Puzzle:

Inequality is rising but redistribution and support for redistribution are not
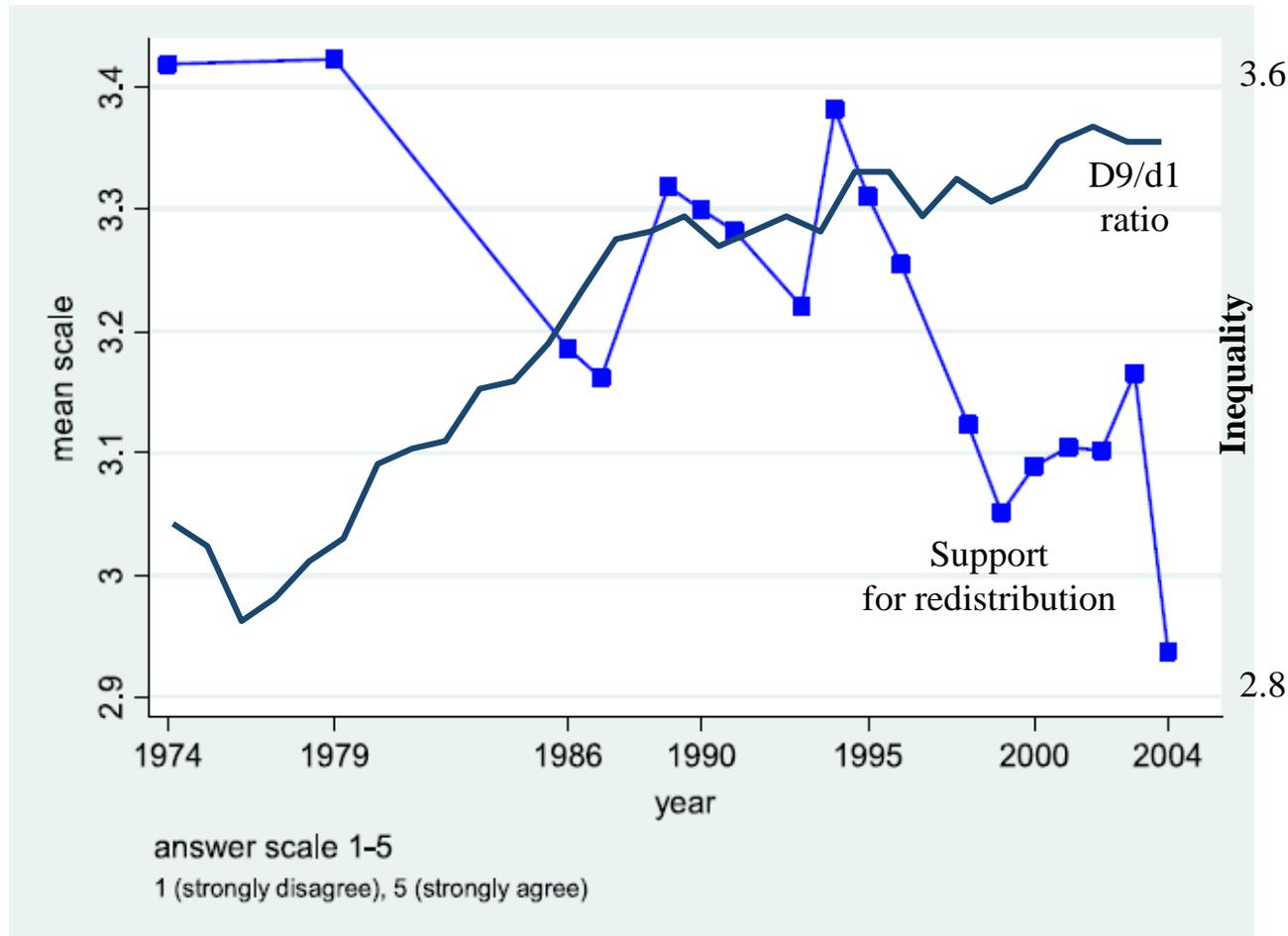

Fig. 3 The changing demand for redistribution. Notes: this is the mean value of REDISTRIBUTE ("government should redistribute income from the better-off to those that are less well-off")

Explanations

1. Drop in social affinity. Identification with the poor is declining because of i) rising inequality and social distance between the middle class and the poor; and ii) increasing ethnic, racial, and religious heterogeneity (especially as a result of immigration)

