Available online at www.sciencedirect.com
ScienceDirect
Journal of Economic Theory 144 (2009) 1249–1277
JOURNAL OF Economic Theory
www.elsevier.com/locate/jet

A second chance at success: A political economy perspective ☆

Ryo Arawatari *, Tetsuo Ono

Graduate School of Economics, Osaka University, 1-7, Machikaneyama, Toyonaka, Osaka 560-0043, Japan

Received 5 January 2008; final version received 28 October 2008; accepted 3 November 2008

Available online 6 December 2008

Abstract

This paper characterizes a stationary Markov-perfect political equilibrium where agents vote over income taxation that distorts educational investment. Agents become rich or poor through educational investment, and the poor have a second chance at success. The results show the following concerning the cost of a second chance. First, when the cost is low, the economy is characterized by high levels of upward mobility and inequality, and a low tax burden supported by the poor with prospects for upward mobility. Second, when the cost is high, there are multiple equilibria with various patterns of upward mobility, inequality and redistribution. Numerical examples show that the shift from a high-cost economy to a low-cost economy may reduce social welfare.
© 2008 Elsevier Inc. All rights reserved.

JEL classification: D30; D63; D72; H20; H55; I38

Keywords: Second chance; Political economy; Stationary Markov-perfect equilibrium; Redistribution; Inequality; Upward mobility; Intragenerational mobility

☆ We would like to thank two anonymous referees, Karl Farmer, John Hassler, Kei-ichi Koda, Ronald Wendner and seminar participants at Hokkaido University, Kyusyu Sangyo University, Nagoya University, Osaka University, Osaka Prefecture University, University of Groningen, University of Graz, the Spring Meeting of the Japanese Economic Association (May 2008, Sendai), the North American Summer Meeting of the Econometric Society (June 2008, Pittsburgh), and the Far Eastern and South Asian Meeting of the Econometric Society (July 2008, Singapore) for their useful comments and suggestions. Arawatari acknowledges financial support from the Research Fellowships for Young Scientists of the Japan Society for the Promotion of Science (JSPS). Ono acknowledges financial support from the JSPS through a Grant-in-Aid for Young Scientists (B) (No. 20730208). All remaining errors are ours.
* Corresponding author.
E-mail addresses: ege001ar@mail2.econ.osaka-u.ac.jp (R. Arawatari), tono@econ.osaka-u.ac.jp (T. Ono).

0022-0531/$ – see front matter © 2008 Elsevier Inc. All rights reserved.
doi:10.1016/j.jet.2008.11.002

1. Introduction

Why do western countries have different welfare programs although they share similar backgrounds? Who supports redistribution in these countries? How income inequality is related to redistributive politics? Hassler et al. [14] and Hassler, Storesletten and Zilibotti [16] developed a model that answers these questions based on the feedback mechanism between individual decisions and redistributive politics (Glomm and Ravikumar [12]; Saint-Paul and Verdier [26]; Benabou [7]). The feedback mechanism creates a joint determination of inequality and redistribution, which results in multiple equilibria: a pro-welfare state and an anti-welfare state. In the pro-welfare (anti-welfare) state, expectations of higher (lower) redistribution lead to lower (higher) educational investment, and thus, a majority of the poor (rich); the majority of the poor (rich) then support higher (lower) redistribution. Which state is realized depends on the expectations of agents.

The model of Hassler et al. [14] and Hassler, Storesletten and Zilibotti [16] presents the cross-country differences in welfare programs among western countries sharing similar backgrounds. However, they abstract intragenerational mobility from their model and preclude the prediction that fits the POUM (prospect of upward mobility) hypothesis supported by the US data (Benabou and Ok [8]; Alesina and La Ferrara [2]): the poor do not support higher redistribution because of a hope for upward mobility in the future. In order to explain the differences in welfare programs among western countries, there is a need to develop a model that includes an equilibrium that supports the POUM hypothesis as well as multiple equilibria with different patterns of redistribution, mobility, and inequality.

Independently of the above-mentioned studies, Quadrini [24] succeeded in providing a model including the POUM hypothesis, based on an endogenous growth model that produces multiple equilibria: the growing equilibrium with high mobility, high inequality and low redistribution, supporting the POUM hypothesis; and the stagnant economy with low mobility, low inequality and high redistribution, supporting the case of a pro-welfare state. A key to this result is the assumption that growth rate of the economy affects agents' preferences over redistribution policies and thus changes the ability of the agents to learn their positions in the future distribution of income.

The multiple equilibria in Quadrini [24] predict a negative correlation between redistribution and inequality, and a positive correlation between mobility and inequality. The former prediction is supported by the empirical studies (Kristov et al. [18]; Rodrigues [25]), but the latter is not necessarily supported by the data. Fig. 1 illustrates the scatter plot of upward mobility (OECD [21]) and the Gini index (Förster and Mira d'Ercole [10]), which seems to show a positive correlation between mobility and inequality among sample countries.[1] For example, the United States is featured by high mobility and inequality, and Finland is featured by low mobility and inequality. The difference between these two countries could be explained by the multiple equilibria in Quadrini [24]. However, the other European countries show various patterns of upward mobility and inequality. For example, for aged 25–34 workers, inequality is greater in the United States

[1] We include limited, old data here because the available data on upward mobility is restricted to the eight countries provided by OECD [21] for the period 1986–1991.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
✓ امکان دانلود نسخه ترجمه شده مقالات
✓ پذیرش سفارش ترجمه تخصصی
✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
✓ دانلود فوری مقاله پس از پرداخت آنلاین
✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات