

Political Economy

Economics of Public and Social Issues

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Plan for today

Political Economy:

1. What is it?
2. Preference formation
3. Intergenerational Mobility and Preferences for Redistribution
Slides based on those of Stantcheca (2019)

Political Economy

What is it?

Interaction between political elements and economic analysis:

- 1) How voter's preferences map into policies?
- 2) How do politicians respond? (Supply and demand for policies)
- 3) How are voter preferences formed?

We will focus on 3) today

How are voter preferences formed?

► Immigration:

- ▶ No evidence of effects of immigration on native population (at most are small)
- ▶ Evidence of gains for migrant population, and to aggregate productivity in many cases
- ▶ So, what explains many native's attitudes of opposition (or deep ambivalence) to immigration?
- ▶ Not necessarily the economics of it.

Alesina, Miano and Stantcheva (2020)

How are voter preferences formed?

- ▶ Redistribution:
 - ▶ Do people have realistic views about intergenerational mobility?
 - ▶ What are their views on fairness (effort vs luck)?
 - ▶ Link between perceived intergenerational mobility and redistribution policies?
Alesina, Stantcheva and Teso (2021)

Immigration and redistribution

Immigration and redistribution



55% DES FRANÇAIS OPPOSÉS
À L'ACCUEIL DES MIGRANTS



Data: Survey and RCT

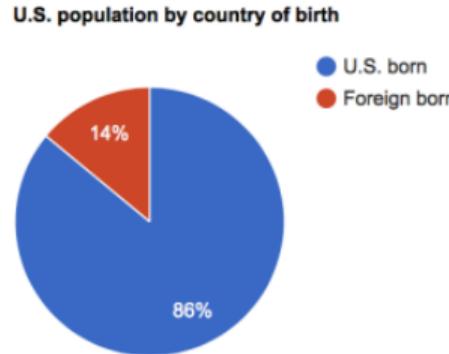
- ▶ Alesina and coauthors designed a survey across 6 large countries (US included) asking individuals their perception about:
- ▶ Perception of immigration: Number, origin, effort, ‘free riding’-status, economic conditions (education, poverty, unemployment, transfers)
- ▶ Immigration policies: Citizenship, when to receive benefits, whether govt should care equally, when are immigrants “truly” American
- ▶ But also, about their preferences for redistribution:
- ▶ Redistributive Policies: Overall involvement, income support policies, income taxes, budget + Donation question
- ▶ Role of Government: Trust, tools to reduce inequality, is inequality a problem, scope for government to intervene in redistribution.

The survey

- ▶ Respondents are randomly offered financial incentives for correct responses.
- ▶ Amount of financial incentive is also randomized.
- ▶ Turns out: incentives do not improve the accuracy of responses.
- ▶ Suggests people truly “don’t know.”

Eliciting Perceptions of Number of Immigrants

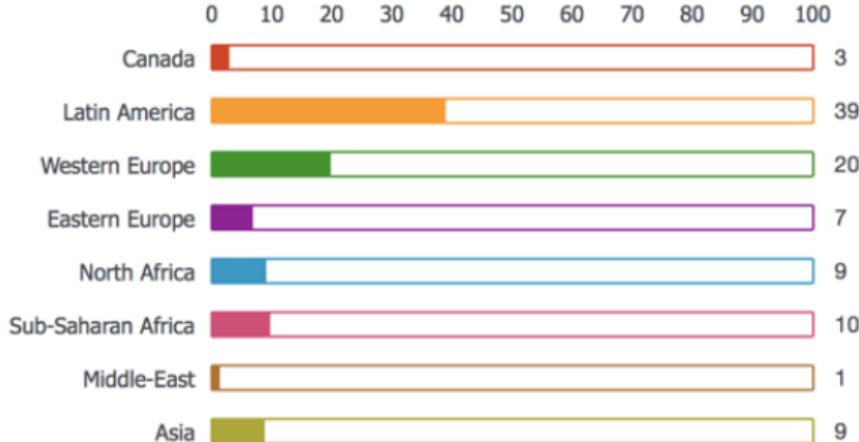
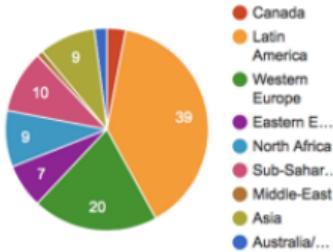
The pie chart below represents all the people currently living in the U.S. Out of all these people currently living in the U.S., how many do you think are legal immigrants? Move the slider to indicate how many out of every 100 people you think are legal immigrants.



0 10 20 30 40 50 60 70 80 90 100

Eliciting Perceptions on Origin of Immigrants

U.S. immigrant population by origin



Question on Economic Conditions of immigrants (I)

Out of every 100 people born in the U.S. how many are currently unemployed? By “unemployed” we mean people who are currently not working but searching for a job (and maybe unable to find one).

