

# **Perceptions of Inequality and Social Mobility**

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# Why high inequality can be a problem?

- Bad for economic growth (through redistributive pressures)?
- Destroys social cohesion?
- Threat to political stability and democracy?
- But the borderline between “needed” (“good”) and “excessive” (“bad”) inequality is fuzzy and exists in subjective perceptions only. Different groups have different borderlines.

# Main idea of the paper

- Is our perception of inequality (and then attitudes toward redistribution) affected by available opportunities of social mobility?
- Potential contribution to the literature: empirical analysis using large cross-country data sets

# Poor are usually for redistribution but this does not explain everything

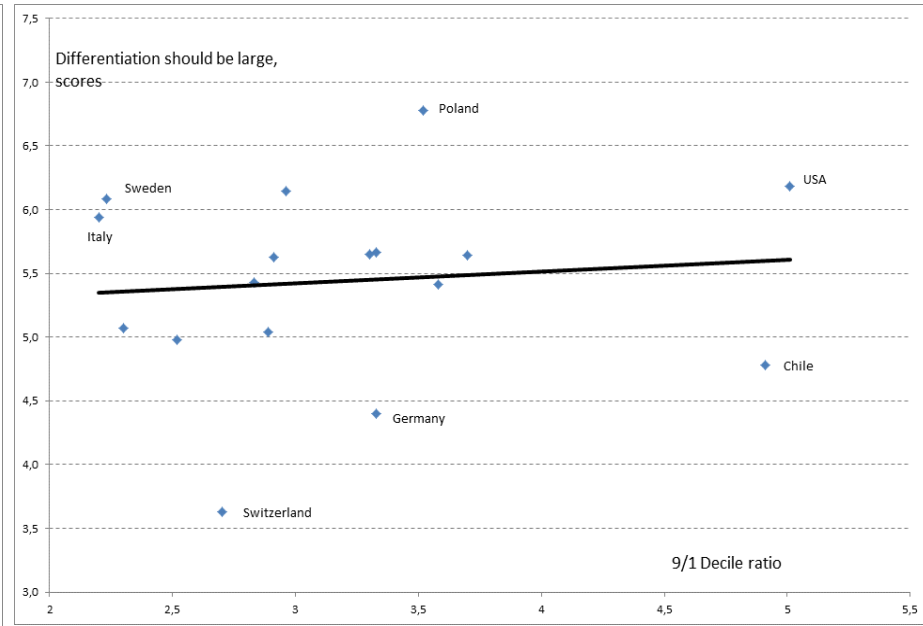
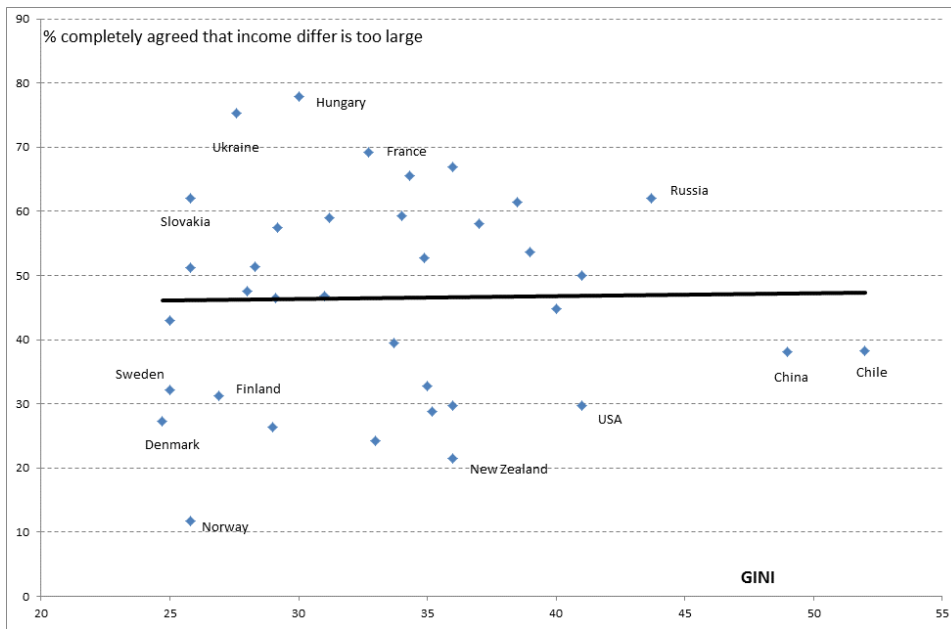
- The median voter is expected to support redistribution (Meltzer and Richard, 1981)
- There are no convincing macro- or micro-arguments that inequality is perceived and interpreted by population non-ambiguously
- Corneo and Gruner, 2002; Kenworthy, McCall, 2007; Kaufman, 2009; etc
- Statistical relationship between actual inequality and its public perception may not exist!
- Why? There are multiple reasons for that!

