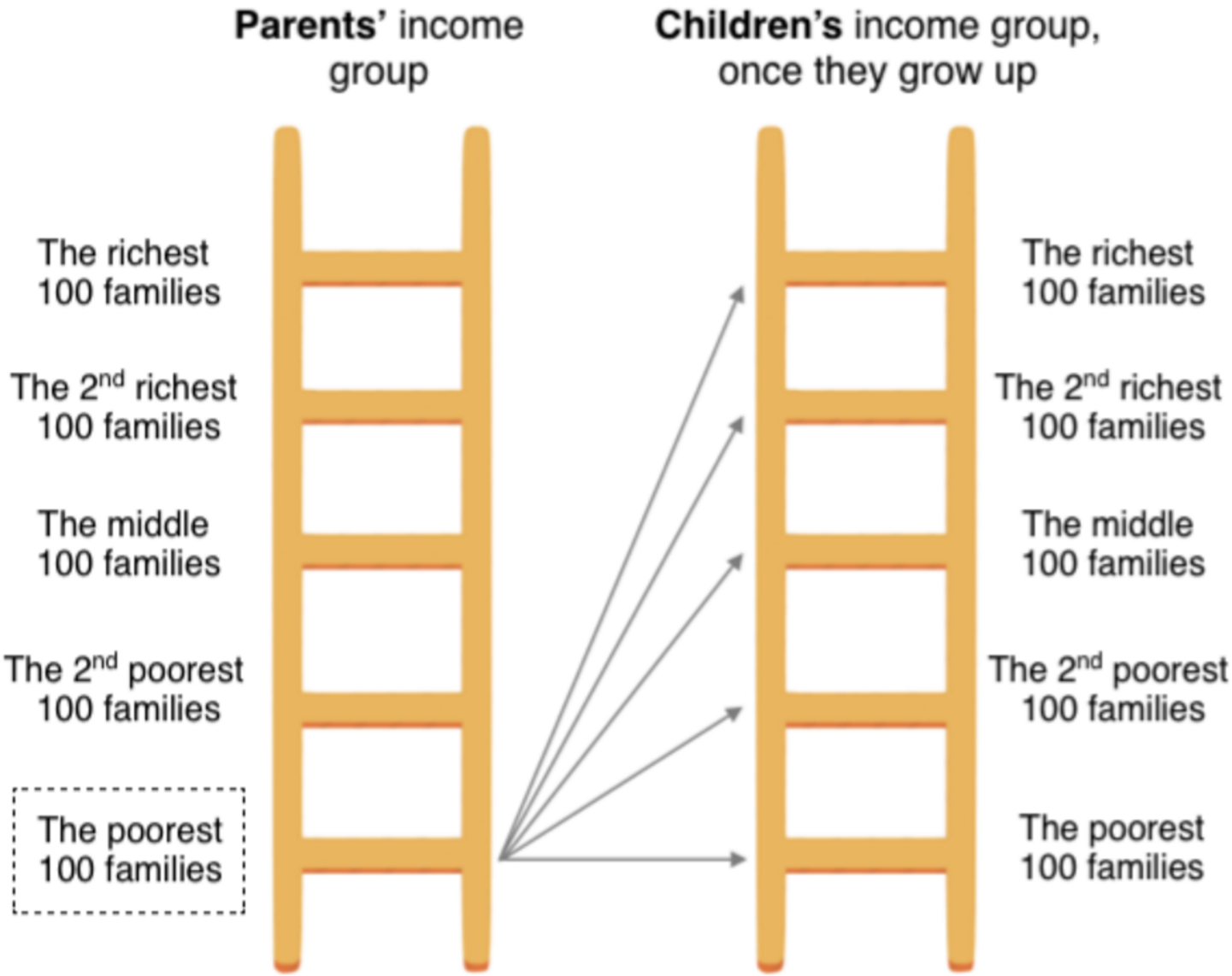
Perceptions Biased: Cruces *et al.* 2013, Newman *et al.* 2014.

Experimental manipulation of beliefs: Kuziemko, Norton, Saez, and Stantcheva (2015).

Survey and Methodology

Eliciting respondent's beliefs on upward mobility

Here are **500 families** that represent the US population:



Eliciting Beliefs on Upward Mobility

For the following questions, we focus on 500 families that represent the U.S. population. We divide them into five groups on the basis of their income, with each group containing 100 families. These groups are: the poorest 100 families, the second poorest 100 families, the middle 100 families, the second richest 100 families, and the richest 100 families.

In the following questions, we will ask you to evaluate the chances that children born in one of the poorest 100 families, once they grow up, will belong to any of these income groups.

Please fill out the entries to the right of the figure below to tell us, in your opinion, how many out of 100 children coming from the poorest 100 families will grow up to be in each income group.

Eliciting Beliefs on Upward Mobility (II)

Qualitative questions for robustness:

> *Do you think the chances that a child from the poorest 100 families will grow up to be among the richest 100 families are: [Close to zero, Low, Fairly Low, Fairly High, High*].

Ask about mobility conditional on "effort" and "talent."

> *Consider 100 children coming from the poorest 100 families. These children are very determined and put in hard work both at school and, later in life, when finding a job and doing that job.*
>
> *Consider 100 children coming from the poorest 100 families. These children are very talented.*

Ensuring reasonable answers

Warn that "careless answers" will be flagged.

Constrain answers to add up to 100. Tabulating answers – few "weird cases" such as 0 and 100.

Attention check question.

Time spent on separate questions' pages and overall survey time.

Ask for feedback post survey (including whether felt like was biased).

Asked for questions in different orders (acending vs. descending) and on different pages.

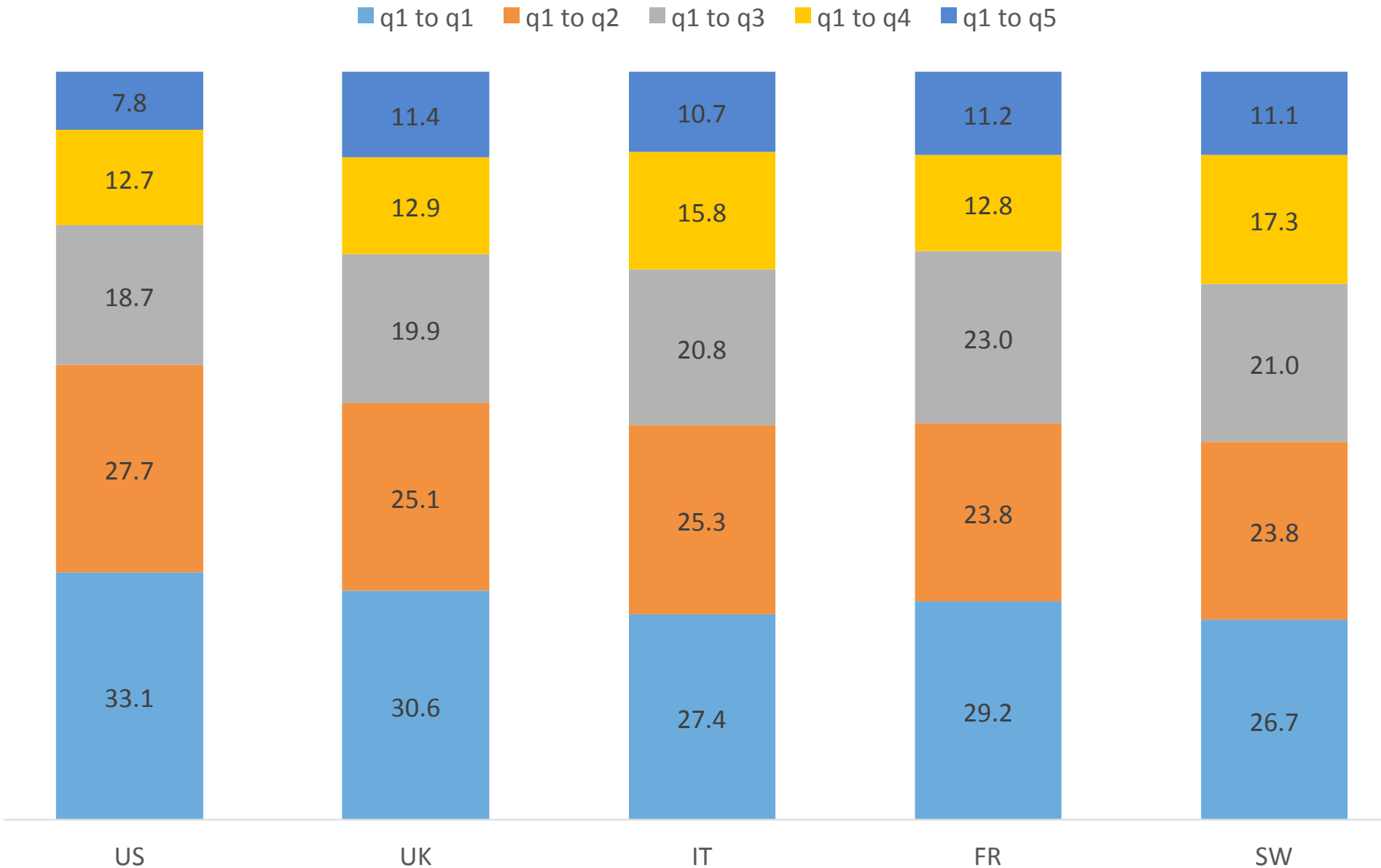
Data on Actual Social Mobility

Sources of Data on Intergenerational Mobility

- US: Administrative tax-return data (from Chetty et al. 2014)
- UK: sample of 2806 parents-children, from the British Cohort Study
- France: sample of 4,581 parents and 1,444 children, from survey "Formation et Qualification professionnelle", INSEE
- Italy: Administrative tax-return data (from Acciari et al. 2016)
- Sweden: 20% random sample from Statistics Sweden's administrative registers (from Jantti et al. 2006)
- Currently, best data available. Future research may compare respondent's answers to better data.

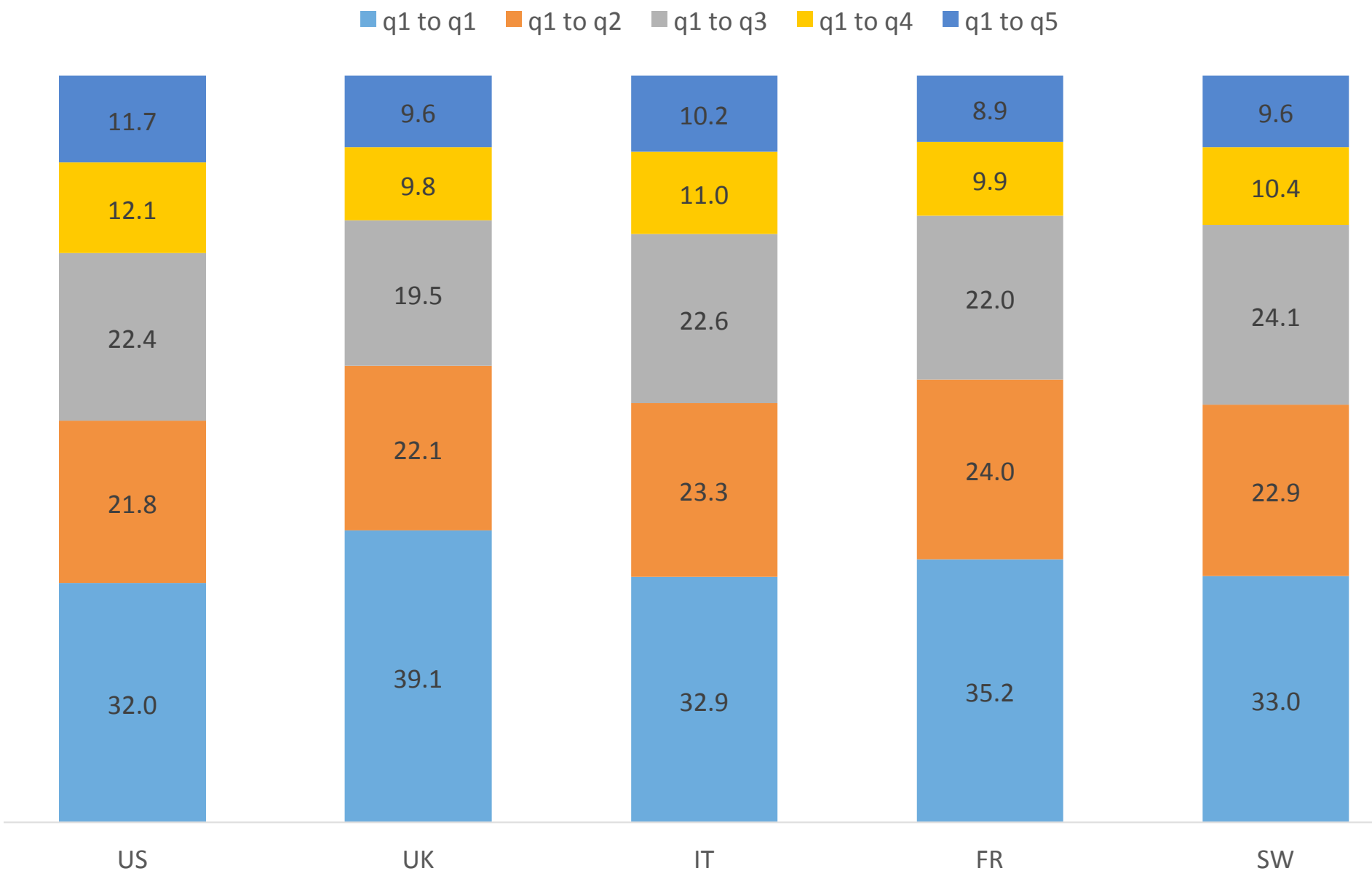
Transition probabilities from Bottom 20%

Chances a child born in a family in the bottom 20% moves to quintile *x*.