2. Labor market segmentation. Drop in middle and upper-middle class support for social insurance because of increasingly segmented labor markets, which are due to i) the decline of Fordism; ii) de-industrialization and the rise of low-paid insecure jobs; iii) skill-biased technological change
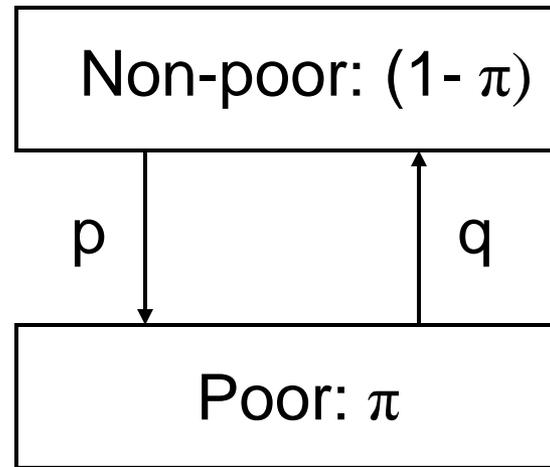
Affinity model versus segmented labor market model:

Do p and q vary across groups, and is this known?

If no: Pooled equilibrium:

$t^* = f(p_{pooled}; income)$

If yes: separating equilibrium:

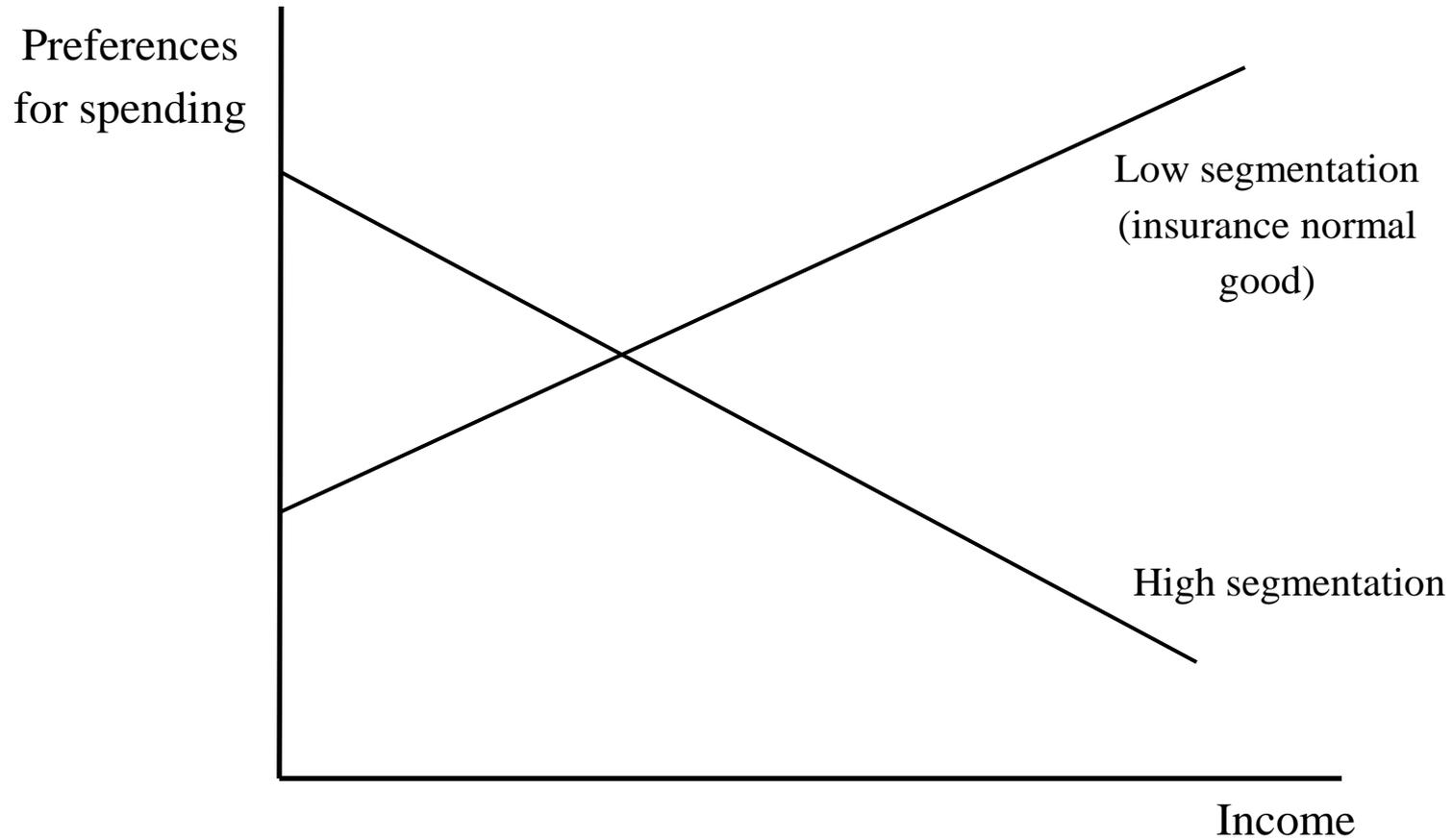$p_{minority} > p_{majority}$

$\downarrow$

$t^*_{minority} > t^*_{majority}$ $\longrightarrow$

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┌─────────────────────┐
│  Non-poor: (1- π)   │
└─────────────────────┘
     p │        ↑ q
       ↓        │
┌─────────────────────┐
│     Poor: π         │
└─────────────────────┘
```

Composition of poor:

$p_{min}.(1-\pi) = q.\pi \rightarrow \pi_{min}^* = p_{min}/(p_{min}+q) > \pi_{maj}^*$

Regression: $t = a + b_1 \cdot Affinity + b_2 \cdot p_{minority}/p_{majority}$

Collinear

Income and preferences

Preferences for spending

Low segmentation (insurance normal good)

High segmentation
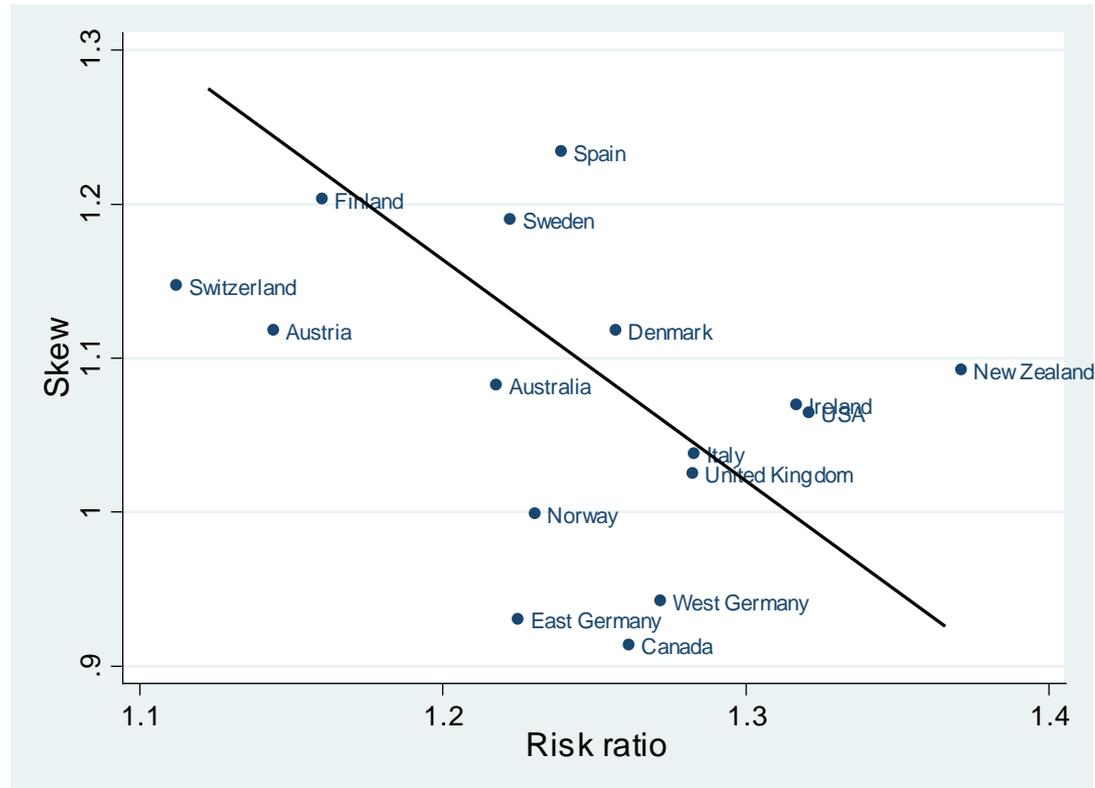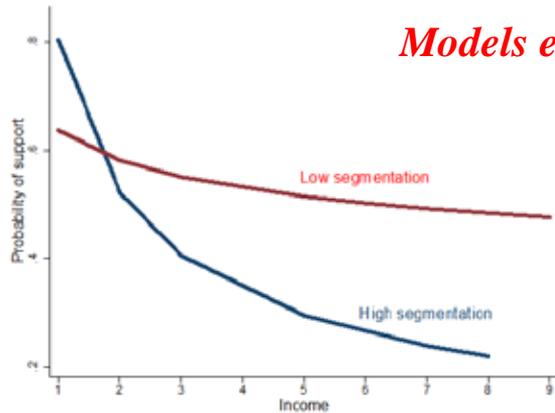
Income

Two measures:

- Lupo and Pontusson's skew: (d9/d5)/(d5/d1)