# What affects perceptions of inequality (and attitudes toward redistribution)?

- Very good survey: Alesina and Giuliano, 2013
- Ideology (Alesina, Fuchs-Schundeln, 2007)
- Shocks during formative years (Giuliano, Spilimbergo, 2011)
- Prospects of upward mobility - «tunnel effect» (Hirschman, 1973; Benabou and Ok, 2001; Ravallion and Lokshin, 2002; Alesina and La Ferrara, 2005; Piketty, 2005)
- «Legitimacy» of acquired wealth (Sen, 2000 ; Alesina and Angeletos, 2005; Easterly, 2007 )

Then the problem of inequality is not just in market outcomes but also a consequence of various structural factors limiting and rationing upward mobility (including poorly functioning social lifts), inherited anti-market ideology, etc.

# Actual inequality and its perception: cross-country picture shows no correlation



## A.Hirschman's «tunnel effect»

“Suppose that I drive through a two-lane tunnel, both lanes going in the same direction, and run into a serious traffic jam. No car moves in either lane as far as I can see (which is not very far). I am in the left lane and feel dejected. After a while the cars in the right lane begin to move. Naturally my spirits lift considerably, for I know the jam has been broken and that my lane's turn to move will surely come at any moment now. Even though I still sit still, I feel much better off than before because of the expectation that I shall soon be on the move” (Hirschman, 1973).

# «Justified» inequality

- «People's attitudes towards, or reactions to, actual income distributions can be significantly influenced by the correspondence – or the lack thereof – between (1) their ideas of what is normatively tolerable, and (2) what they actually see in the society around them» (Sen, 2000).

Widespread social practices vs existing ethical norms.

- Market and structural inequality

Structural inequality is caused by institutions generating and supporting elites through non-market mechanisms (Easterly, 2007).



# Our hypothesis

- Perception of inequality is contingent upon experience of upward mobility.
- Well functioning social lifts increase tolerance to inequality
- «Legitimacy» (as perceived by people) of how wealth is acquired supports tolerance

# Data

- ISSP-2009
- 36 countries, N=44 th respondents
- ISSP-1999
- 26 countries, N=24 th
- LiTS-2010
- 35 countries, N=39 th
- Countries in all samples are very different in economic and institutional dimensions