Perceptions and Misperceptions

Respondents' perceived transition probabilities



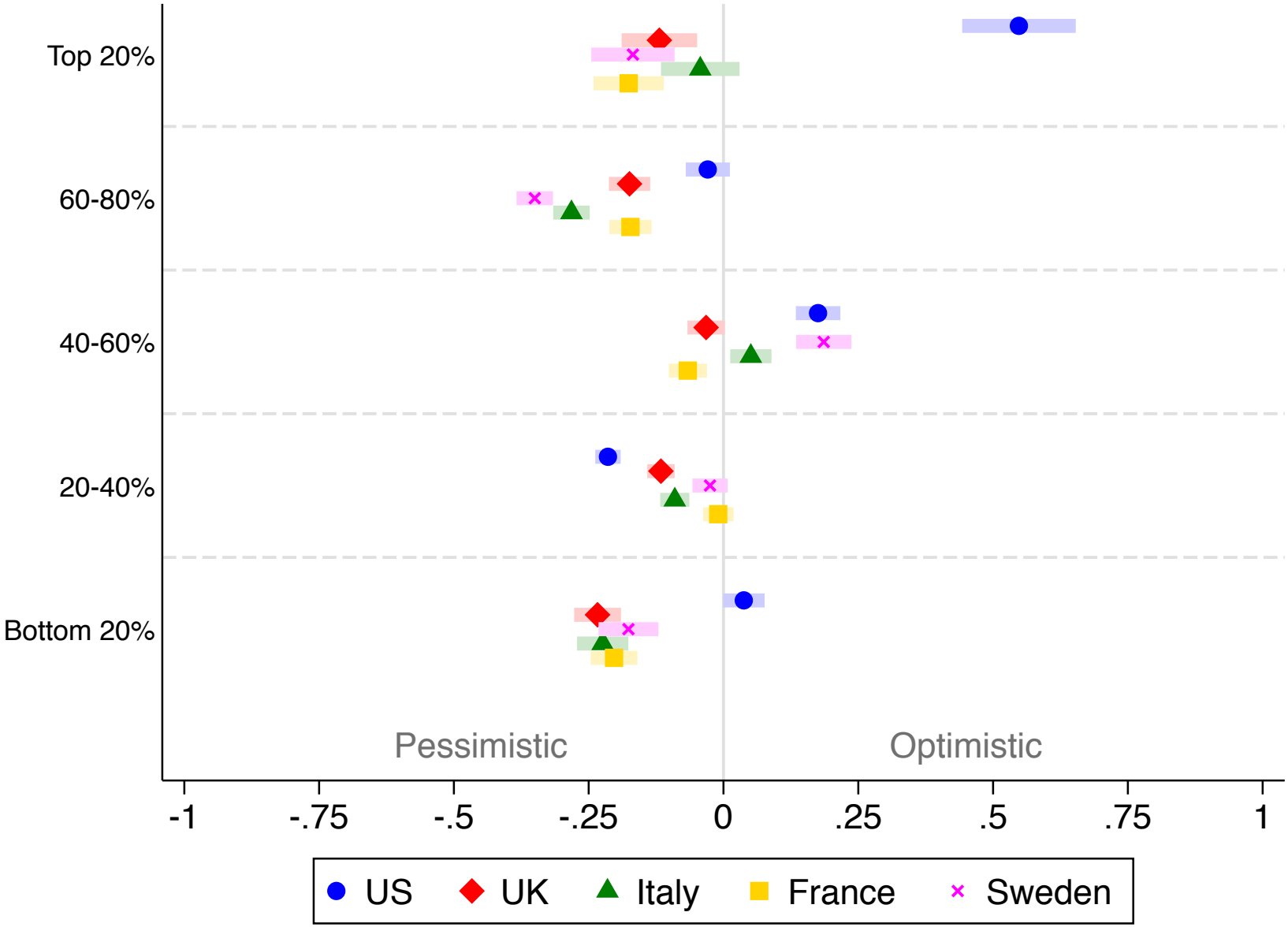
Measuring respondents' (mis)perceptions of mobility

- For each respondent i from country c, for each quintile q, we measure:

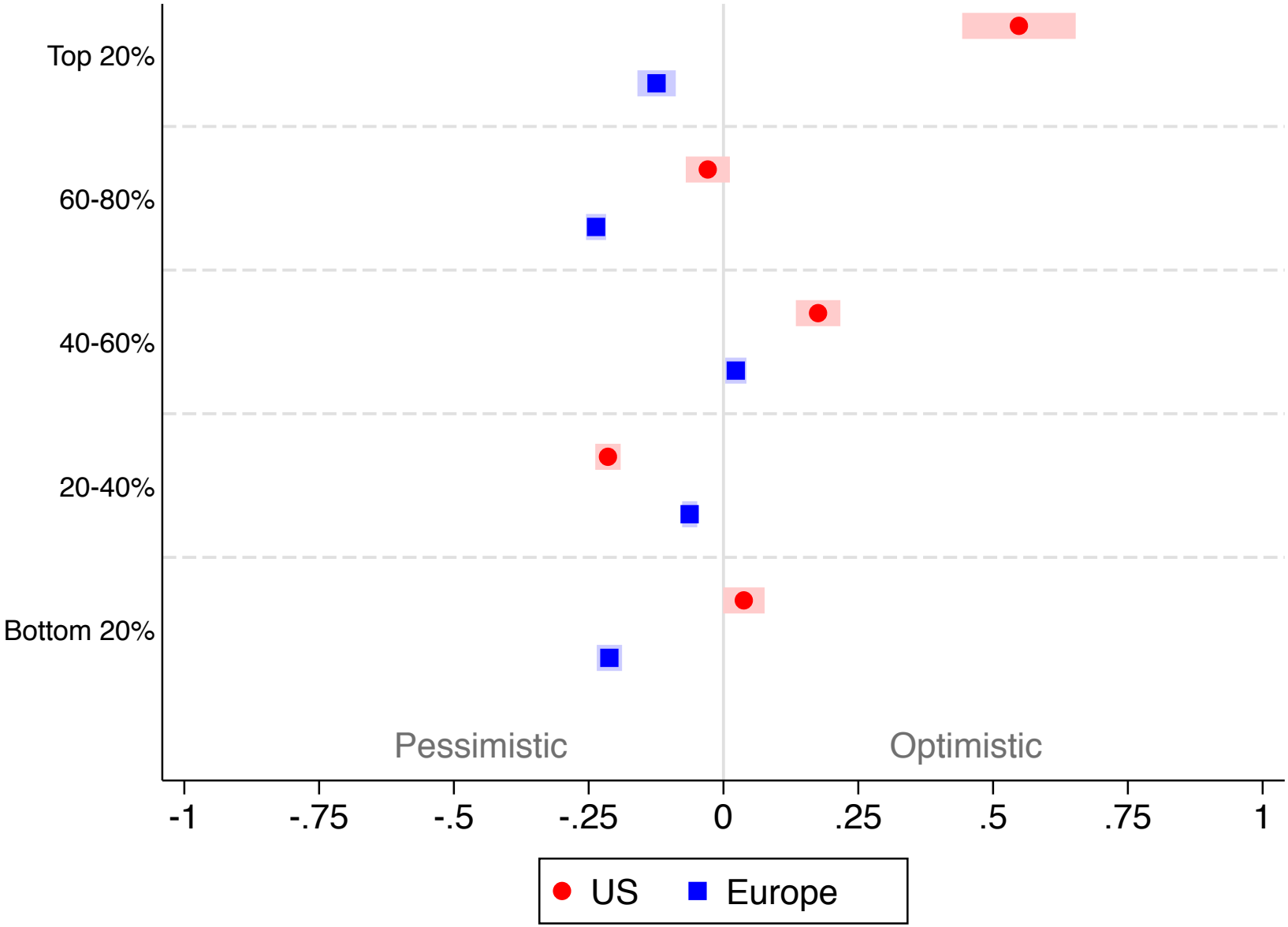
$$Misperception_{icq} = \frac{Perceived\ Prob(Q1\ to\ Qq) - Real\ Prob(Q1\ to\ Qq)}{Real\ Prob(Q1\ to\ Qq)}$$

- Average across all respondents from a country.

Misperceptions



US versus Europe: Opposite Misperceptions

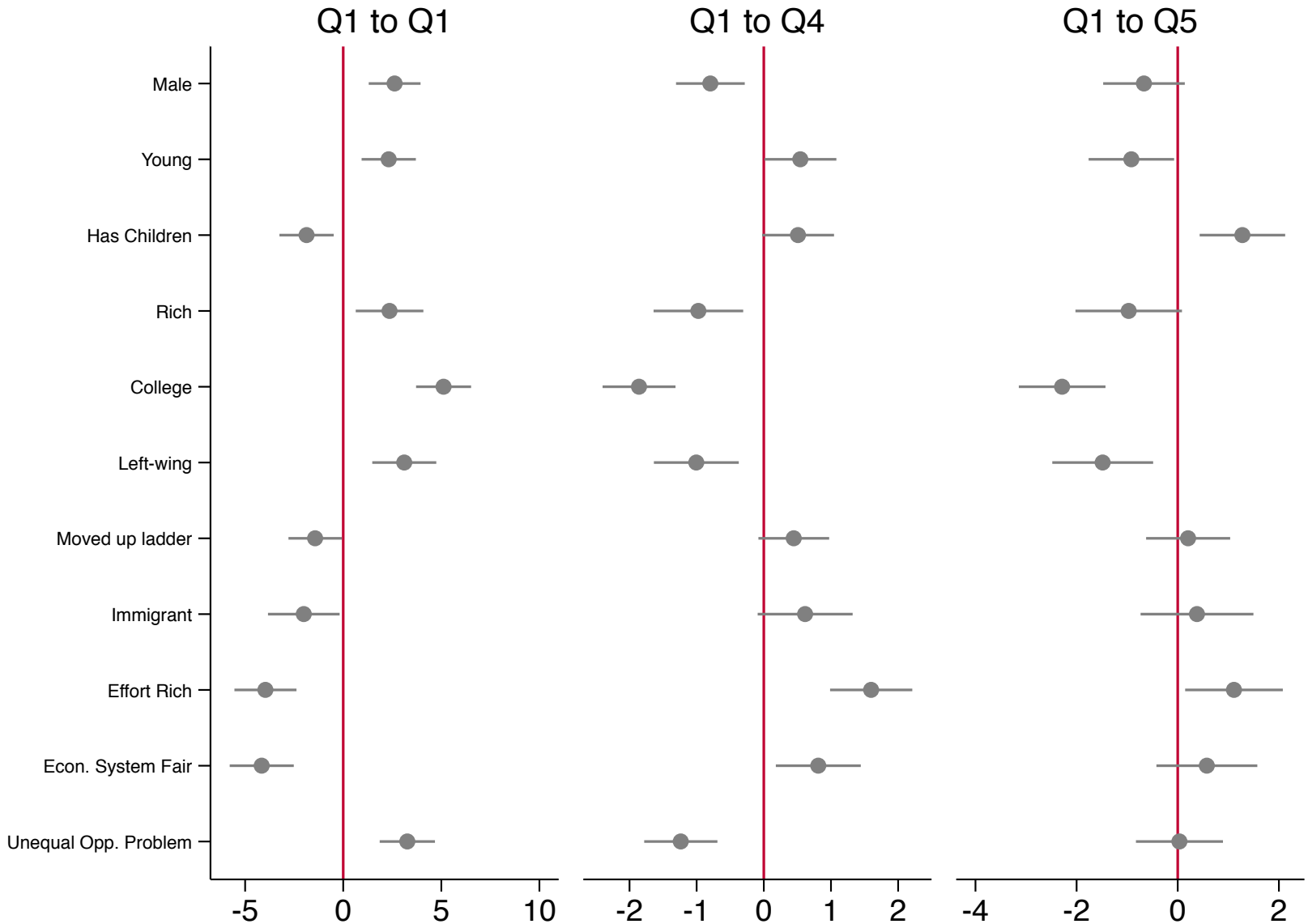


Views on Fairness

	System Fair	Effort Poor	Effort Rich	American Dream	Unequal Opp. Problem
All	.37	.32	.32	.32	.54
US	.52	.48	.41	.54	.5
UK	.46	.37	.32	.39	.56
France	.2	.24	.31	.17	.45
Italy	.1	.14	.17	.09	.65
Sweden	.65	.33	.38	.41	.53

Correlation of Perceptions with Respondents' Characteristics

Correlations of Characteristics with Mobility Perceptions



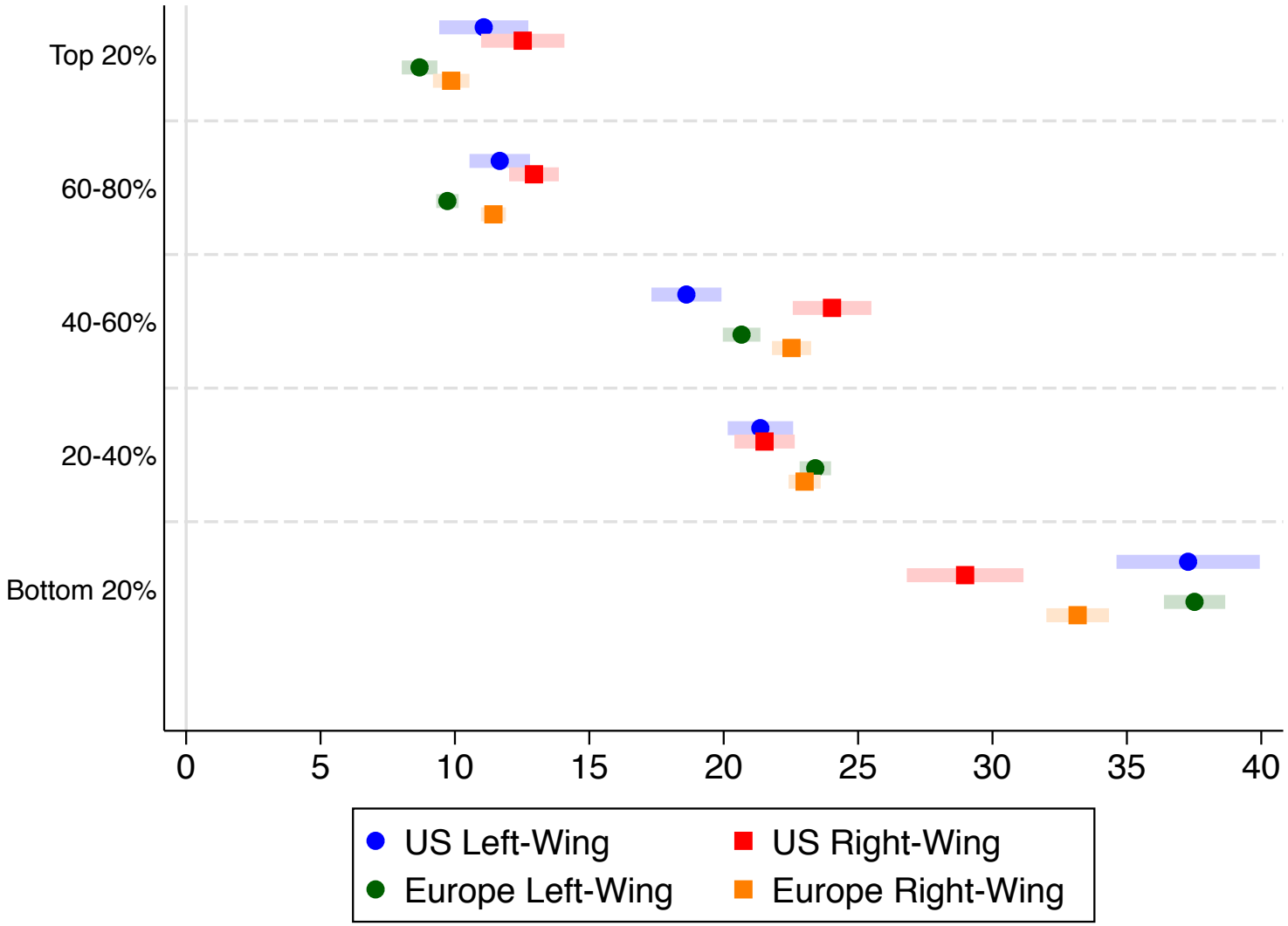
Summary of Heterogeneous Perceptions

Across all countries, more pessimistic (partial correlation):

- Men
- Young people
- Who do not have children
- High income
- College educated
- Left-wing
- Who have not experienced upward mobility
- Who are not children of immigrants
- Who believe being rich is result of advantages
- Who believe system is unfair
- Who believe unequal opportunities are a problem

Perceptions at the Left and Right

US: left-right polarization starker for making it out of poverty and to middle class.
All overoptimistic about American dream, but right-wing especially so.
EU: All over-pessimistic, more homogeneity.



