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Intergenerational Mobility and Preferences for Redistribution

Summary of results

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This report summarizes the result of the paper (with the same title by the same authors), presented at the XIX European Conference of Fondazione Rodolfo De Benedetti, to be held in Ancona on May 27, 2017. For financial support, we thank Fondazione Rodolfo De Benedetti, the Foundation of Human Behavior Initiative, the Pershing Square Foundation, and the Russell Sage Foundation.

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Inequality has been increasing in the US and in several other countries. People's views and tolerance for inequality are linked to perceptions of equality of opportunity. If one believes that there are reasonably equal opportunities for all to be successful, and people move up and down the income ladder, then inequality is acceptable because it is the result of a relatively "fair game".

Americans in general consider the market system relatively fair. They view wealth as a reward for ability and effort, and poverty as the result of inability to take advantage of opportunities. Europeans believe that the economic system is unfair and that wealth is the result of family history, connections, and sticky social classes. On the contrary, poverty is due to bad luck, and is "society's fault". These different views may be due to the different history of the two places. The history of Europe is one of centuries of feudalism with wealth associated to nobility and birth. Feudalism did not exist in the US, where the first generation of wealthy individuals was self-made immigrants. These different views may be one of the reasons why the welfare systems in Continental Europe are more generous than in the US. However, the data suggest that, on average, today intergenerational mobility in the U.S. may in fact not be systematically higher than in Europe.

Do people have realistic views about actual intergenerational mobility? What is the link between perceived or actual intergenerational mobility and support for redistribution policies? Are there different effects for equality of opportunity policies (education, health, bequest and estate taxes, etc.), or equality of outcome policies (social insurance, progressive taxation, safety net policies, etc.)? Is there heterogeneity in perceptions by socio-economic background and political views? Do people believe that governments have the ability to correct the barriers which limit social mobility?

These are some of the questions which we try to answer in our paper. In order to answer them, we collected cross-country survey and experimental data for five countries: France, Italy, Sweden, the U.K., and the U.S. We constructed a representative sample in these countries. We were also very careful in designing a survey which was clearly understandable and we took care

of eliminating answers which were clearly meaningless, incoherent and reflected lack of attention of the respondent. We used a commercial survey company and we were actually favorably surprised by the fact that very few answers were clearly unacceptable because incoherent or “crazy”. The survey was conducted in September and October 2016.

We begin by comparing the perceptions of mobility to recent data on actual intergenerational mobility (mobility in short) in these countries. We assembled, with as much care as possible, the best possible data on intergenerational mobility for these five countries. The first step in our analysis was to elicit answers about what respondents think about the chances that children born in the bottom quintile have to make it into various quintiles of the income distribution.

We discovered that Americans are more optimistic than Europeans about intergenerational mobility, and they are too optimistic relative to the actual mobility in the U.S., especially about the probability of making it from the very bottom to the very top quintile (the embodiment of the "American dream" idea). The degree of social mobility varies a lot within the United States. It is higher in the North, North-West and lower in the South, South-East. Interestingly, Americans are especially optimistic in areas where the actual mobility is especially low, an issue which deserves further research.

Europeans are not only more pessimistic than Americans; they are also too pessimistic relative to the actual degree of mobility especially about the probability of a child from a family in the bottom quintile of remaining stuck in the bottom. Europeans underestimate the likelihood that somebody can make it out of poverty.

We were surprised by how relatively accurate (on average) were the numerical answers given by the respondents, but we also checked them against more qualitative answers about perceived chances of social mobility.

Both Americans and Europeans believe that individuals with talent and those who put a lot of effort in have a higher chance of making it out of poverty to the middle class, but few believe

that individual effort can make a large difference for making it to the very top. Left-leaning individuals are more pessimistic about social mobility, the fairness of the economic system, and the importance of individual effort (i.e., they believe that even with effort the poor are stuck). The polarization is especially strong in the U.S., but significant in all countries. Interestingly, we found that rich individuals are more pessimistic about social mobility, a result which deserves further attention.