Now let's compare this to the number of unemployed among legal immigrants. Out of every 100 legal immigrants how many do you think are currently unemployed?

Question on Economic Conditions of immigrants (II)

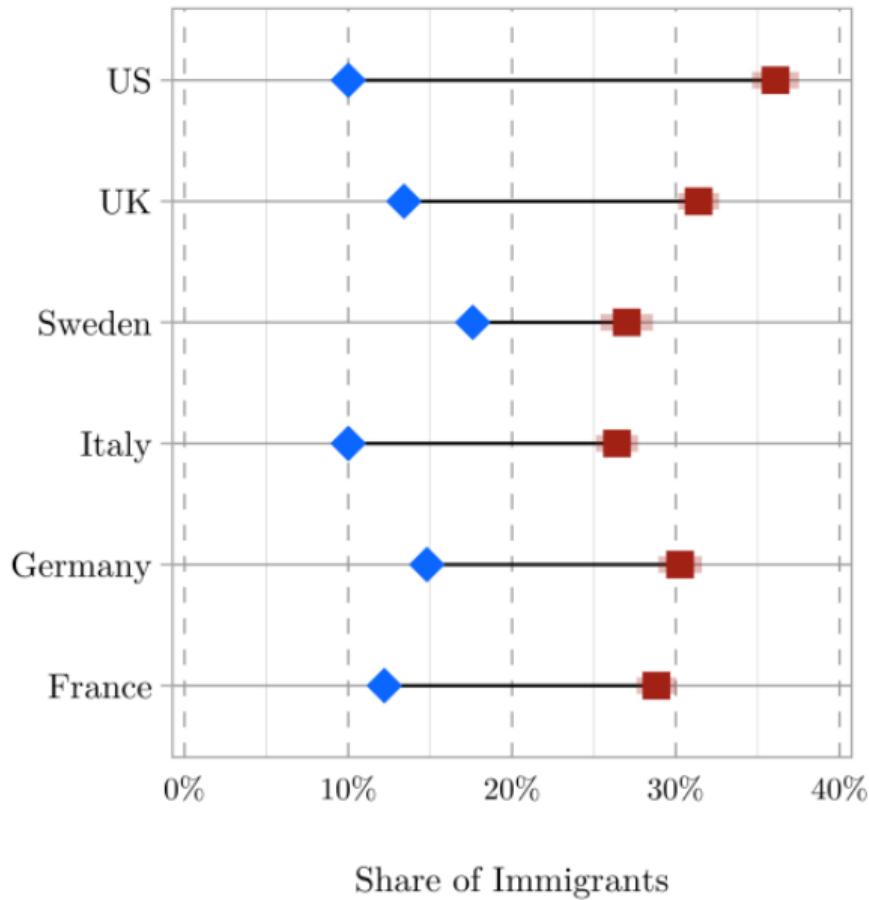
Out of every 100 people born in the U.S., how many live below the poverty line? The poverty line is the estimated minimum level of income needed to secure the necessities of life.

Let's compare this to poverty among legal immigrants. Out of every 100 legal immigrants in the U.S. today, how many do you think live below the poverty line?

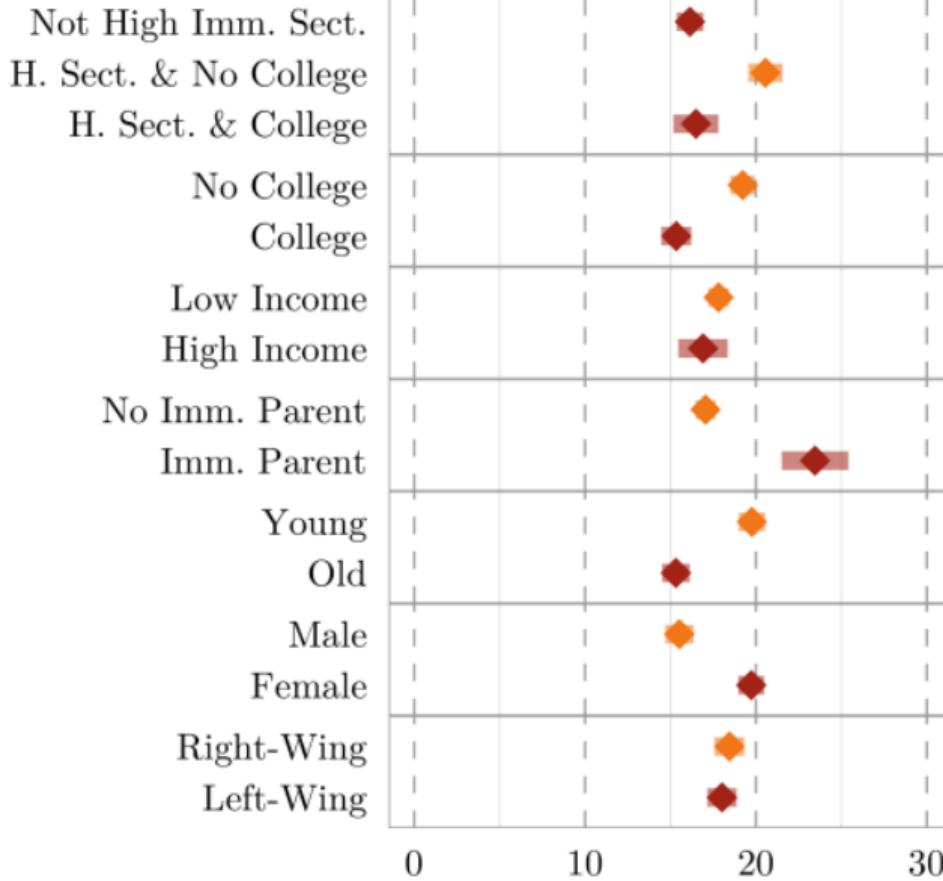
Question on Economic Conditions of immigrants (III)