Misperceptions at the Left and Right

US: left-right polarization starker for making it out of poverty and to middle class.
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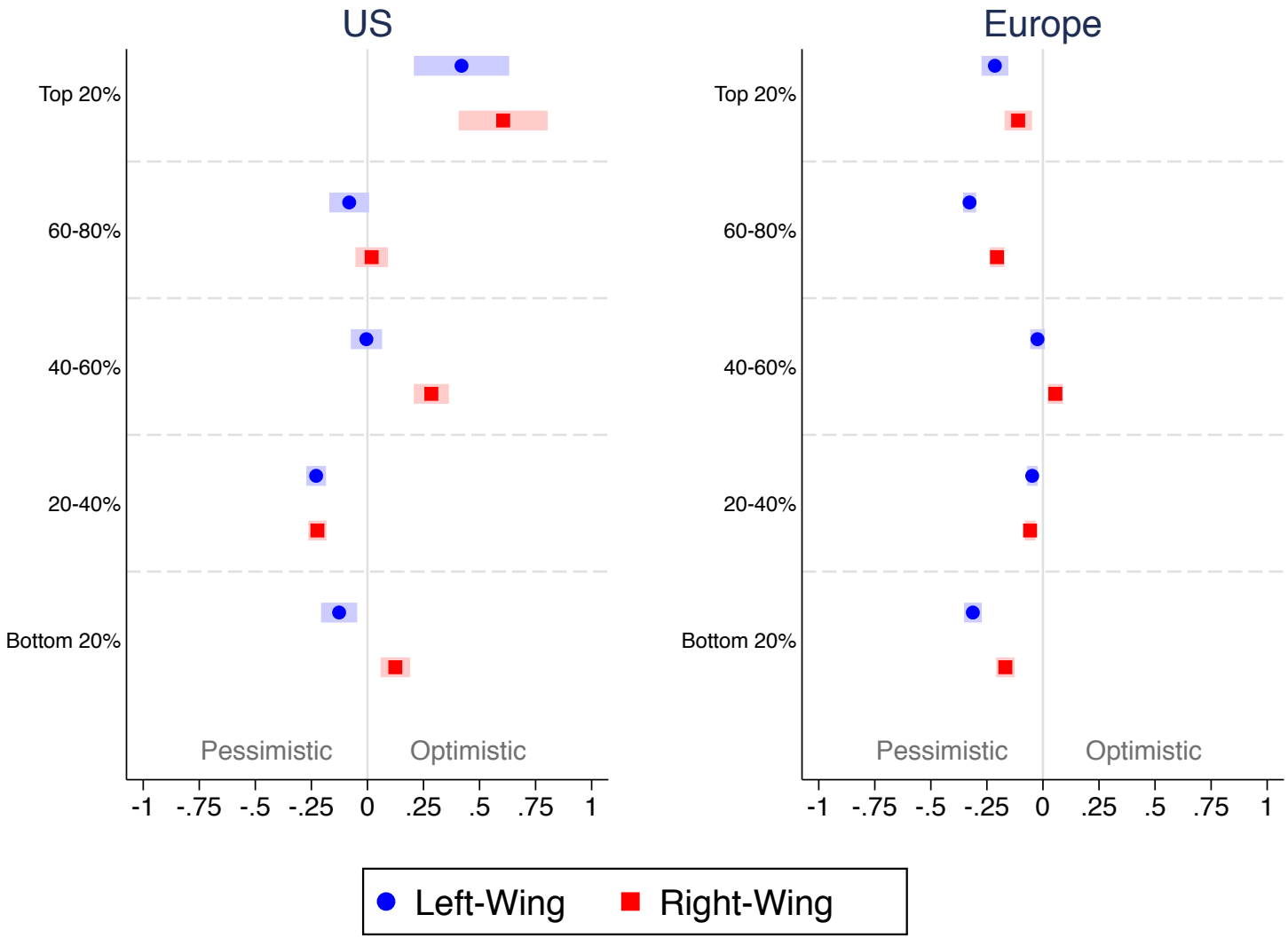
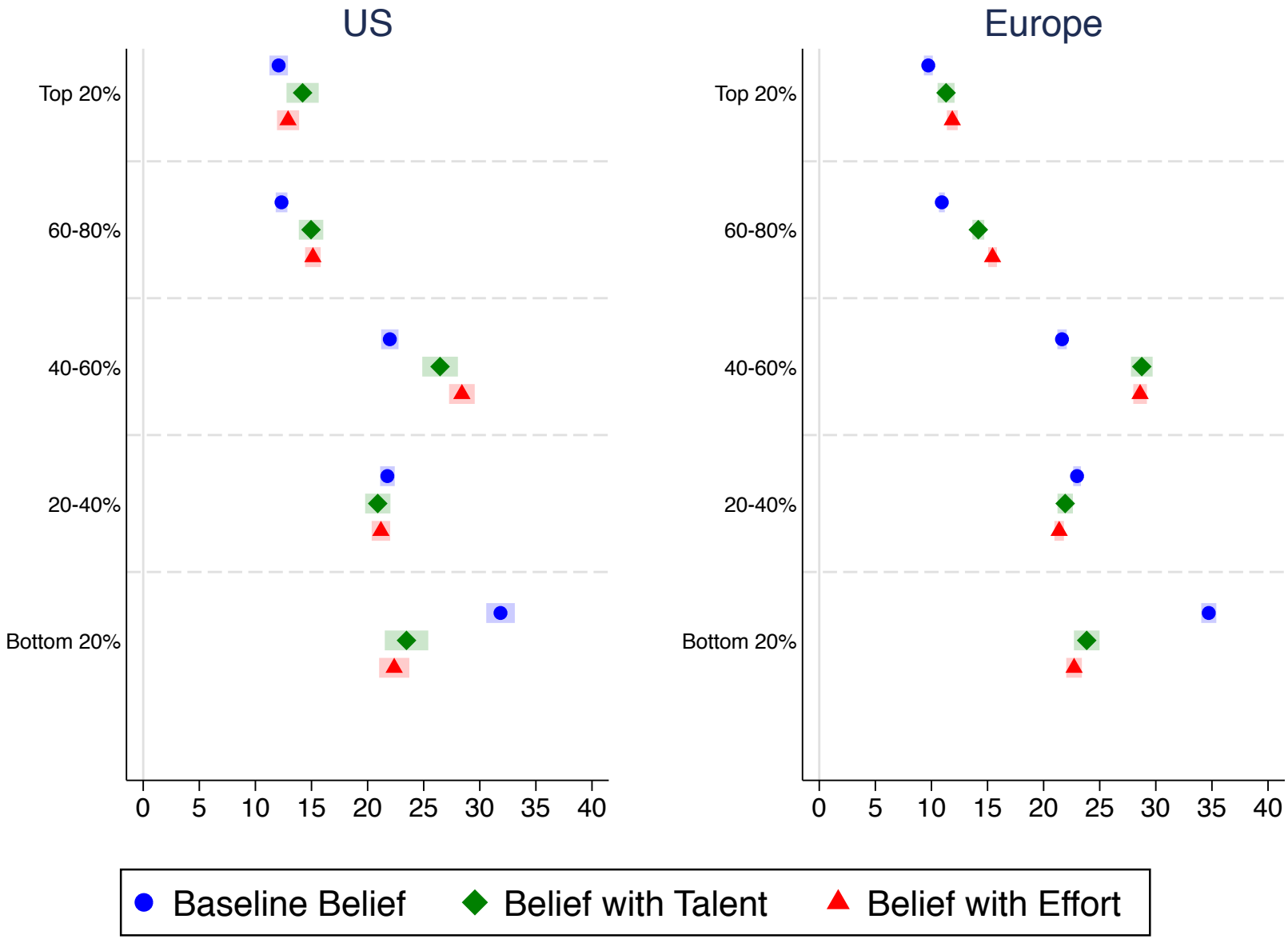


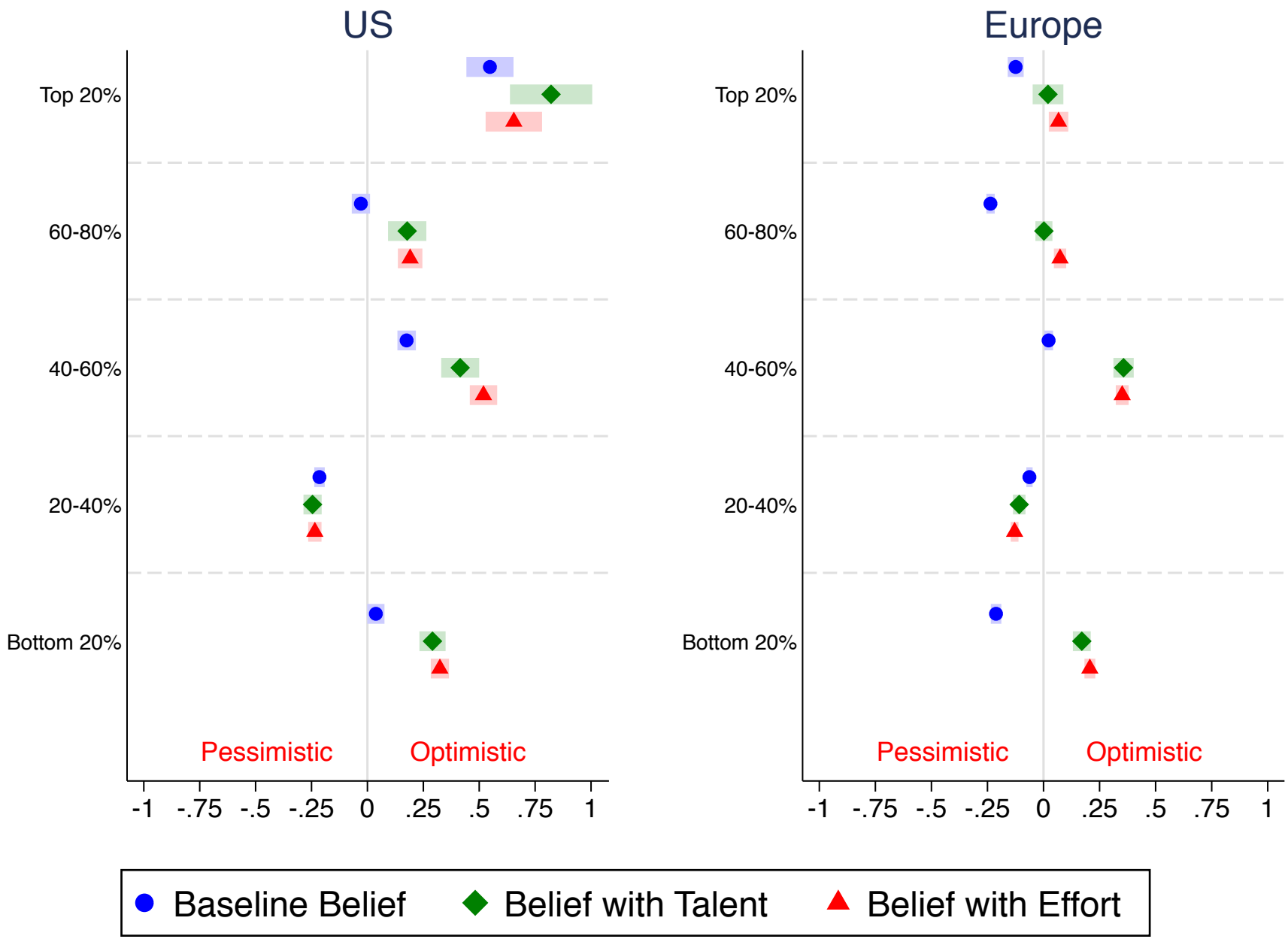
Perceived Role of Effort and Talent

Perceptions conditional on talent and effort: A "Best case Scenario" that is still pretty bleak.

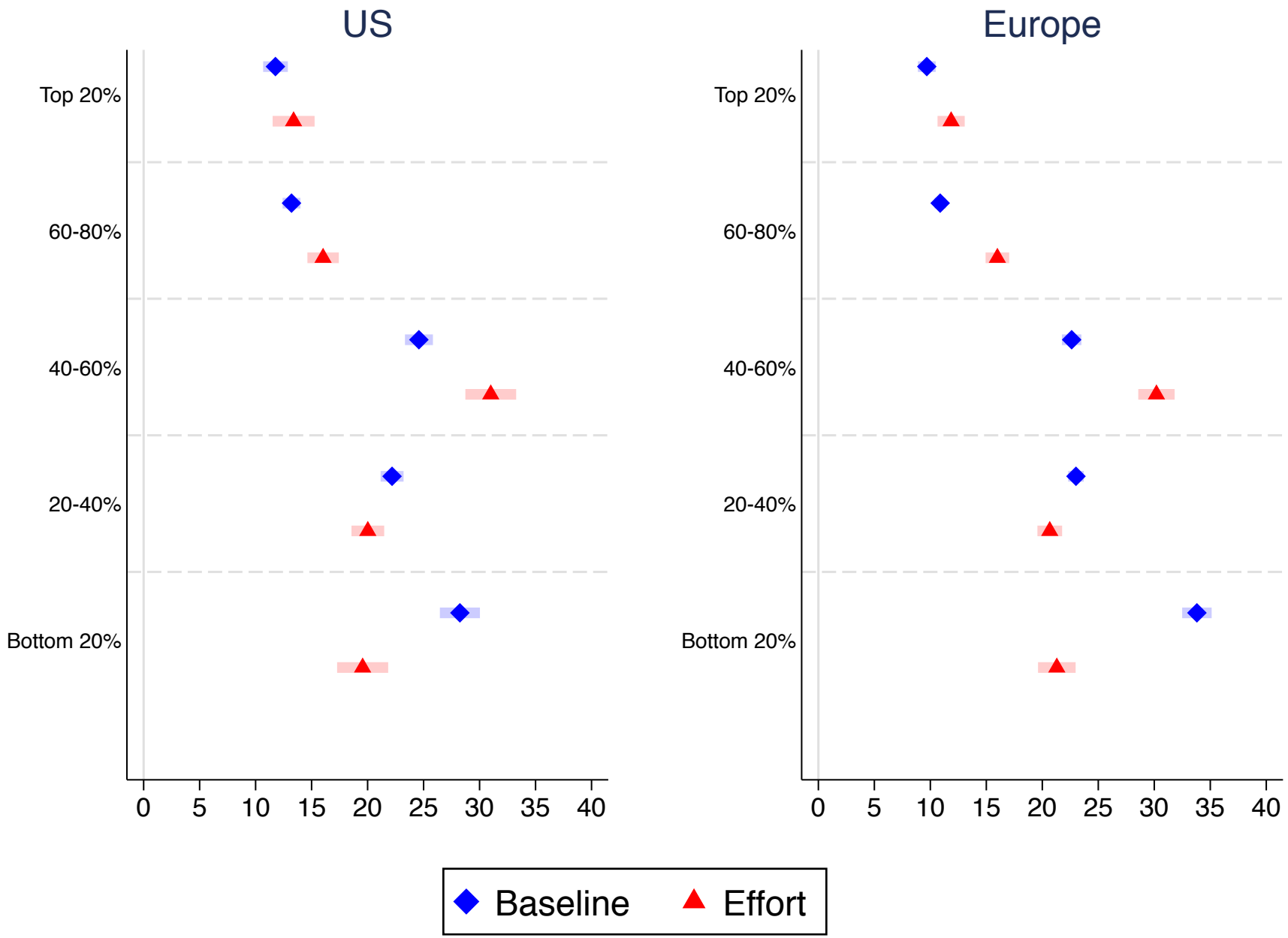


US: Talent & effort make same, significant difference, except for very top.