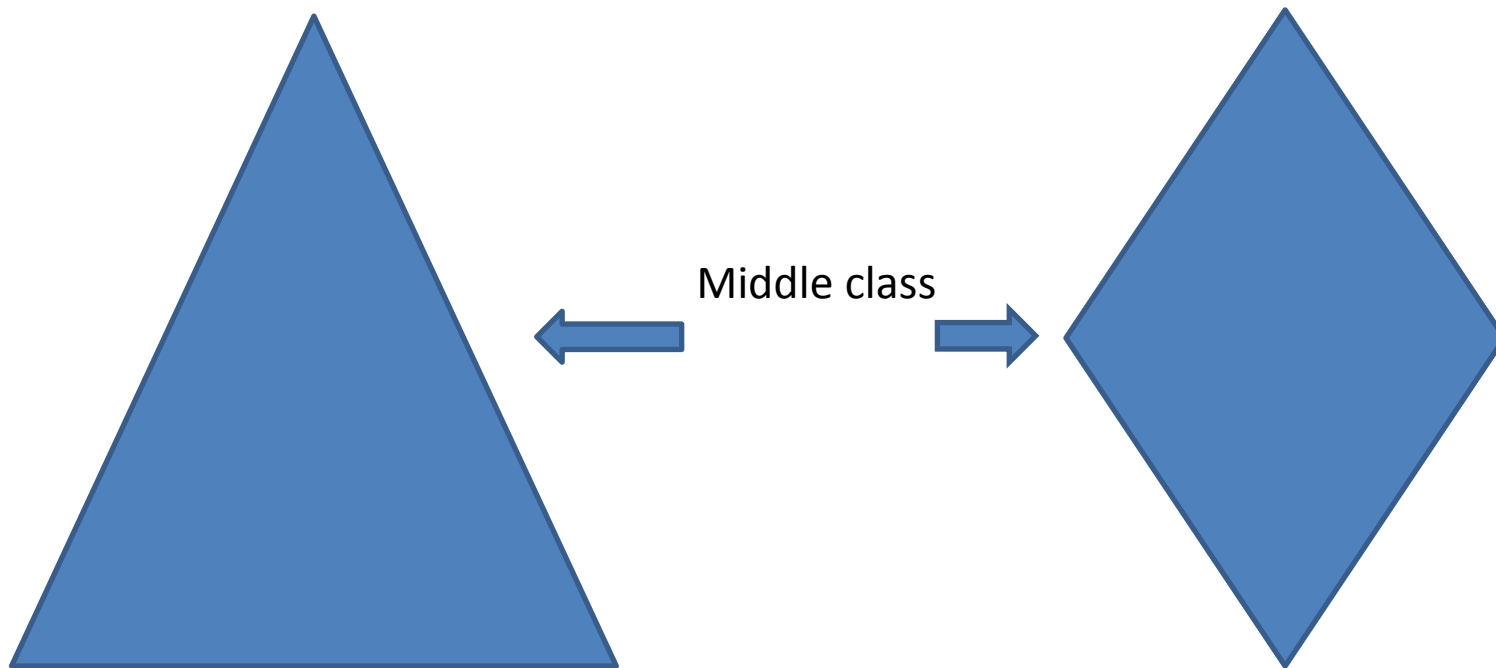
# Main variables

- Perception of inequality and attitude toward redistribution
- Social mobility
- Ways to success: what leads people upward?
- Ideal and actual type of society («diamond»/«pyramid»)
- Individual characteristics
- Country dummy