U.S. born residents receive government transfers in the form of public assistance, Medicaid, child credits, unemployment benefits, free school lunches, food stamps or housing subsidies when needed. How much do you think each legal immigrant receives on average from such government transfers? An average immigrant receives... [No transfers/ .../More than ten times as much as a US born resident]

Misperception of Number of Immigrants



Misperception of Number of Immigrants by Individual Chars



Who misperceives more?

- 1) in high immigration sectors with low education
- 2) without college
- 3) who are young
- 4) who have an immigrant parent
- 5) women

Willingness to Pay to Receive Correct Info about Immigrants

	Willing To Pay (1)	Surprised (2)
Misperception Index	-0.107*** (0.0318)	0.143*** (0.0474)
Republican	-0.0792** (0.0338)	0.0158 (0.0513)
Female	-0.0707** (0.0328)	0.0527 (0.0478)
H. Imm. Sector and No College	0.0822 (0.0509)	0.0140 (0.0796)
H. Imm. Sector and College	0.0690 (0.0426)	0.0150 (0.0590)
No College	-0.112** (0.0454)	0.0182 (0.0708)
Rich	-0.0317 (0.0410)	0.0122 (0.0589)
Young	-0.0770** (0.0328)	0.0282 (0.0479)
Immigrant parent	0.125** (0.0551)	-0.0850 (0.0731)
Constant	0.613*** (0.0521)	0.470*** (0.0593)

Willingness to Pay to Receive Correct Info about Immigrants

- ▶ Respondents who misperceive immigrants more negatively are less willing to pay.
- ▶ Even conditional on misperceptions, right-wing, women, non-college educated less willing to pay.
- ▶ Conditional on accepting to pay, those with higher misperceptions are more surprised by the info received.

Perceptions and Redistribution: Experimental Evidence

Randomly ask some individuals questions about immigration first, and then about redistribution preferences, or viceversa.

	Imm Support Index (1)	Tax Top 1 (2)	Tax Bottom 50 (3)	Social Budget (4)	Inequality Serious Problem (5)	Donation Above Median (6)
Salience - Imm Questions First		-1.948*** (0.421)	0.914*** (0.276)	0.356 (0.344)	-0.0280** (0.0132)	-0.0479*** (0.0138)
Information - Share of Immigrants	0.0238** (0.0119)	-0.627 (0.426)	0.0449 (0.280)	-0.0885 (0.348)	-0.00590 (0.0134)	-0.0165 (0.0140)
Information - Origins of Immigrants	0.00573 (0.0119)	-0.0662 (0.426)	0.0322 (0.280)	-0.175 (0.348)	0.00626 (0.0134)	0.00208 (0.0140)
Anecdote - Hard Work of Immigrants	0.0463*** (0.0119)	0.0772 (0.426)	-0.212 (0.279)	0.851** (0.347)	0.0158 (0.0134)	0.00910 (0.0139)
Share of Immigrants X Imm. Q. First		0.620 (0.601)	0.0622 (0.394)	-0.737 (0.490)	0.0134 (0.0188)	0.0173 (0.0197)
Origins of Immigrants X Imm. Q. First		-0.00384 (0.601)	-0.237 (0.394)	-0.436 (0.490)	-0.0208 (0.0189)	-0.0115 (0.0197)
Hard Work of Immigrants X Imm. Q. First		0.215 (0.601)	0.0813 (0.394)	-1.415*** (0.490)	-0.00817 (0.0188)	0.00165 (0.0197)
Observations	19765	19765	19765	19731	19763	19765
Control mean	0.00	37.12	10.94	56.19	0.59	0.47