EU: Talent & effort make same large difference, but not for very top.



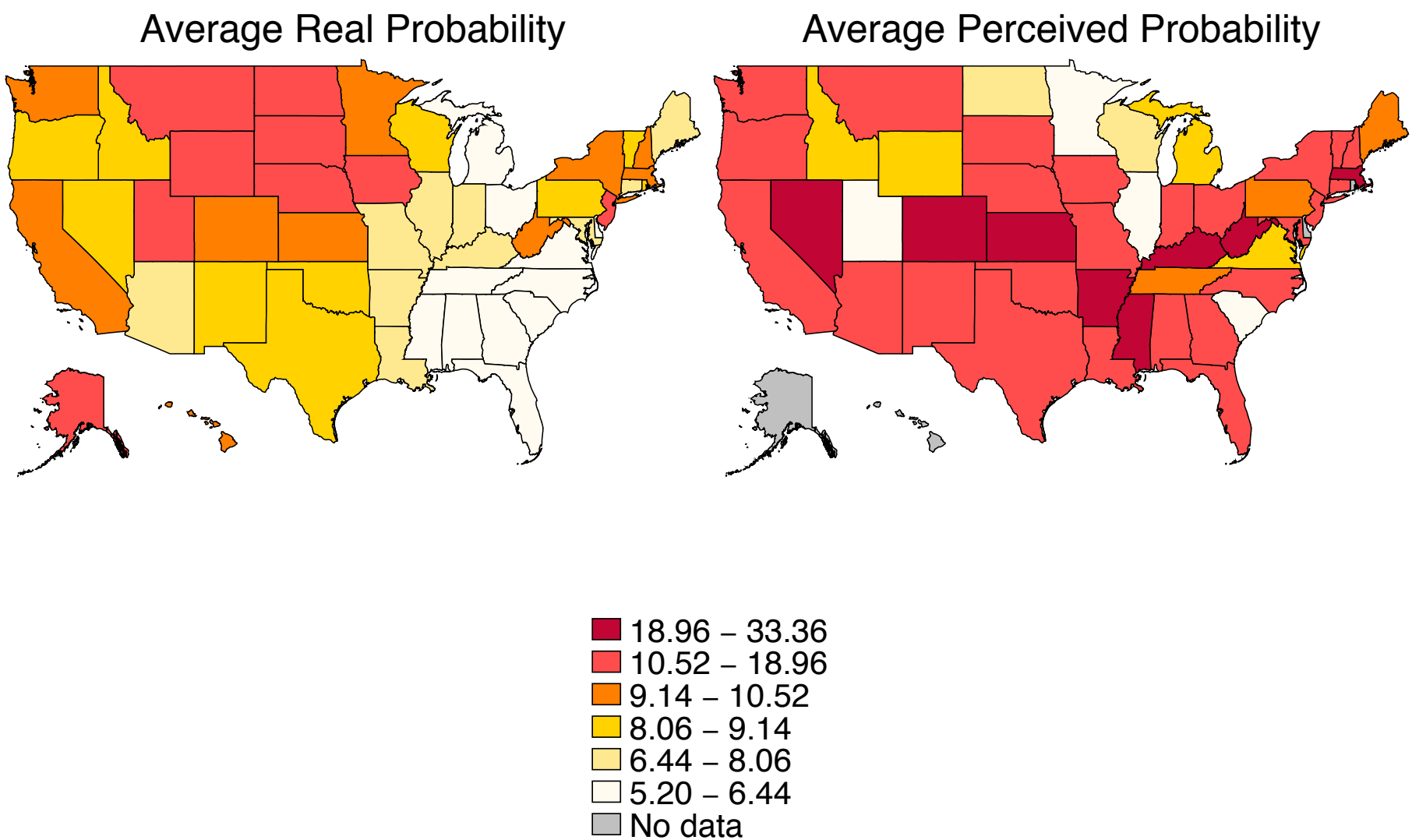
Conditioning on "Belief in effort"



The Geography of Mobility Perceptions in the U.S.

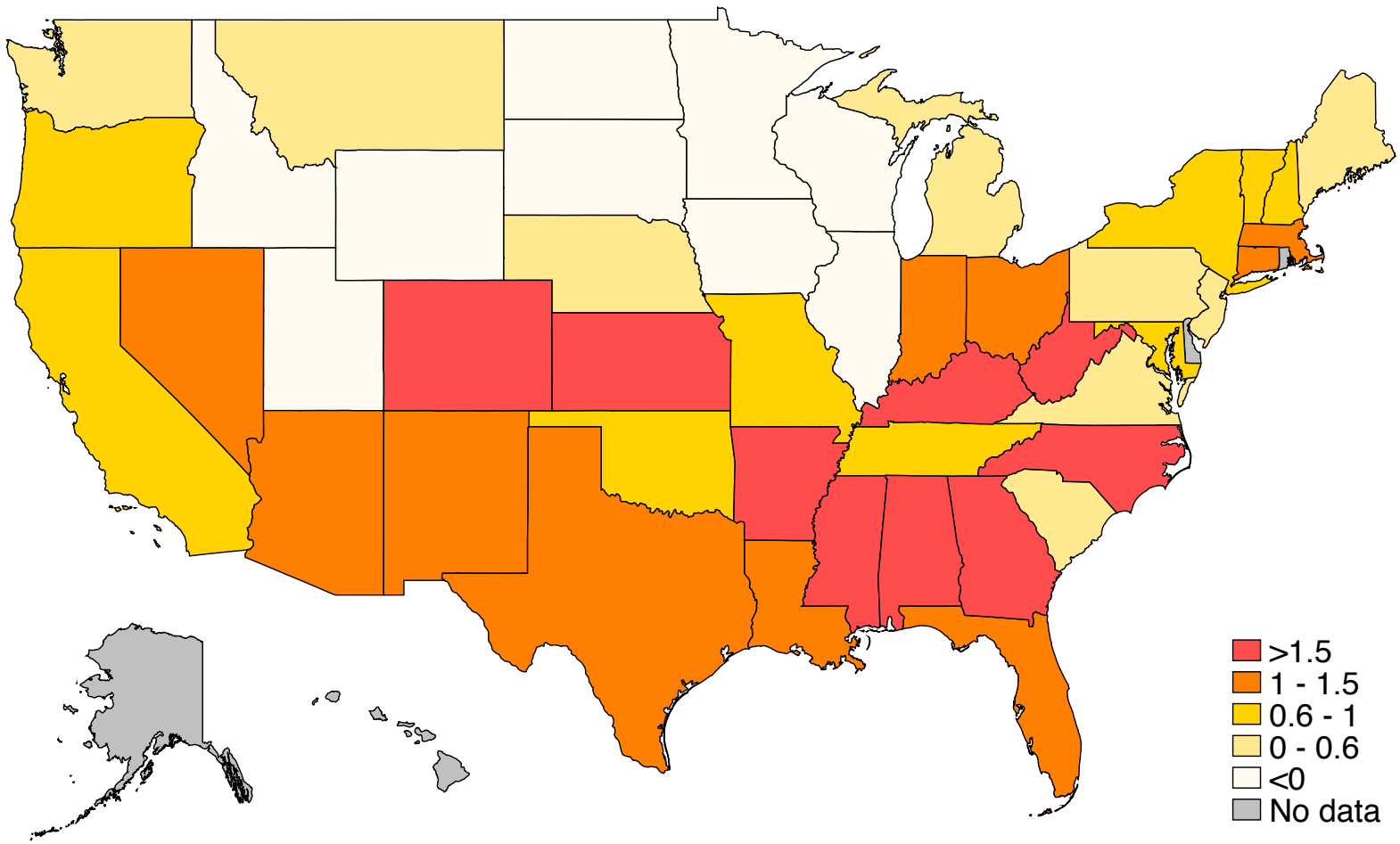
More Optimism in the Least Mobile States

- How do real and perceived probabilities of moving from the bottom quintile to the top quintile vary within the United States?



Degree of Overoptimism per State

- (Perceived probability - true probability)/true probability in different states



Perceptions and Policy Preferences

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The government currently raises a certain amount of revenue through the income tax in order to sustain the current level of public spending. In you view, what would be the fair split of the tax burden to sustain public spending?

The income tax* rate is the percentage of your income that you pay in federal income tax. For example, if you earn $30,000 and you pay $3,000 in income taxes, your income tax rate is 10%.

Please use the sliders below to tell us how much you think each of the following groups should pay as a percentage of their total income.

While you adjust the four sliders for each group, the fifth bar at the bottom moves in order to show you how much of the current revenue you have been able to raise so far. The bar appears red as long as you have not raised enough revenue, or if you have raised more money than what is needed.

You will only be able to move to the next question when you meet the revenue target and the bar becomes green.

** We consider only the Federal income tax, which is a tax on household income. If you receive a regular paycheck, this tax is automatically taken out of your pay. When you file a federal tax return each year, you calculate the exact amount you owe, and you get a tax refund from the federal government if you paid more than you owe. To keep things simple, we do not include other taxes such as social security taxes, state income taxes or sales taxes.*

The top 1% (Richest)

0%

The next 9% (Only 1% of households earn more, 90% earn less)

0%

The next 40% (Only 10% earn more, 50% earn less)

0%

The bottom 50% (Poorest)

0%

Revenue raised

0%

You have not raised enough revenue.

We now ask you how you would like to spend the total government budget. Suppose that you are the person deciding on the U.S. budget for the next year. You can choose how you want to divide the budget (in percent) between the following 6 categories:

1) **Defense and National Security**, which refers to the costs of the Defense department and the costs of supporting security operations in foreign countries.

2) **Public Infrastructure**, which includes, among others, transport infrastructure like roads, bridges and airports, and water infrastructure.

3) **Spending on Schooling and Higher Education**, including help for children from low income families to attend school and university.

4) **Social Security, Medicare, Disability Insurance and Supplementary Security Income (SSI)**, which provide income support and help with health care expenses to the elderly and the disabled.

5) **Social Insurance and Income Support Programs**. This covers help to the unemployed (through unemployment insurance) and help for low income families (such as through Food stamps or the earned income tax credit (EITC), a tax credit for low-income working families)

6) **Public Spending on Health**, such as Medicaid for the poor (a healthcare program for low income families) or tax subsidies to help families buy health insurance.

Please enter the percent of the budget you would assign to each spending category (the total must sum to 100):

Defense and National Security	0
Public Infrastructure	0
Spending on Schooling and Higher Education	0
Social Security, Medicare, Disability Insurance and Supplementary Security Income (SSI)	0
Social Insurance and Income Support Programs	0
Public Spending on Health	0
Total	0

Preferences for Taxes and Budget Allocation

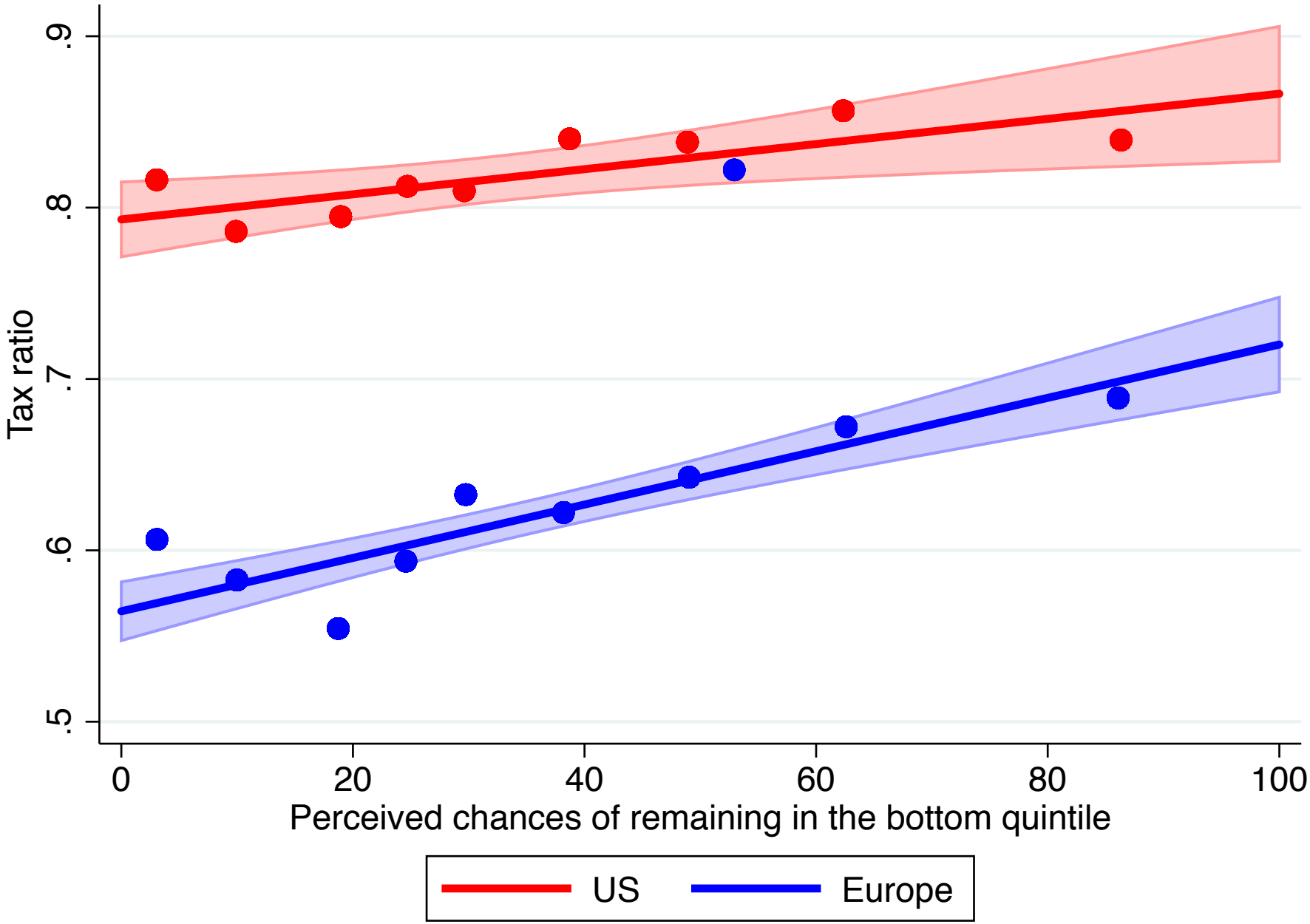
Spending on safety net remarkably similar

US: low opportunity, high residual.