# Social mobility is ...

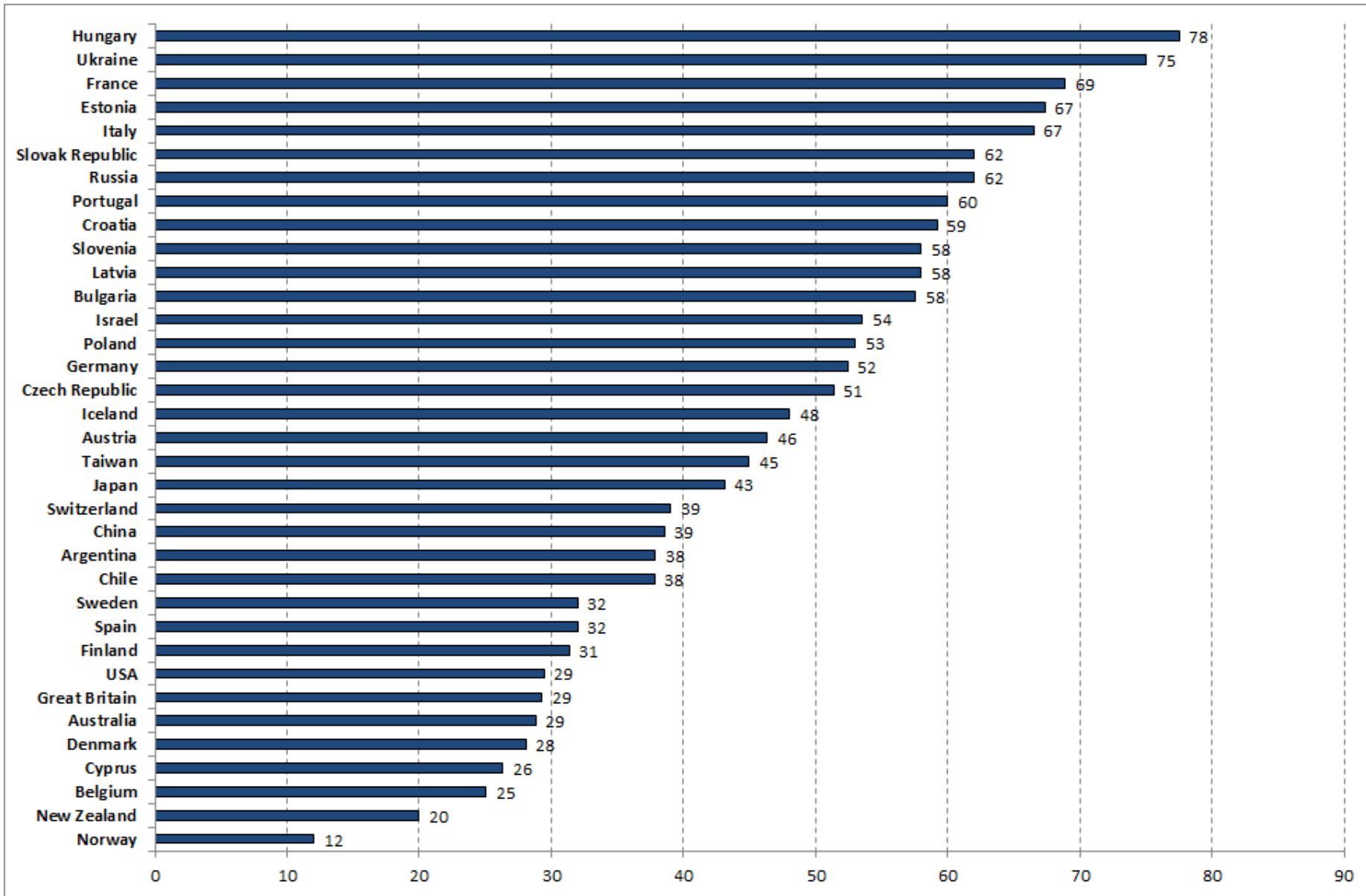
- This term refers to the movement of individuals and groups between different socio-economic positions. Vertical mobility means movement up or down the socio-economic scale (A.Giddens).
- ISSP-2009:
  - a) compared with parents when respondents were 15-17 y old (mob\_1)
  - b) compared with father's occup standing (mob\_2)
- ISSP-1999:
  - a) comparison with the position occupied 10 y earlier (mob\_3)
- LiTS-2010:
  - a) economic position of the family compared with that 4 y earlier (mob\_4)
  - b) the current income decile compared with that 4 y earlier (mob\_5)

# «Middle class effect»: mobility prospects



Ideal (IT) and actual (AT) type society: 5 different options that can be reduced either to “pyramid” (wide base and narrowing upward) or to “diamond” (wide middle with narrow base and narrow top)

# % of those who absolutely agree that «income inequality is too large»



# Empirical methodology

$$Y = \beta X + \nu MOB + \gamma D + \varepsilon$$

$$Y = \beta X + \nu MOB + \mu INST + \gamma D + \varepsilon$$

$$Y = \beta X + \nu MOB + \lambda_1 IT + \lambda_2 AT + \gamma D + \varepsilon$$

$$Y = \beta X + \nu MOB + \lambda_1 IT + \lambda_2 AT + \lambda_3 AT * IT + \gamma D + \varepsilon$$

oprobit, Y – perception of inequality measured by the 5-score scale

# Endogeneity? As always...

- Mob\_1 is a difference between statuses parents and children. If unobservable individual effects correlate, they can partially offset each other
- Instruments and pyramid/diamond: endogeneity can be a problem
- In macroregressions – different data sets
- Cautiousness in causal interpretation



# Regression coefficients, «Income differentiation is too large», ISSP-2009, oprobit, (5-score scale, 5 – absolutely agree)

	1	2	3	4	5	6
1 income quintile (base group)	-	-	-	-	-	-
2	-	-0,01	-	-	-0,01	-0,01
3	-	-0,02	-	-	-0,02	-0,02
4	-	-0,12***	-	-	-0,12***	-0,12***
5	-	-0,34***	-	-	-0,32***	-0,34***
Mob_1	-	-	<b>-0,03***</b>	-	<b>-0,025***</b>	-
Mob_2	-	-	-	<b>-0,03**</b>	-	<b>-0,02</b>
R2	0,07	0,07	0,07	0,07	0,07	0,07
Log pseudolikelihood	-45640.634	-37702.933	-44408.70	-45287.53	-37199,56	-37701,834
N	42647	35300	41858	42647	34876	35300