We then move to questions related to government intervention to facilitate intergenerational mobility. We asked many specific questions to elicit answers about views about the progressivity of the income tax system and preferences about government spending in ex-post redistribution and social protection versus equal opportunity policies (health and education) and the residual (infrastructures defense, pensions etc.). We were careful to highlight the budget constraint of the government to avoid answers which did not account for the fact that more spending implies higher taxes. We were careful to make sure that people did not forget that there is “no free lunch”.

We found that pessimism and optimism about mobility are significantly correlated with policy preferences: across all countries, more pessimistic respondents tend to favor more progressive income taxes and higher levels of government involvement for equal opportunity policies like education and health. In fact, we noted that respondents were especially keen in supporting government spending in equal opportunity, rather than in social protection, as a response to low social mobility.

The correlation between policies and mobility perceptions is much stronger for left-wing respondents, and weaker for right-wing respondents. In other words, left-leaning respondents view government intervention as a necessary response when they perceive mobility as low. By contrast, right-leaning respondents, even when pessimistic about social mobility, do not see the government as the answer to the problem.

Another interesting set of results show that many respondents believe that, in principle, governments could do a lot about social mobility, but think that, in reality, the government cannot

be trusted. In other words, they think that the government *a priori* has the tools to reduce unequal opportunities, and that unequal opportunities are a serious problem, but are pessimistic about their governments, especially in France and Italy. In Italy, for instance, less than 10 per cent of the respondents believe that the economic system is fair and that there are good chances for everybody to make it economically. Less than 20 per cent believe that the reason for being poor is lack of effort or ability, as opposed to luck or other factors beyond your control. In France, views are slightly more optimistic, but not much better. As a comparison, about fifty per cent of Americans believe that the system is fair (this percentage reaches 70 per cent when considering only right-leaning Americans). Amongst the Europeans, the Swedes are more optimistic about "fairness" close. In addition, in France and Italy about 50 per cent of respondents believe that the government has the tool to increase social mobility and fairness, but less than 10 per cent of respondents trust the government! In other words, they think that things could be improved but their governments are not capable of achieving this goal. The questions are meant to capture a general notion of a generic government, not the "current" government.

We have also implemented a randomized information experiment in which we shift respondents' perceptions about mobility towards more pessimism for the "treated" groups and we do nothing for the "control" group. In other words, we prompted the treated group (half of the sample) to think that social mobility is lower than what they might think. We then compared the answers of the treated group versus the control group.

We observe political polarization is also visible in the treatment effects on policy preferences. Left-wing respondents who are treated significantly shift their policy preferences in the direction of supporting more redistribution, through the whole array of potential policies. On the other hand, there is barely any effect at all on their support for redistribution. The treatment is either "preaching to the choir", or "preaching to the deaf." Respondents who were already convinced that low social mobility was a problem (the left-wing respondents in particular) continue to believe in policy intervention to correct it, and the treatment further increases their support. They stand in contrast to those who do not favor extensive government intervention, who believe that

the government does not have the tools or capacity to correct this problem, or even that excessive government is the source of the problem.

In summary, we have documented several important facts. First, we show a strong polarization of views between right-wing and left-wing respondents. The former understand the benefits of intergenerational mobility, but do not believe government intervention has much role to increase it. Most likely is that they do not “trust” governments’ ability to do the right things. In fact, they may even believe the government to be responsible for the problem. Left-wingers instead believe in equal opportunity public policies. Second, Europeans are too pessimistic and Americans too optimistic about social mobility and this may in part explain their different views about the desired generosity of the welfare state. Third, in France and Italy in particular respondents seem extremely unhappy about the fairness of their economic system and have a very low trust in their governments to solve the problem. Fourth, when we move views about social mobility toward more pessimism, we discover a polarizing effect: left-leaning residents become even more favorable toward government intervention, right-leaning ones just the opposite, they want the government to do even less, because they may see the latter as responsible, rather than the solution, of the problem.