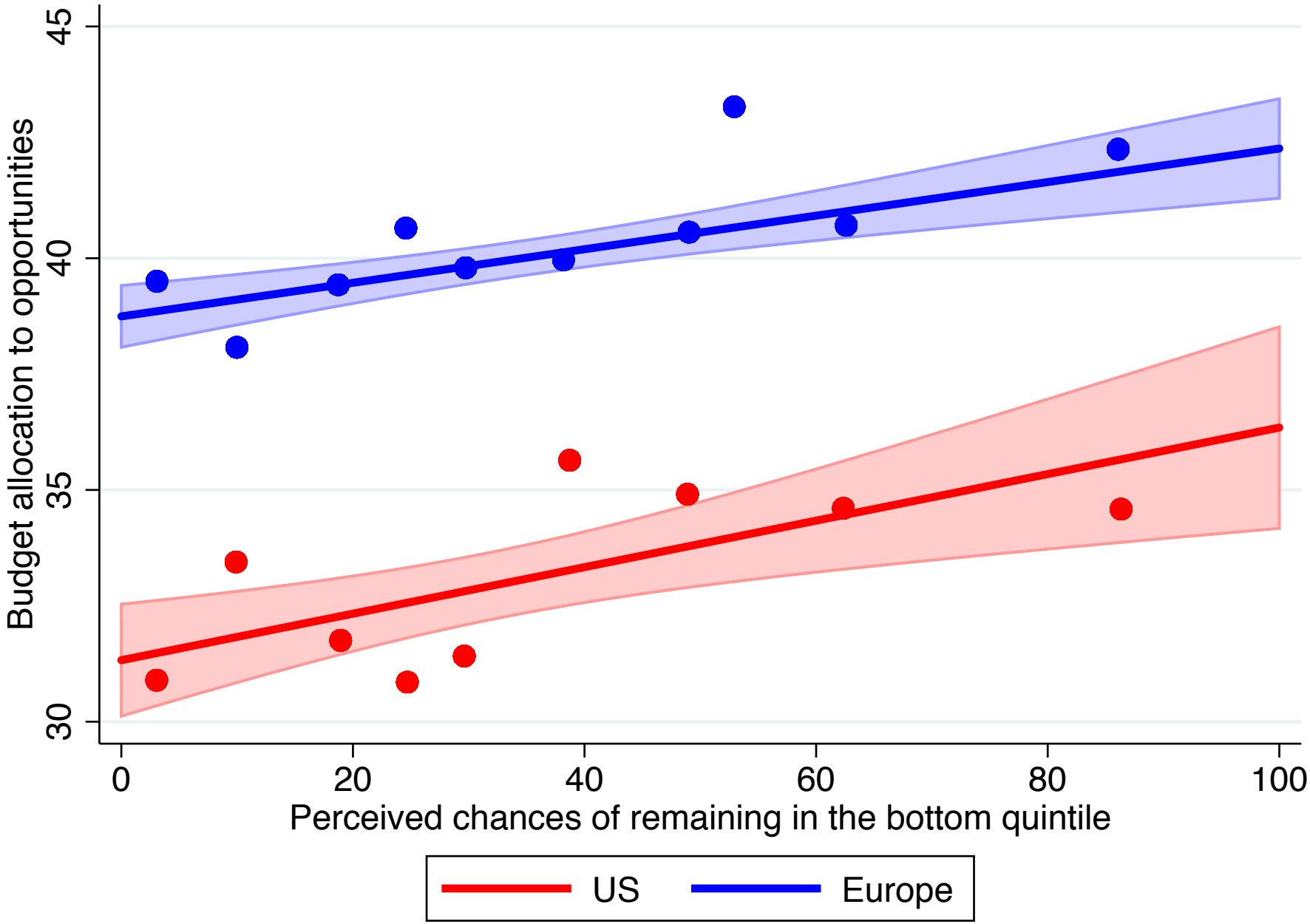
EU: higher opportunity, lower residual.

	Tax Rate Top 1%	Tax Rate Next 9%	Tax Rate Bottom 50%	Budget Opport.	Budget Safety Net	Budget Residual
All				38.26	14.06	47.68
US	33.51	21.84	8.92	32.93	13.54	53.53
UK	36.93	23.02	6.71	41.12	13.45	45.42
France	43.39	29.22	8.76	38.44	13.42	48.14
Italy	37.51	26.39	10.62	38.84	15.75	45.41
Sweden	50.4	43.53	22.73	42.8	14.49	42.72

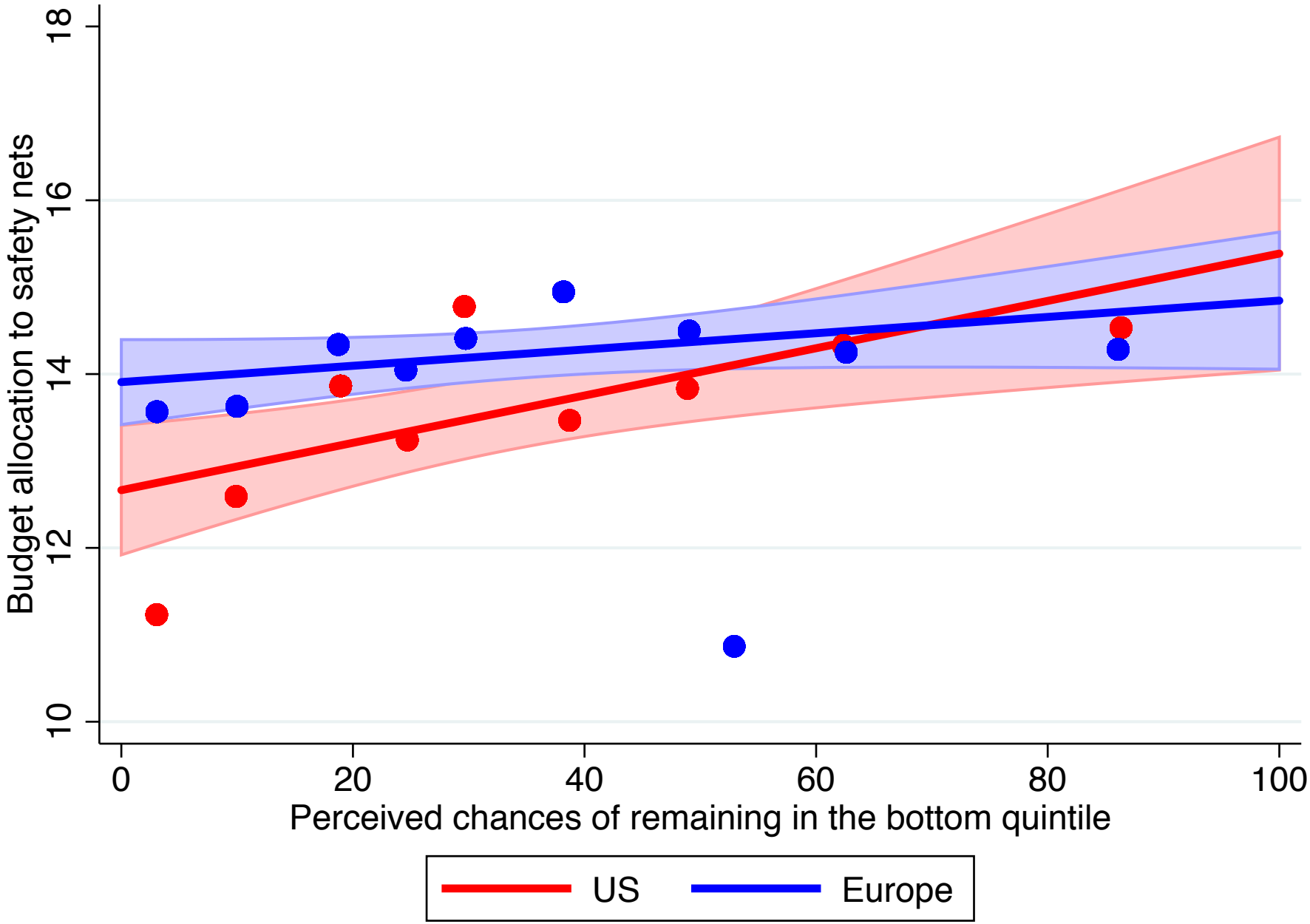
US and EU become more progressive when pessimists, but US at slower rate.



Support for spending on equality of opportunity policies very sensitive to pessimism



Support for safety net is high, and not so sensitive to pessimism



Preferences for Redistribution

Support for equality of opportunity policies always high, but again, lower in US.

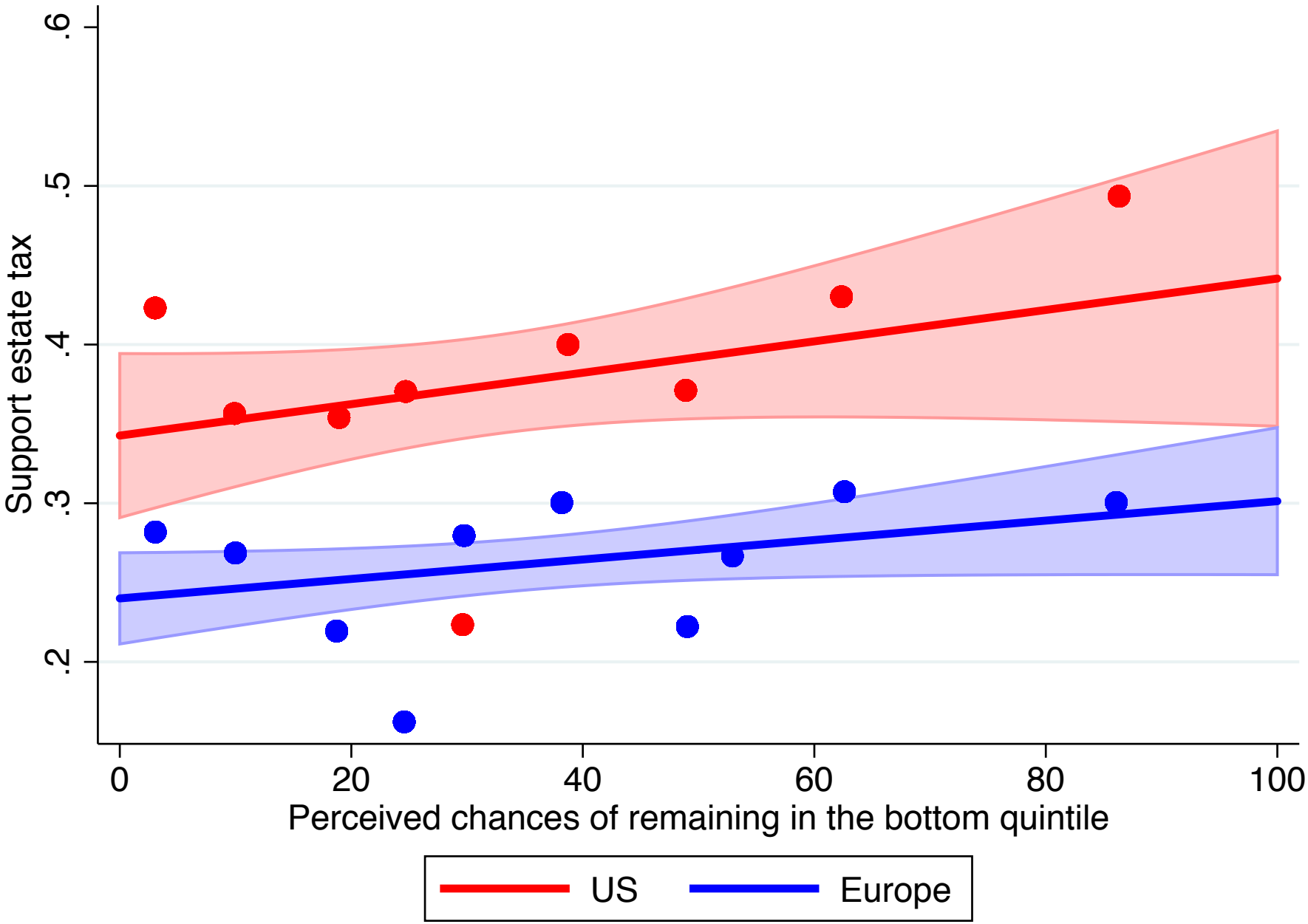
Support for intervention high in EU, lower in US.

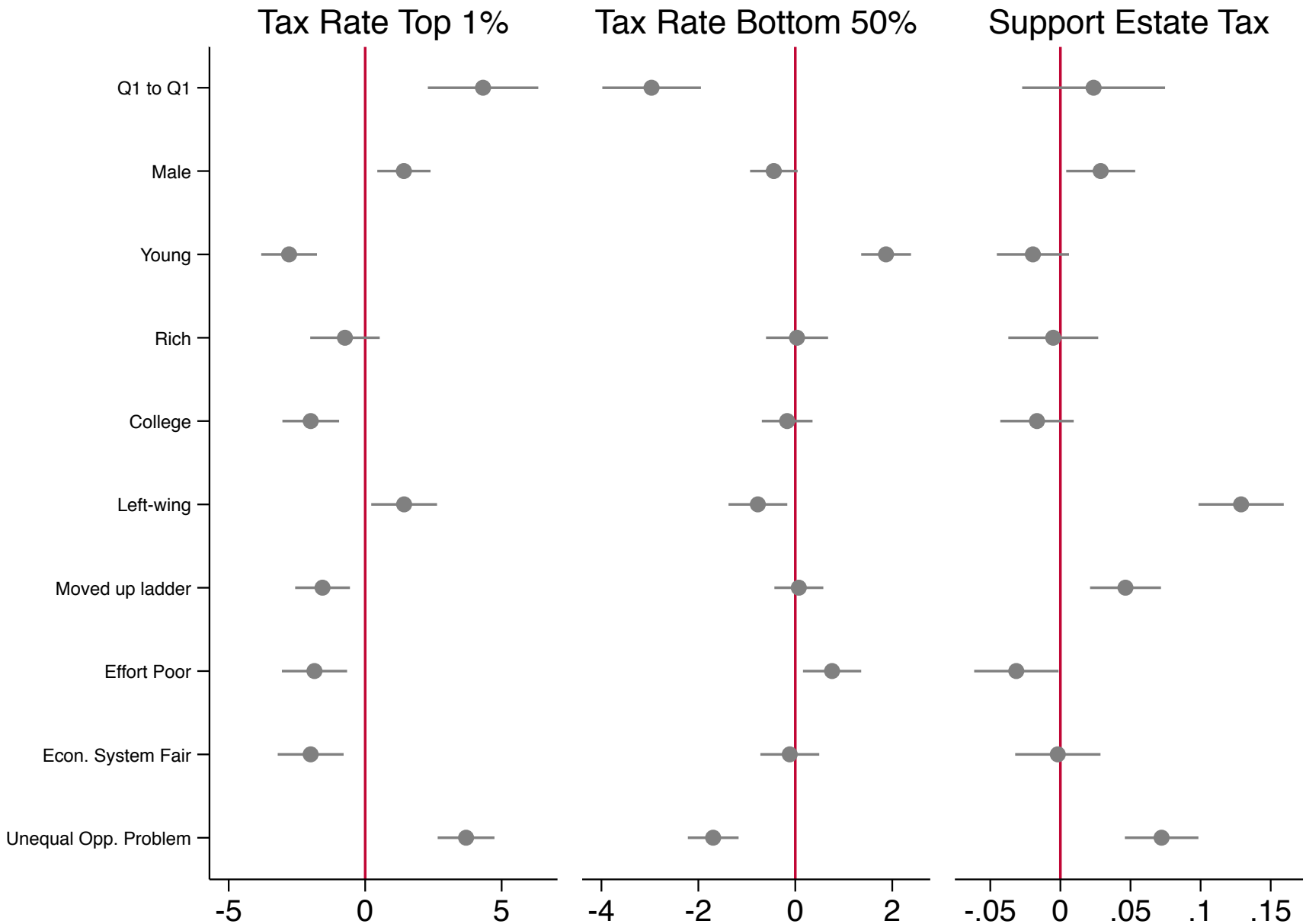
But too much intervention already? “Lowering taxes better" has high support in FR and IT.