Robust SE; \*, \*\* and \*\*\* - 10%, 5% and 1% sign levels

# Regression coefficients, oprobit, (5-score scale, 5 – absolutely agree)

	ISSP-1999	LITS -2010	
Dep var	«Income differentiation is too large»	«Income differentiation between rich and poor should be reduced»	
Mob_3 (for 10 y)	<b>-0,05***</b>		
Mob_4 (for 4 y)		<b>-0,03*</b>	
Mob_5 (for 4 y, between deciles)			<b>-0,03***</b>
R2	0,10	0,02	0,02
Log pseudolikelihood	-24511,078	-46133,358	-45624,51
N	23662	36820	36477

Robust SE; \*, \*\* and \*\*\* - 10%, 5% and 1% sign levels

# Effect of mobility

- 1 additional mobility point increases tolerance by 0,03 scale points
- This effect is very robust in all specifications
- Coefficients for controls are also very stable

# Do upward mobility instruments affect inequality perceptions? ISSP-1999

	1	2	3	4	5
<i>Mob_3</i>	-0,04***	-0,04***	-0,05***	-0,05***	-0,04***
<i>Ways upwards:</i>					
- Wealthy family	0,06***				
- Hard work		-0,16***			
- High skills			-0,13***		
- Useful connections				0,09***	
- Corruption					0,13***
R2	0,10	0,11	0,11	0,10	0,11
N	22817	22708	22598	22874	22134
Lpseudolikelihood	-24010.06	-36876.527	-23686.37	-24064.345	-23280.9

Robust SE; \*, \*\* and \*\*\* - 10%, 5% and 1% sign levels

# Do upward mobility instruments affect inequality perceptions? ISSP-2009

Mobility	-0,03***	-0,03***	-0,03***	-0,03***	-0,03***	-0,03***	-0,03***	-0,03***	-0,02***
Ways upwards:									
- Wealthy family	0,18***								
- Educated parents		0,07***							
- Hard work			0,01						
- Own education				0,08***					
- Having ambitions					0,08***				
- Useful connections						0,16***			
- Political connections							0,14***		
- Giving bribes								0,15**	
- Corruption									0,36***

Robust SE; \*, \*\* and \*\*\* - 10%, 5% and 1% sign levels

# Instruments of upward mobility: impact on perceptions

- Wide use of non-meritocratic instruments decreases tolerance to inequality
- Use of meritocratic instruments («hard work») statistically insignificant in 2009, but significant with expected sign in 1999
- Coefficients for mobility indicators and major control variables are very stable in all specifications

# «Middle class» effect

- There is a strong tolerating effect of large middle class and of prospects of upward mobility associated with this (due to capacity to absorb those moving from below)
- Actual “pyramid-type” society (as it is seen by respondents) decreases tolerance, while “diamond-type” increases
- If the actual society is a “diamond-type” but the ideal one is also a “diamond-type”, the tolerance increases significantly!

**Regression coefficients, oprobit, mobility and middle class variables, individual characteristics and incomes, and country dummies are controlled, 1999**

	1	2	3
Mobility (mob_3)	-0,04***	-0,05***	-0,04***
Existing “diamond type” (AT)	<b>-0,33***</b>		<b>-0,14**</b>
Ideal “diamond type” (IT)		<b>0,12***</b>	<b>0,23***</b>
AT*IT (diam*diam=1)			<b>-0,22***</b>
R2	0,11	0,10	0,11
Log pseudolikelihood	-22577.5	-22311.0	-21915.5
N	21581	21224	21025

Robust SE; \*, \*\* and \*\*\* - 10%, 5% and 1% sign levels



# Regression coefficients, oprobit, mobility and middle class variables, individual characteristics, incomes, and country dummies are controlled, 2009

	1	2	3	4	5	6
Mobility (mob_1)	<b>-0,02***</b>	<b>-0,03***</b>	<b>-0,03***</b>	<b>-0,03***</b>	<b>-0,02***</b>	<b>-0,03***</b>
Existing “diamond type” (AT)	<b>-0,31***</b>	<b>-0,31***</b>			<b>-0,05</b>	<b>-0,04</b>
Ideal “diamond type” (IT)			<b>0,12***</b>	<b>0,11***</b>	<b>0,19***</b>	<b>0,18***</b>
AT*IT (diam*diam=1)					<b>-0,33***</b>	<b>-0,35***</b>
R2	0,08	0,07	0,08	0,07	0,08	0,07
Log pseudolikelihood	-35259,41	-41795,87	-34919,08	-41390,8	-34358,24	-40668,71
N	33280	39627	32891	39172	32578	38725

