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Education, redistributive taxation and confidence

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Abstract

We consider redistributional taxation between people with and without human capital if education is endogenous and if individuals differ in their perceptions about own ability. Those who see their ability as low like redistributive taxation because of the transfers it generates. Those who see their ability as high may also like redistributive taxation because it stops other people receiving education and increases the quasi rents on their own human capital. It is surprising that this rather indirect effect can overcompensate them for the income loss from taxation and make the highly confident want higher taxes than the less confident do. The results, however, turn out to be in line with empirical evidence on the desired amount of redistribution among young individuals.
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1. Introduction

A common theme in life and in literature suggests that people are leftist, socialist, even communist, or at least have strong egalitarian redistributional preferences when

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they are young, and as they grow older they tend to become conservative, particularly if their professional career had been successful. This shift in redistributional preferences is often attributed to the change in income position and its variability. As has been pointed out by Sinn (1995), young people face a situation in which future income is uncertain and which they cannot fully control. These people may want future redistributional taxation as a means of insurance, but, once their own position in the income distribution has been determined, the demand for redistribution that stems from the insurance motive disappears. Piketty (1995) emphasizes the importance of mobility experience for redistributional preferences: mobility experience may be related to perceptions about the incentive cost of redistribution and may account for differences in redistribution in different countries. Income dynamics and social mobility also play a major role in a number of analyses that consider redistributional preferences and voting outcomes on redistributive taxation. Individuals who expect a major change in their income will take this into consideration when expressing their attitudes about governmental income redistribution.[1]

Ravallion and Lokshin (2000), who consider the Russian situation, find that own expectations about own future welfare are very relevant for redistributional preferences. Empirically, high current income makes individuals favor less redistribution (see, e.g., Fong, 2001; Piketty, 1995, 1999; Gilens, 1999, p. 51, or Kluegel and Smith, 1986). This is a result that is robust with respect to the addition of socio-demographic characteristics. However, other variables also matter, and these can considerably reduce the share that income contributes to redistributional preferences (Piketty, 1999). One aspect is whether individuals think that success is determined by luck or is the reward for personal effort. This, and some further aspects that motivate attitudes towards redistribution, are surveyed and analysed empirically in Fong (2001). Perceived benefits from poverty reduction could, for instance, be based on altruism or group loyalty (Luttmer, 2001) or on the crime reducing effect of poverty reduction (Pauly, 1973; Piven and Cloward, 1971).[2]

In this paper we highlight an additional, *intra*-generational dimension along which redistributional preferences can differ. This dimension can moderate or even reverse the relationship between own income expectations and preferences for future redistributional taxation, even though it is based purely on narrowly defined selfish behavior. Future redistributional taxation affects the choice of whether to invest in human capital. In turn, redistributional taxation affects the scarcity rents of human capital. We characterize conditions where individuals, who perceive their own talent as high and

[1] Two papers analysing some of these aspects are Glazer and Konrad (1994) and Bénabou and Ok (2001). Glazer and Konrad (1994) show that rich people may want to live in a neighborhood where a persistent majority of poor makes sure there will also be some redistribution of income in the future if there is some risk that they themselves will become poor then. Bénabou and Ok (2001) show that the "prospect of upward mobility" may yield a political majority that opposes redistribution.

[2] A policy of public enforcement of redistribution is typically derived from these motivations in order to overcome the free-rider problem that emerges in the context of voluntary redistribution among the group of well-off who may all benefit if the poor receive more support that has been highlighted by Hochman and Rodgers (1974).

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