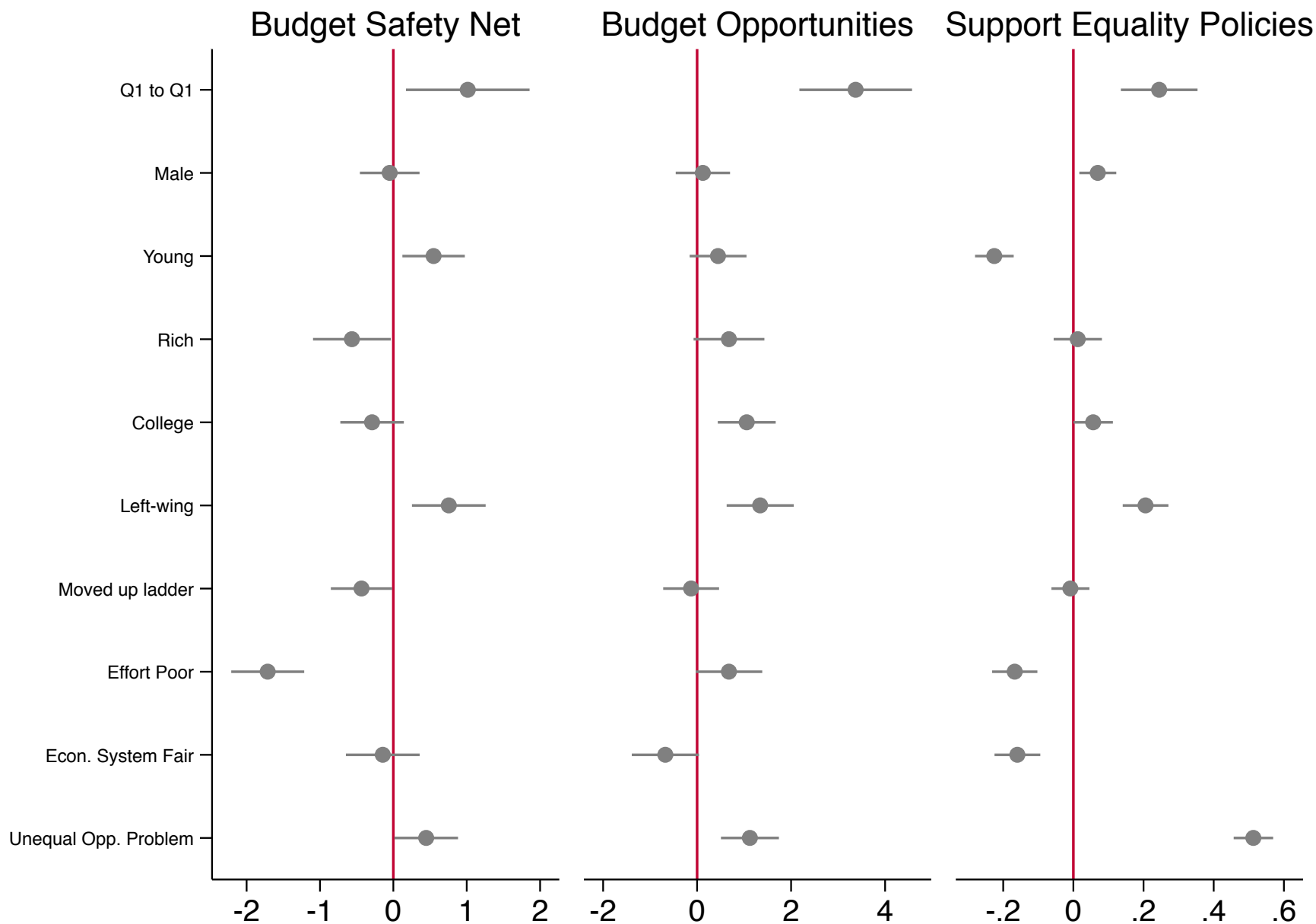
Estate tax high in FR, IT, and SE (until recently) $\rightarrow$ not popular.

	Government Intervention	Lowering Taxes Better	Support Equality Policies	Support Estate Tax
All	5.41	.37	3.75	.29
US	5.03	.35	3.6	.37
UK	5.49	.25	3.88	.33
France	5.39	.51	3.63	.22
Italy	5.89	.44	3.94	.23
Sweden	5.27	.3	3.74	.27

Support for the Estate tax mildly correlated with pessimism




Tax Rate Top 1%
Tax Rate Bottom 50%
Support Estate Tax
Q1 to Q1
Male
Young
Rich
College
Left-wing
Moved up ladder
Effort Poor
Econ. System Fair
Unequal Opp. Problem
-5
0
5
-4
-2
0
2
-.05
0
.05
.1
.15


Budget Safety Net
Budget Opportunities
Support Equality Policies
Q1 to Q1
Male
Young
Rich
College
Left-wing
Moved up ladder
Effort Poor
Econ. System Fair
Unequal Opp. Problem
-2
-1
0
1
2
-2
0
2
4
-.2
0
.2
.4
.6

Randomized Information Experiment

Randomized Information Experiment

- Is there a **causal relationship** between pessimism on intergenerational mobility and policy preferences?
  - Hard to control for all individual characteristics correlated with both
  - Need exogenous shifter in social mobility perceptions.

- Our randomized treatment:
  - Meant to shift perceptions towards more pessimism (Treatment here)
  - Truthful, but not precise: goal is to obtain a significant first stage, not to impart exact knowledge.

Treatment: Animation I

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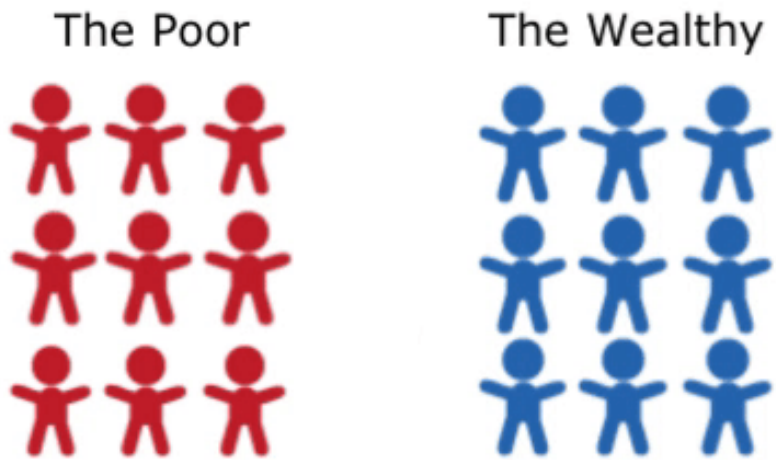
Recent academic research has been exploring the link between one's family background and one's chances of making it in life. These **recent academic studies** have leveraged new large-scale datasets to explore the opportunities available to children from different family backgrounds and their chances of making it in life.

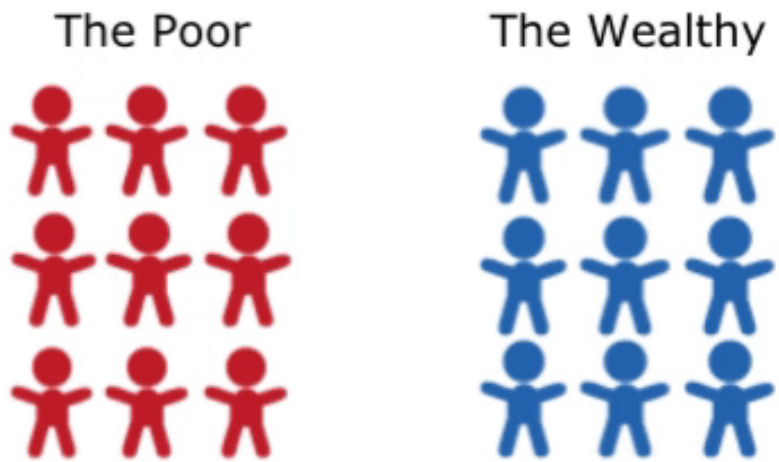
We will now show you **two short animations** that summarize the two key findings of these studies. Please proceed to the next page when you are ready.

>>

Treatment: Animation II



Treatment: Animation III



Effect of Treatment – First Stage

	Q1 to Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q5
All Countries					
Treated	10.03***	-2.405***	-5.890***	-1.812***	0.0811
	(0.606)	(0.301)	(0.324)	(0.215)	(0.362)
Control mean	34.46	22.78	22.01	10.70	10.05
US					
Treated	8.869***	-2.383***	-5.523***	-1.919***	0.957
	(1.211)	(0.592)	(0.644)	(0.439)	(0.771)
Control mean	32.05	21.76	22.40	12.11	11.68
UK					
Treated	9.385***	-2.009***	-5.441***	-1.712***	-0.223
	(1.346)	(0.621)	(0.617)	(0.437)	(0.774)
Control mean	39.06	22.07	19.46	9.845	9.571
Italy					
Treated	10.36***	-2.188***	-6.829***	-1.628***	0.282
	(1.335)	(0.702)	(0.715)	(0.511)	(0.816)
Control mean	32.71	23.37	22.78	10.94	10.20
France					
Treated	11.18***	-3.501***	-5.913***	-1.871***	0.103
	(1.314)	(0.667)	(0.748)	(0.449)	(0.750)
Control mean	35.27	24.06	22.11	9.822	8.737
Sweden					
Treated	11.24***	-1.846**	-5.849***	-2.097***	-1.446
	(1.675)	(0.869)	(1.021)	(0.617)	(0.975)
Control mean	32.97	22.91	24.15	10.41	9.558

Effect of Treatment – Persistence

Recontact respondents one week later (after finished taking survey).

First stage effects persist at around $\approx 60\%$.

"No" Effect of Treatment – Policies

	Tax Rate Top 1%	Tax Rate Next 9%	Tax Rate Bottom 50%	Budget Opport.	Budget Safety net	Budget Residual
All Countries						
Treated	0.511	-0.0848	0.124	0.0825	0.0629	-0.145
	(0.416)	(0.210)	(0.209)	(0.247)	(0.174)	(0.271)
Control mean	39.21	27.28	10.46	38.23	14.08	47.69
US						
Treated	0.276	-0.326	0.0463	-0.457	-0.129	0.586
	(0.833)	(0.373)	(0.375)	(0.516)	(0.325)	(0.601)
Control mean	33.52	21.85	8.921	32.93	13.53	53.53
UK						
Treated	-0.438	0.0862	0.205	-0.223	-0.267	0.491
	(0.758)	(0.357)	(0.320)	(0.505)	(0.361)	(0.514)
Control mean	36.93	23.02	6.710	41.12	13.45	45.42
Italy						
Treated	1.308	-0.00222	-0.183	0.888	0.303	-1.192*
	(1.002)	(0.472)	(0.559)	(0.562)	(0.482)	(0.609)
Control mean	37.57	26.46	10.53	38.78	15.79	45.43
France						
Treated	1.967**	0.685	-0.555	0.735	-0.0364	-0.699
	(0.967)	(0.486)	(0.416)	(0.513)	(0.341)	(0.569)
Control mean	43.26	29.22	8.747	38.38	13.46	48.16
Sweden						
Treated	-1.046	-1.343*	1.675**	-0.712	0.687	0.0254
	(1.163)	(0.801)	(0.788)	(0.679)	(0.434)	(0.720)
Control mean	50.49	43.59	22.70	42.82	14.48	42.70

Why no Effect on Policy Preferences?

Explanation 1: Mobility does not cause policy preferences. Correlations due to unobservables (e.g.: left and right, right-wing's redistribution preferences lower and less correlated with pessimism).

For some outcomes, this is true: political affiliation shifts level, not slope.

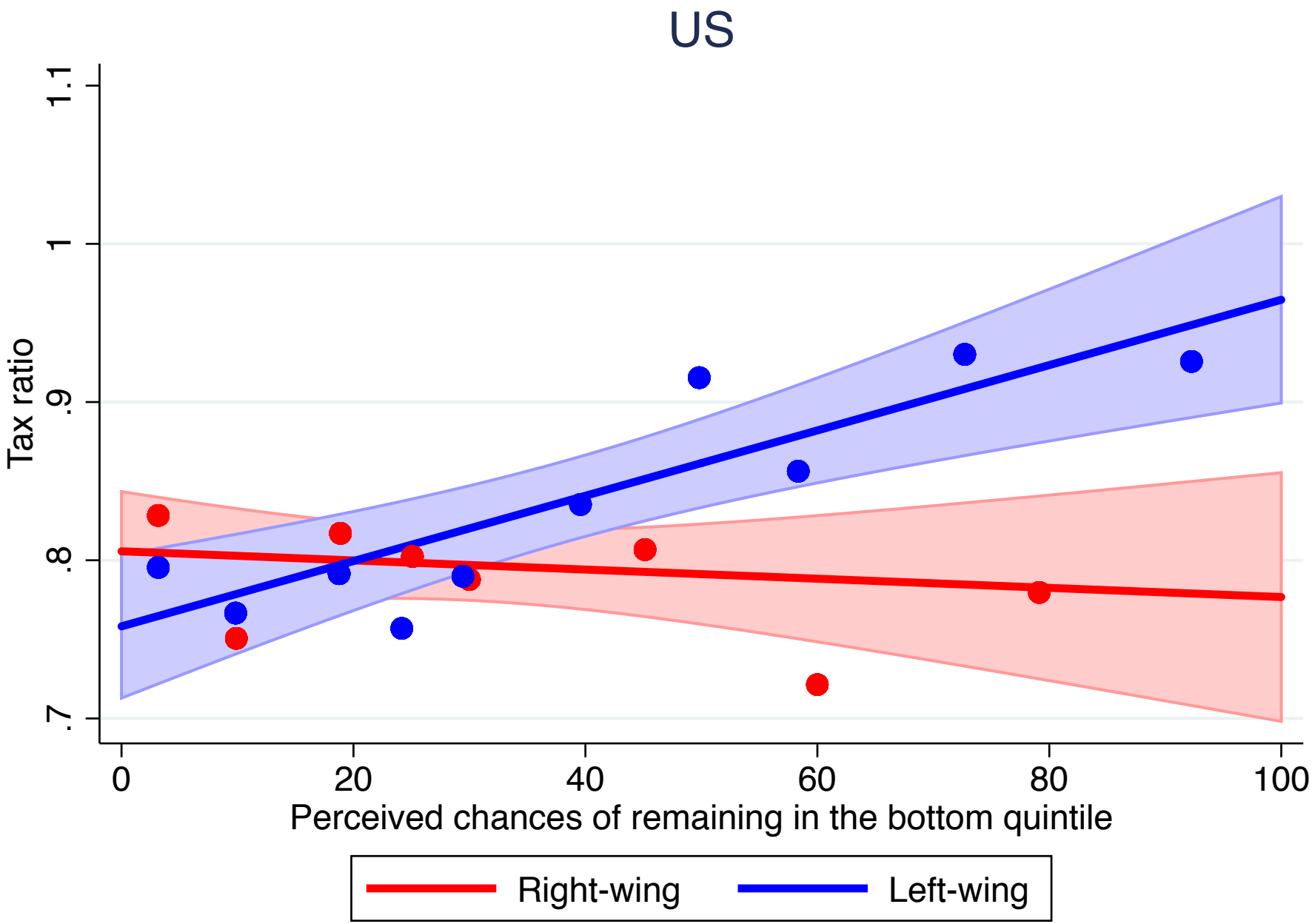
But correlation in several policy outcomes was there conditional on political orientation, especially left-wing (within group).