Robust SE; \*, \*\* and \*\*\* - 10%, 5% and 1% sign levels

# Empirical methodology - 2

Cross-country macro-regression (OLS):

$$INEQ = \beta * GINI + \delta * MOB + \mu Z + \varepsilon$$

*INEQ* - % of those who absolutely agree that «Differences in income in <Rs country> are too large»

*GINI* – country Gini coefficient

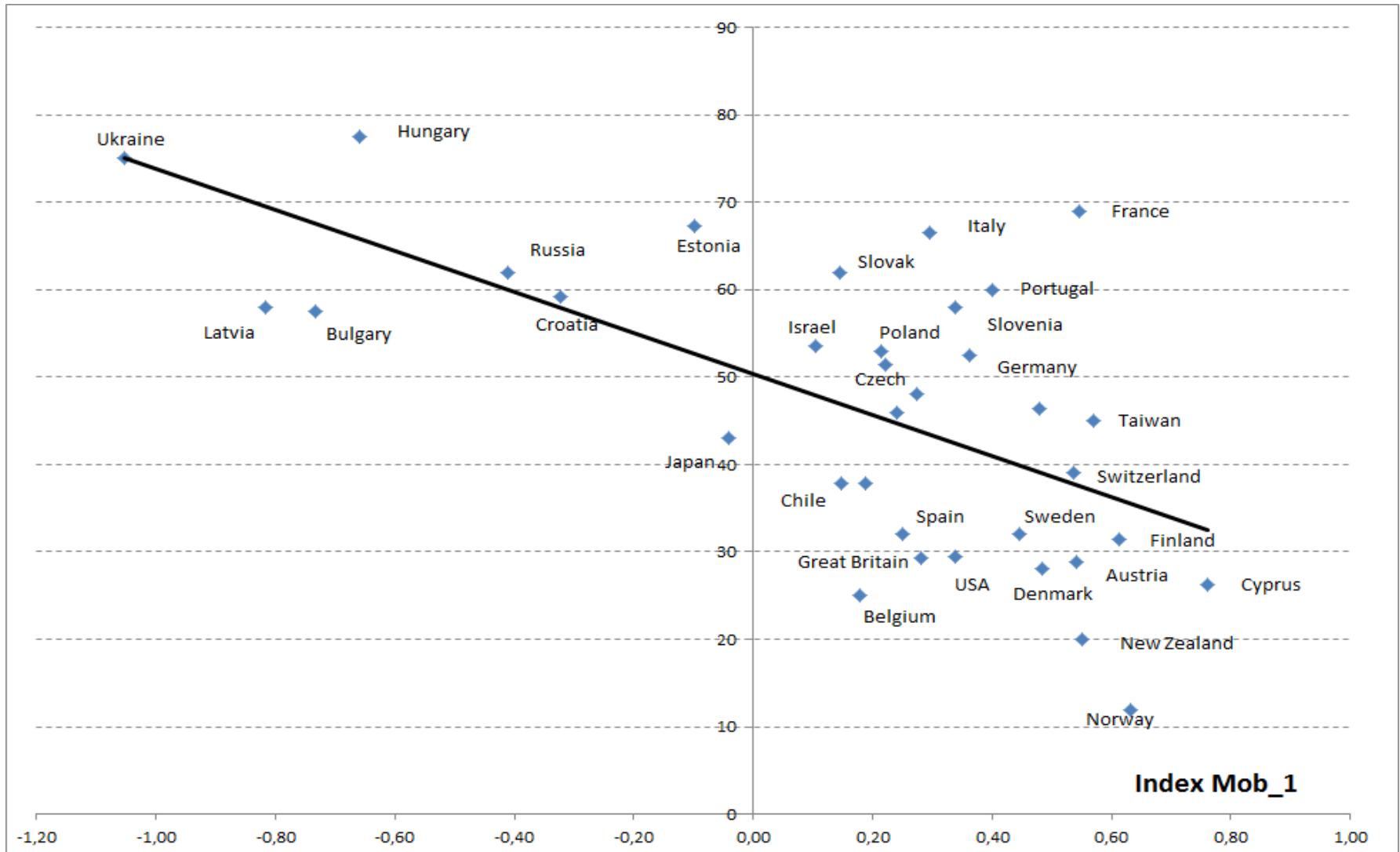
*MOB* – aggregated Mob\_1 for each country

*Z* – controls (lnGDP/cap, country type, e.g.)