- Our risk ratio: Unemployment risk in the bottom 4 income quantiles divided by risk in the top 4 quantiles (as a measure of labor market segmentation)
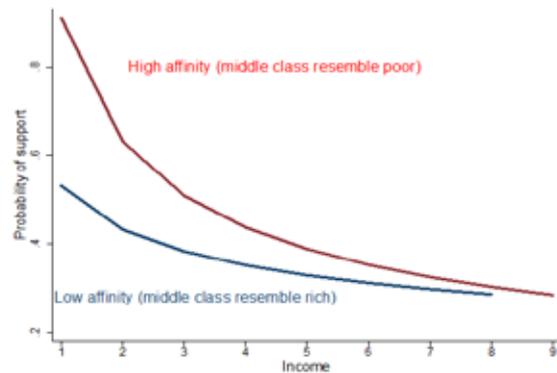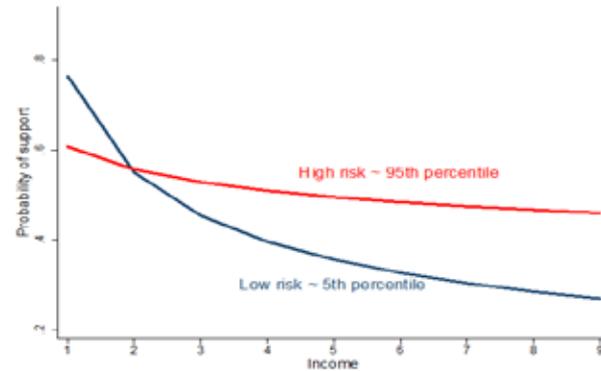
Individual-level regressions

Segmentation model

"High" = risks concentrated among the poor; rich are safe
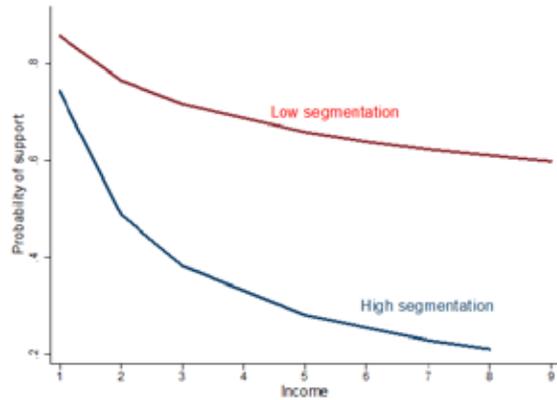
Personal occupational risk

Unemployment in job class

Affinity model (income skew)
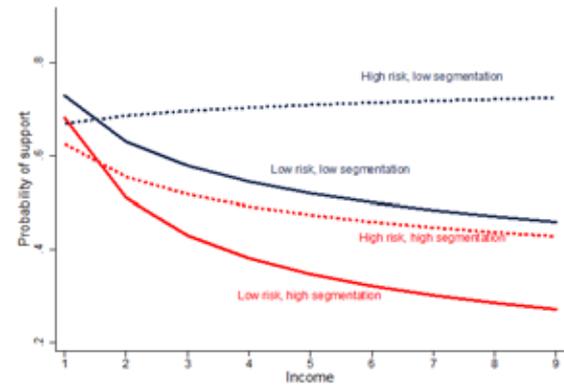
"High" ("low") = more (less) affinity

Individual-level regressions
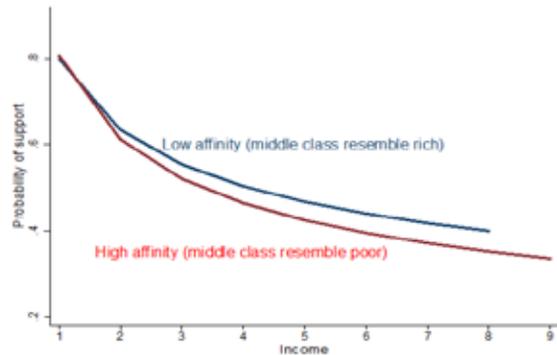
Combined model

Segmentation model

"High" = risks concentrated among the poor; rich are safe

Personal occupational risk and segmentation

Unemployment in job class and risk ratio

Affinity model (income skew)

"High" ("low") = more (less) affinity