Explanation 2: For some people, pessimism *may* be correlated with more redistributive policy support, but support is then very high already and so hard to move. For others, despite increase in pessimism, no support for more redistributive policy support because have very bad views on government.

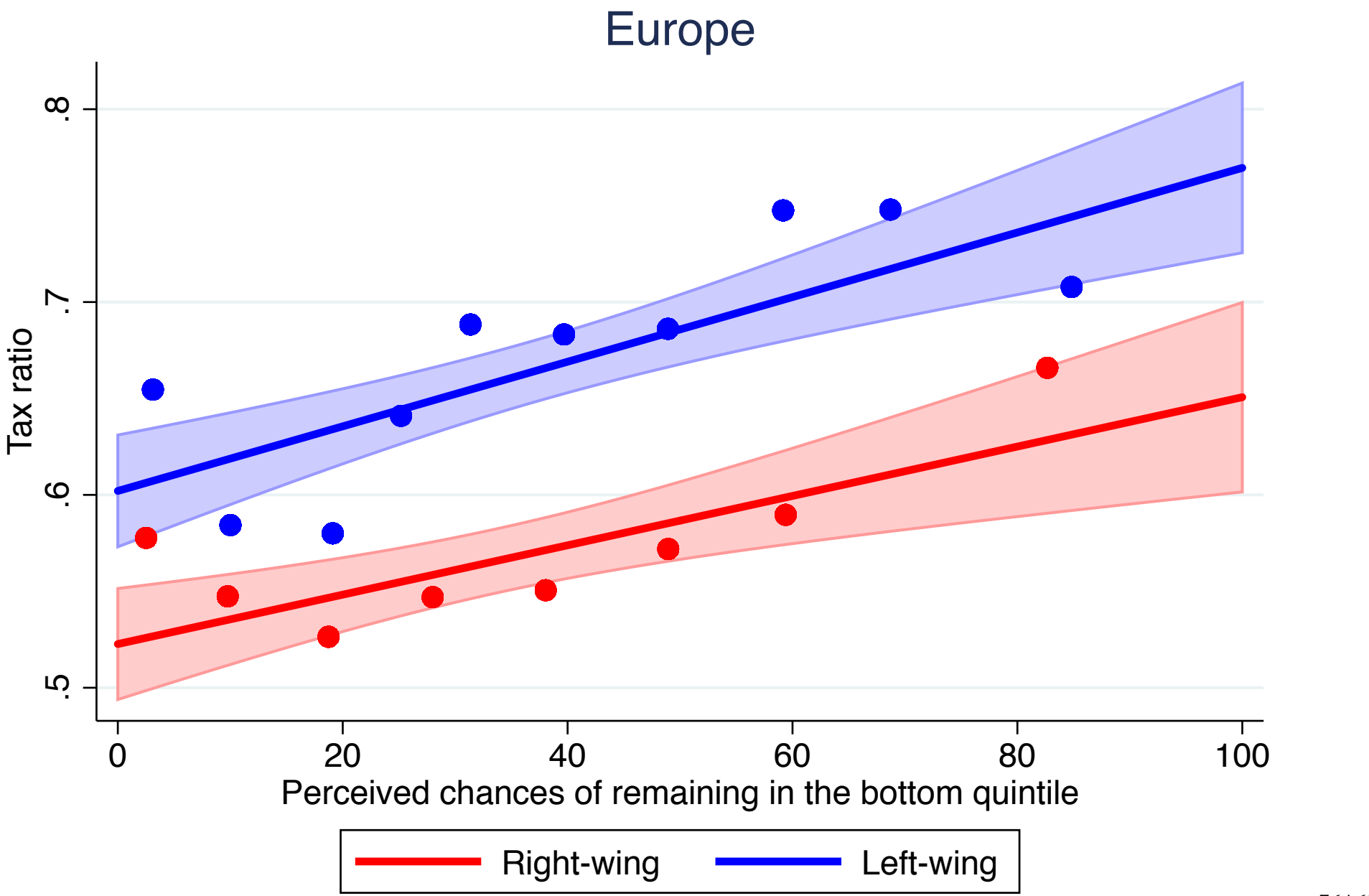
$\Rightarrow$ These groups may be left and right but not exclusively, as left sometimes also pessimistic about government.

These two explanations play some role.

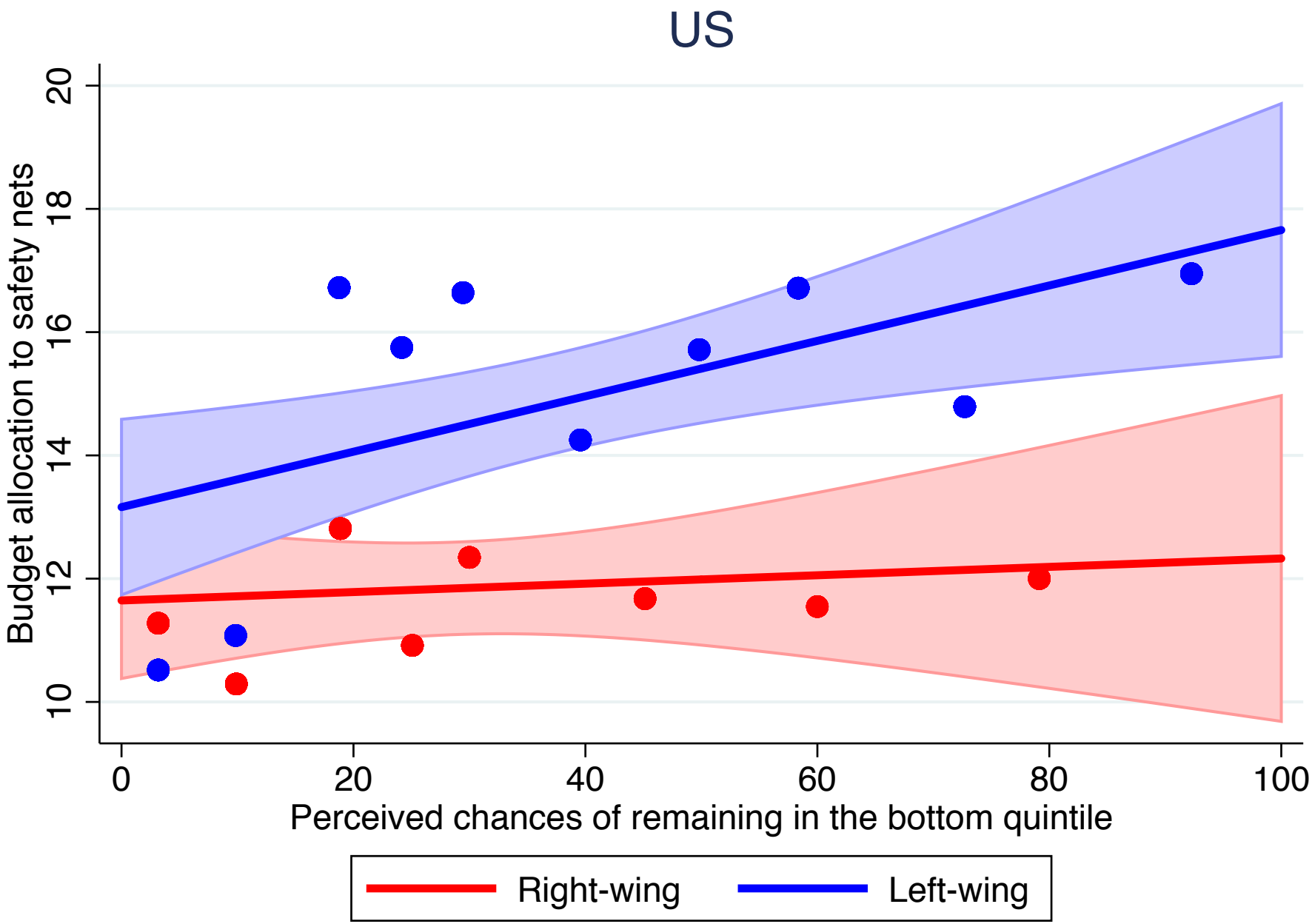
In the U.S. only left-wing's tax preferences positively correlated with pessimism



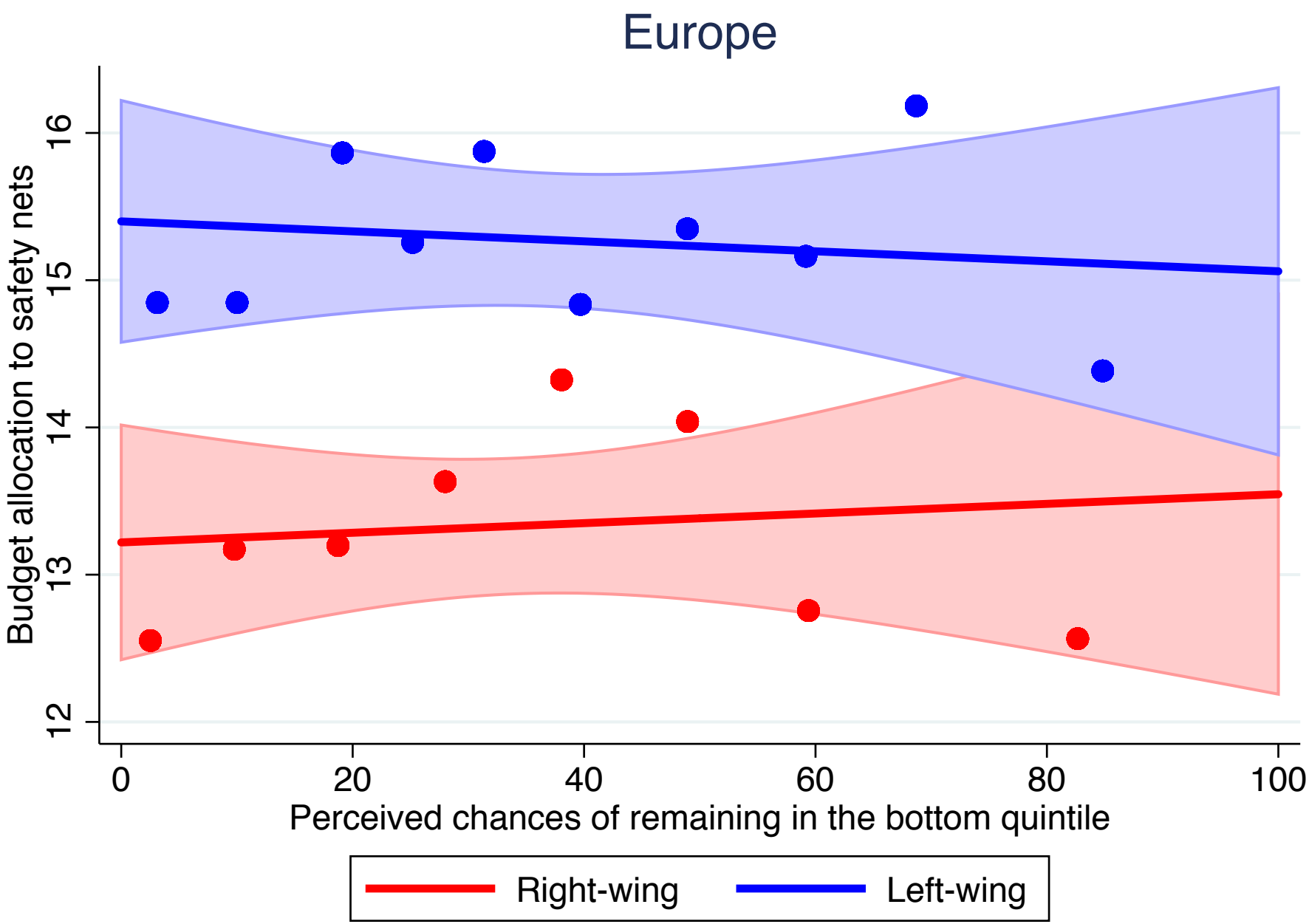
In Europe, pessimists prefer more progressive taxes, but taxes already high



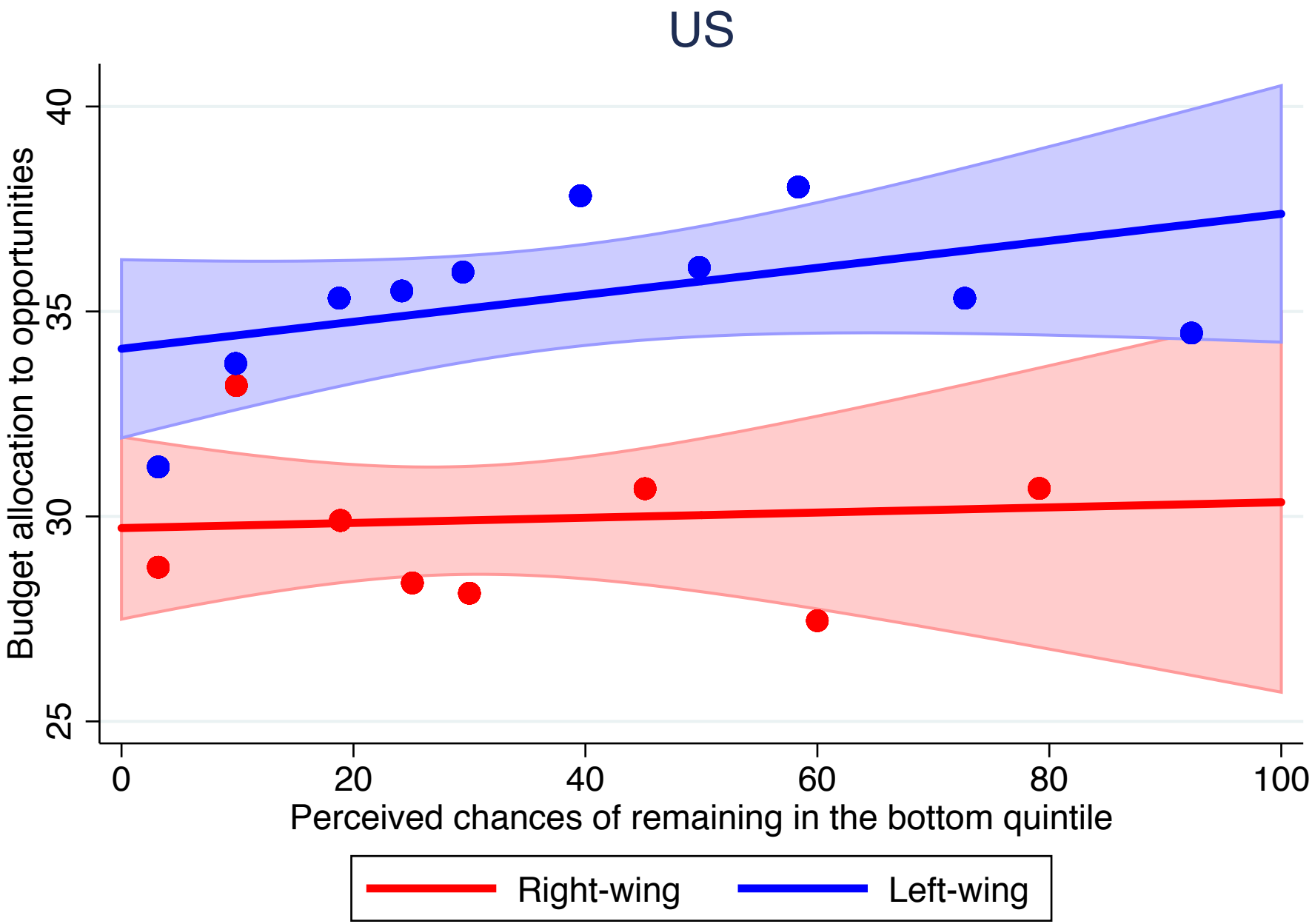
Only the left in the U.S. supports more safety net when pessimistic.. and they are already at the "max."