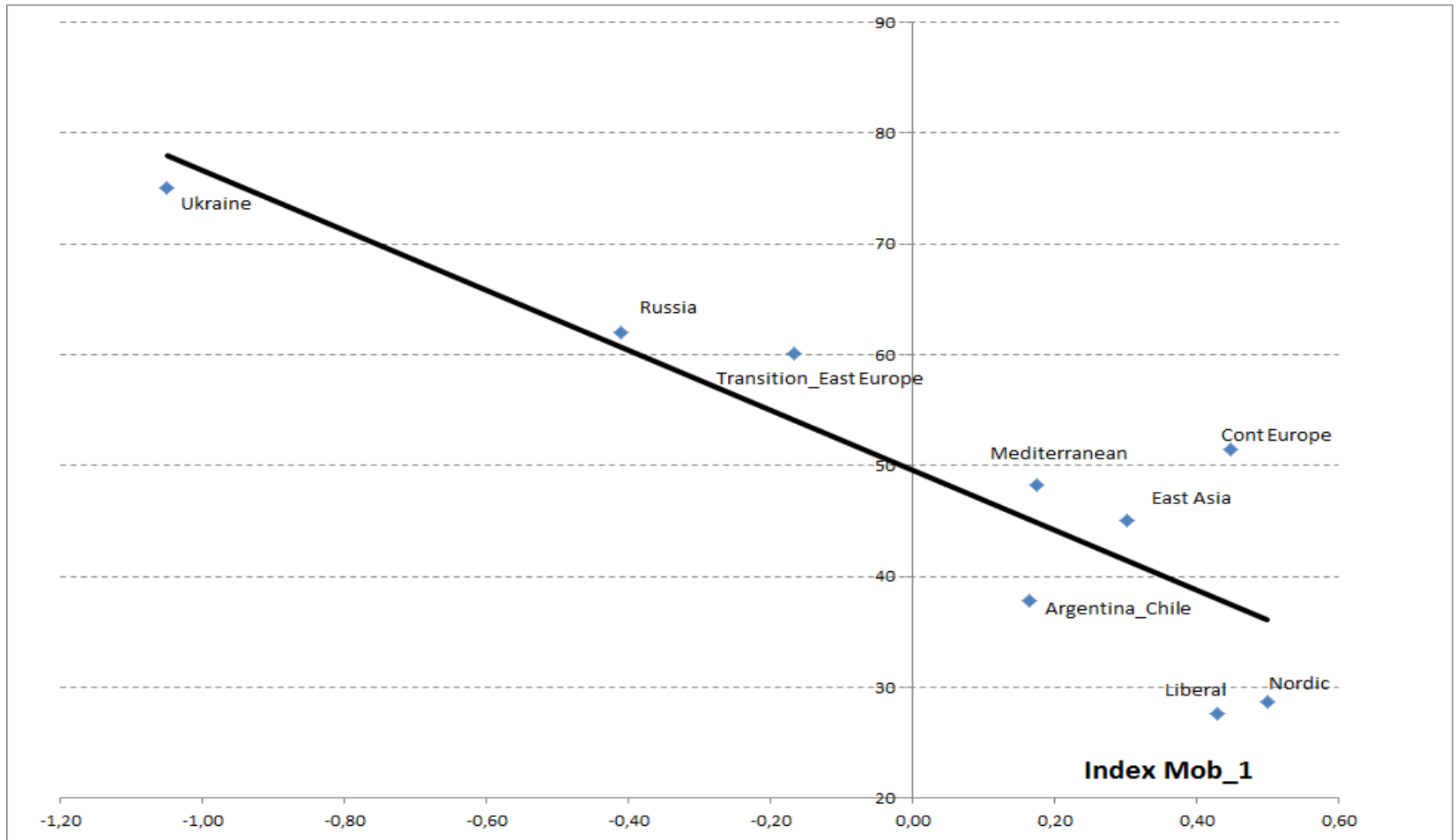
Two specifications without country control, one specification includes *lnGDPcap*.

We expect  $\beta=0$ ,  $\delta<0$

# Perception of inequality (%) and mobility index, by countries



# Perception of inequality and mobility index, by country types



Типология стран: природа правовой системы (La Porta et al, 1999)  
и разнообразие капитализма (Hall and Soskice, 2001)

# Regression coefficients, cross-country regressions

Dep Var	% of absolutely agreed that “income differentiation is too large”						% of absolutely agreed that “wage differentiation should be reduced”		
	ISSP 2009			ISSP 1999			LITS 2010		
	1	2	3	4	5	6	7	8	9
GINI	-0,07	0,29	0,2	0,25	0,21	0,68	0,13	0,23	0,09
Mob_1	-24,8***	-18,4***	-10,8*						
Ln GDPcap		-9,23			-5,4			3,31	
Mob_5 (for 4 y)							-0,40***	-0,35***	-0,30**
Mob_3 (for 10 y)				-18,9***	-15,6*	-15,6***			
ISSP country types	not	not	yes	not	not	yes			
LITS country types							not	not	yes
const	52,34	151,6	53,5	-30,4	84,5	2,79	41,8	5,55	41,8
R2	0,38	0,40	0,65	0,56	0,56	0,70	0,28	0,30	0,40
N	36	36	36	26	26	26	35	35	35

# Conclusions

- There are many reasons why inequality can be a serious problem. One of them considers inequality as a source of political pressure for larger redistribution. This in its turn affects fiscal policy and growth.
- But what is the association between actual inequality and its perception that may lead to political pressure? We argue that there can be a long distance between them and the former can be a bad predictor for the latter
- If upward social mobility is high and unrestricted by structural reasons, people are more tolerant to observed income differentiation and are less likely to demand more redistribution
- If dominant ways leading upward are considered legitimate and just, people are more tolerant. On the contrary, structural reasons of inequality feed intolerance and redistributive pressure
- Societies with large middle class provide better mobility prospects and therefore are more tolerant



## ISSP-2009

## ISSP-1999

## LiTS-2010

<p>Perception of inequality</p>	<ol style="list-style-type: none"> <li>1. «Differences in income in &lt;Rs country&gt; are too large»</li> <li>2. «It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes»</li> </ol>	<p>«Differences in income in &lt;Rs country&gt; are too large»</p>	<p>The gap between the rich and the poor in our country should be reduced</p>
<p>Social mobility</p>	<ol style="list-style-type: none"> <li>1. «In our society there are groups which tend to be towards the top and groups which tend to be towards the bottom. Below is a scale that runs from top to bottom. Where would you put yourself now on this scale?»</li> <li>2. «Please think about your present job (or your last one if you don't have one now). If you compare this job to the job your father had when you were &lt;14/15/16&gt;, would you say that the level of status of your job is (or was)... (please tick one box)»</li> </ol>	<p>A) In our society there are groups which tend to be towards the top and groups which tend to be toward the bottom. Below is a scale that runs from top to bottom. Where would you put yourself on this scale? (Top – 1... Bottom-10).          B) And ten years ago, where did you fit in then? (Top – 1... Bottom-10).</p>	<p>Please imagine a ten-step ladder where on the bottom, the first step, stand the poorest 10% people in our country, and on the highest step, the tenth, stand the richest 10% of people in our country. On which step of the ten is your household today?          Now, imagine the same ten-step ladder 4 years ago. On which step was your household at that time?</p> <p>My household lives better nowadays than around 4 years ago</p>
<p>Instruments of upward mobility</p>	<p>Please tick one box for each of these to show how important you think it is for getting ahead in life... (please tick one box on each line)</p>		



# Неравенство и институты!

Проблема социальной мобильности – это проблема институтов.

Если равные условия доступа к экономическим возможностям отсутствуют, а этот доступ рационализуется с помощью разного рода частных привилегий (для одних) или ограничений (для других), то складывающееся неравенство несет на себе печать не только рыночной оценки, но и соответствующих структурных факторов.

Последние могут доминировать в формировании индивидуальных представлений о складывающемся неравенстве и желательности перераспределения