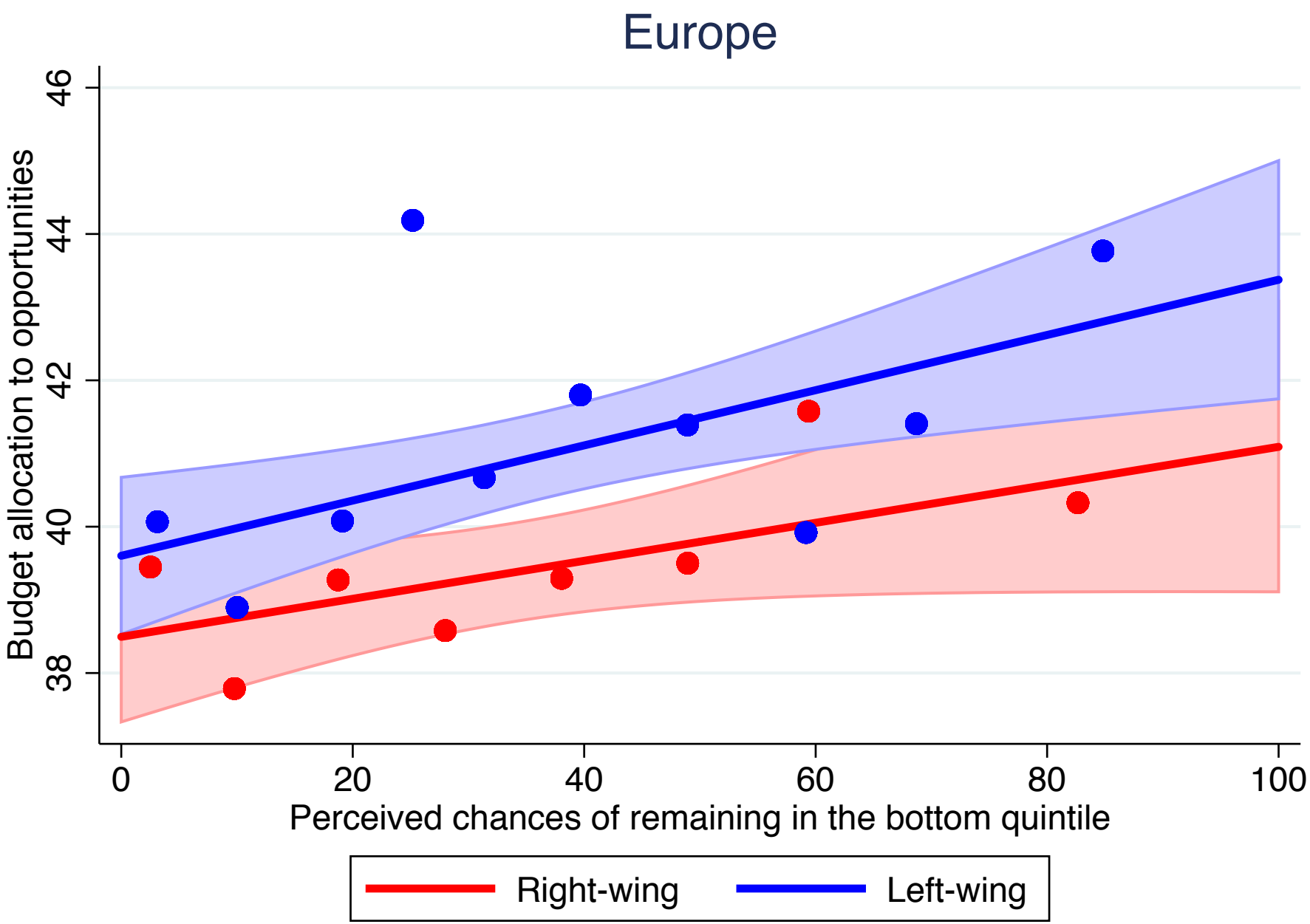
In Europe, support for safety net unrelated to pessimism



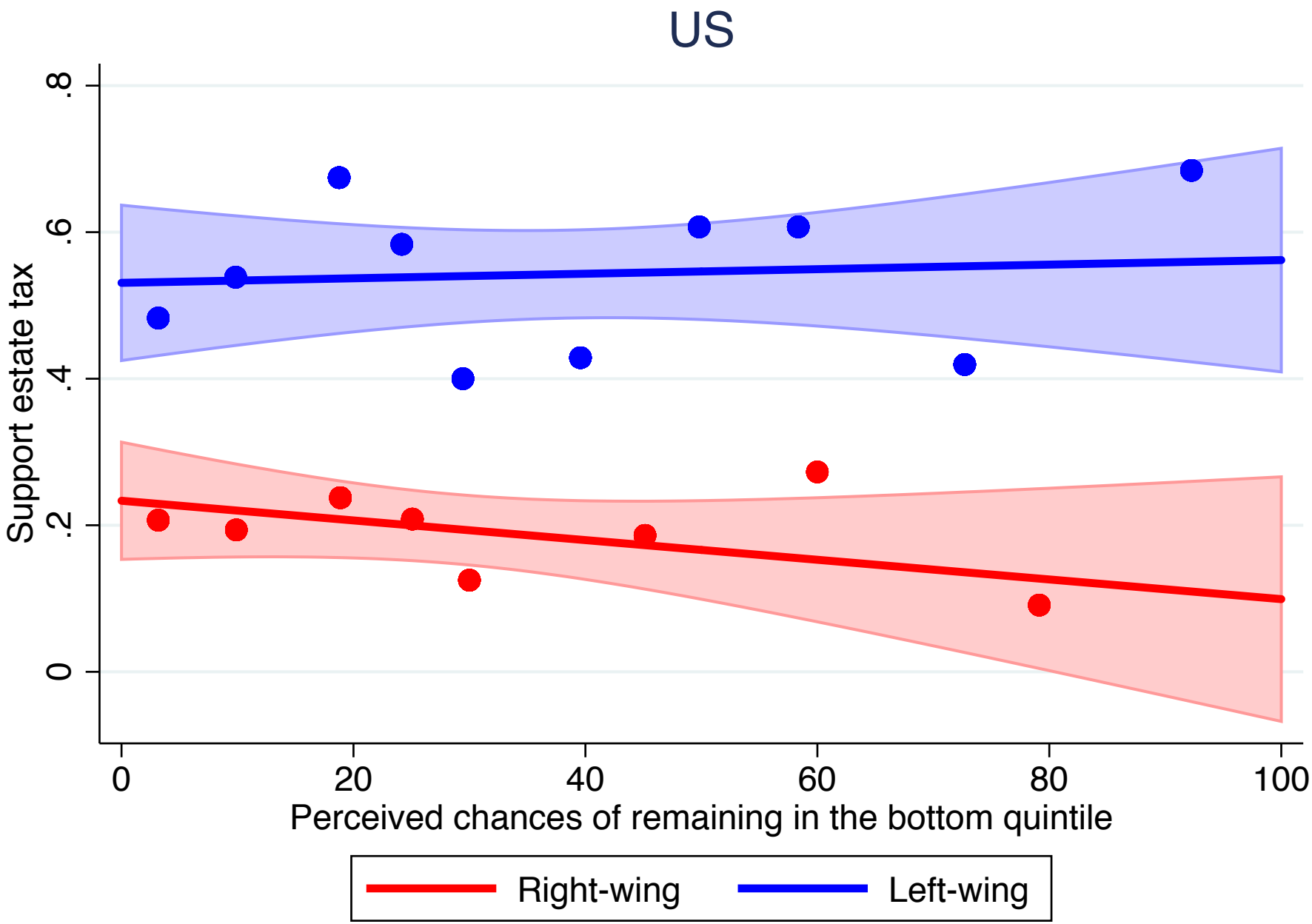
In US, only left-wing's support for opportunity policies is mildly sensitive to pessimism



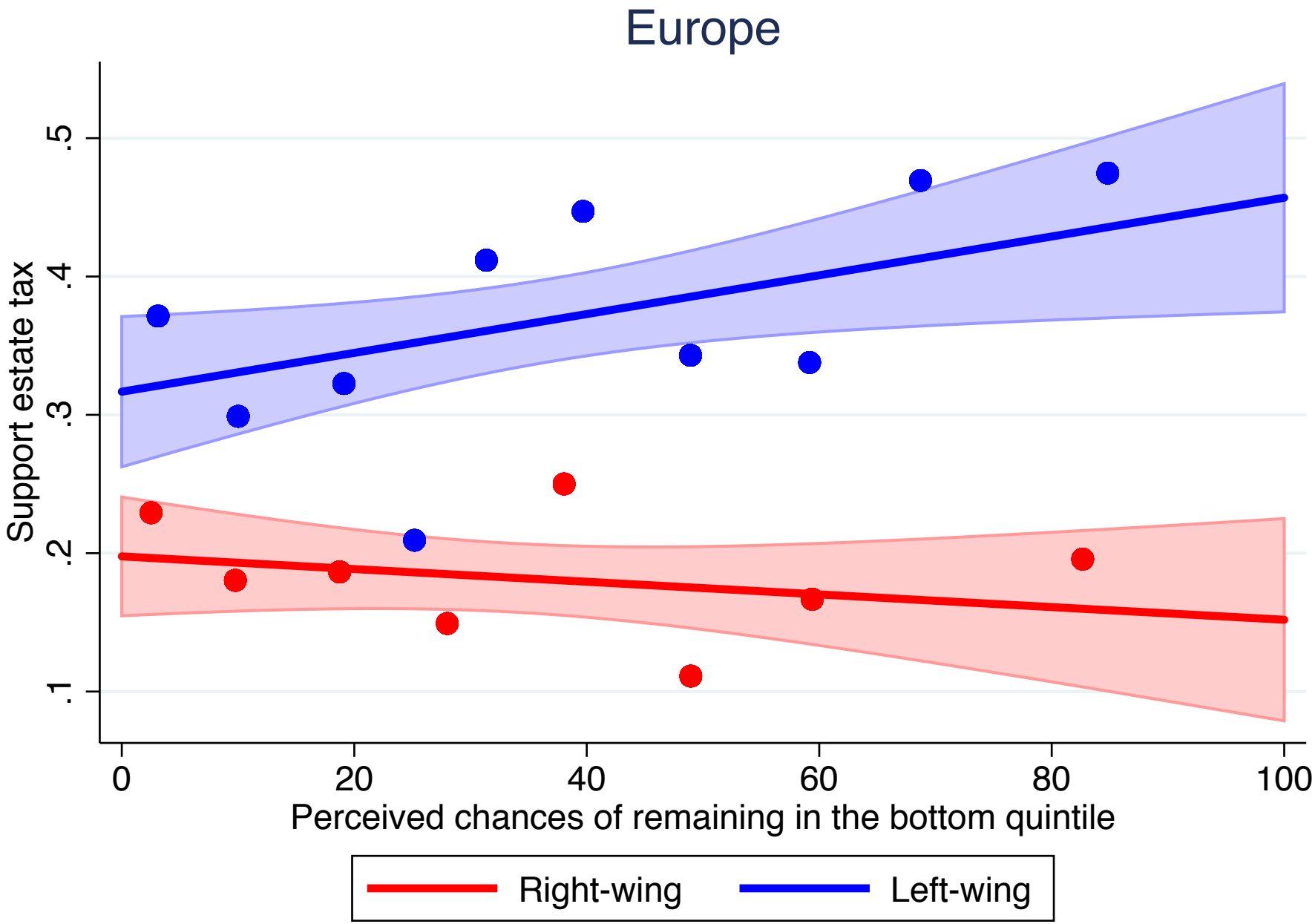
In Europe, support already very high overall.



In the U.S., right-wing even have decreasing support for estate tax when more pessimistic.



Same declining support in EU, increasing support for left-wing when pessimistic.



Polarization and Views of the Government

Series of questions to understand weak effects on policies

- Maybe government i) lacks the right tools) or ii) is detrimental and deregulation and de-intervention will help instead of iii) cannot be trusted to do the right thing.

- These questions randomly asked pre or post treatment (pre-existing attitudes on which to see heterogeneous effects vs. outcomes).

Questions about government

How much of the time do you think you can trust the government to do what is right? [Never/ Only some of the time/ Most of the time Always]

To reduce the inequality of opportunities between children born in poor and rich families, the government has the ability and the tools to do: [Nothing at all/ Not much/ Some/ A lot]

If children from poor and rich backgrounds have unequal opportunities in life, do you think this is: [Not a problem at all/ A small problem/ A problem/ A serious problem/ A very serious problem]

What do you think would do more to make the opportunities for children from poor and rich families less unequal?
[Lowering taxes on wealthy people and corporations to encourage more investment in economic growth/
Raising taxes on wealthy people and corporations to expand programs for the poor.]

"No" Effect of Treatment – Views of Government

	Support Govt. Intervention	Lowering Taxes Better	Support Equality Policies	Support Estate Tax
All Countries				
Treated	-0.0218	-0.00838	-0.00125	-0.00195
	(0.0316)	(0.0105)	(0.0234)	(0.0102)
Control mean	5.404	0.376	3.754	0.291
US				
Treated	-0.101	-0.0298	-0.0467	-0.0256
	(0.0686)	(0.0200)	(0.0520)	(0.0214)
Control mean	5.028	0.348	3.602	0.375
UK				
Treated	-0.0355	0.0267	-0.0333	0.00932
	(0.0667)	(0.0213)	(0.0478)	(0.0233)
Control mean	5.485	0.248	3.882	0.325
Italy				
Treated	-0.00495	-0.00674	0.0291	0.0311
	(0.0634)	(0.0252)	(0.0517)	(0.0220)
Control mean	5.892	0.442	3.944	0.233
France				
Treated	0.0353	-0.0311	0.0197	0.0105
	(0.0688)	(0.0246)	(0.0517)	(0.0212)
Control mean	5.376	0.521	3.630	0.219
Sweden				
Treated	0.0103	0.0145	0.0465	-0.0471*
	(0.0829)	(0.0264)	(0.0530)	(0.0272)
Control mean	5.279	0.300	3.741	0.274

Summaries of Views of Government

	Trust Government	Tools Government	Lowering Taxes	Unequal Opp. Not a Problem
All	.8	.71	.37	.12
US	.88	.76	.35	.16
UK	.87	.82	.25	.15
France	.67	.48	.51	.11
Italy	.71	.73	.44	.07
Sweden	.93	.81	.3	.1

.. but any of these may be enough to not want more government intervention.

Share who do not think government is the answer

	Left	Center-Left	Center-Right	Right
All	.57	.66	.89	.92
US	.55	.58	.9	.99
UK	.53	.58	.84	.85
France	.85	.8	.93	.93
Italy	.62	.76	.9	.88
Sweden	.29	.44	.87	.95