Tax rate on Top 1% decreases by 1.95 which is 5% of the control mean and 90% of the left-right wing gap. Tax rate on Bottom 50% increases by 0.91, 8% of control mean and 110% of left-right gap. Share of respondents saying inequality is a serious problem declines by 2.8 pp, 5% of control mean and 13% of left-right gap

Gifts of the Immigrants, Woes of the Natives

- ▶ Tabellini (2020) studies the political and economic effect of immigration and study the causes of anti-immigrant sentiments in the US between 1910 and 1930
- ▶ Time of large waves of European immigration (WW1 and Immigration Acts of 1920s)

Findings:

1. Immigration triggered hostile political reaction (more conservative legislators, higher support for anti-immigration, lower redistribution)
2. Economic reasons? Like findings of previous lecture: no! Higher employment for natives, higher industrial production, no loss on wages.
3. Cultural reasons? Maybe: discontent grows in cultural difference between immigrants and natives (religion and language)

Immigration and Religion

TABLE 6
Immigration and religion

Fraction from non-protestant country	Dep. Var.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Total tax revenues PC	Property tax revenues PC	Property tax rate	Public spending PC	Dem-Rep. margin	Smith's pct. votes	DW nominate scores	1 [restrict immigration]
Panel A: OLS									
Fr. Non-Prot.	-0.519 (0.329)	-0.449 (0.278)	-1.235*** (0.477)	-0.320* (0.180)	-0.039*** (0.007)	-0.042*** (0.007)	0.035 (0.025)	0.099*** (0.037)	
Fr. Prot.	0.406 (0.339)	0.277 (0.326)	-0.077 (0.722)	0.154 (0.313)	0.023 (0.016)	0.025* (0.015)	-0.009 (0.017)	-0.057 (0.045)	
Panel B: 2SLS									
Fr. Non-Prot.	-0.515* (0.306)	-0.483* (0.284)	-1.219* (0.649)	-0.366** (0.183)	-0.017** (0.009)	-0.050*** (0.008)	0.063** (0.030)	0.145*** (0.053)	
Fr. Prot.	0.193 (0.399)	0.067 (0.351)	-0.109 (1.120)	-0.007 (0.250)	-0.010 (0.013)	0.036 (0.024)	0.006 (0.030)	-0.066 (0.078)	
KP F-stat	26.37	26.37	26.23	26.37	37.89	35.87	32.16	23.74	
F-stat (Non-Prot)	115.9	115.9	118.9	115.9	50.64	38.60	85.91	69.49	
F-stat (Prot)	27.53	27.53	27.39	27.53	38.95	36.58	32.27	21.68	
Mean of dep var	12.76	12.10	19.75	12.16	0.180	0.398	0.165	0.676	
Observations	540	540	539	540	378	126	460	155	

Immigration and Language

TABLE 7
Linguistic distance and redistribution

Linguistic distance	(1) Total tax revenues	(2) Property tax revenues	(3) Property tax rate	(4) Public spending	(5)	(6)	(7) Charities and Hospitals	(8) Sanitation
Dep. Var.	PC	PC	PC	PC	Education	Police		
Panel A: OLS								
Ling. distance	-0.361* (0.205)	-0.346 (0.212)	-1.485* (0.840)	-0.213 (0.160)	-0.050 (0.060)	-0.032 (0.021)	-0.010 (0.039)	-0.045 (0.029)
Panel B: 2SLS								
Ling. distance	-0.875* (0.468)	-0.809* (0.458)	-2.308 (1.598)	-0.519* (0.301)	-0.199* (0.117)	-0.013 (0.042)	-0.119 (0.084)	-0.053 (0.052)
KP F-stat	21.02	21.02	21.47	21.02	21.14	21.02	16.31	21.02
F-stat (Imm.)	123.1	123.1	124.7	123.1	106.9	123.1	101.6	123.1
F-stat (Ling.)	50.38	50.38	53.48	50.38	48.05	50.38	34.06	50.38
Mean of dep var	12.76	12.10	19.75	12.16	4.250	1.338	0.635	1.129
Observations	540	540	539	540	534	540	516	540

Are you a Kandinsky or Klee type of person? Tajfel et al (1971)



Evidence of In-group Favoritism and Out-group Discrimination Goes Beyond Language and Religion

- ▶ Induce group identity using “minimal group paradigm”, creating groups by trivial criteria or tasks Subjects are more likely to give rewards (e.g. in dictator game) to those with the same label, even when anonymous AND no impact on own payoffs (e.g. other-other allocations)
- ▶ Subjects also report higher opinions of members of their own group
- ▶ Chen and Li (2009) have experiment with players being divided in groups that liked more Klee or Kandisky
- ▶ Then they discuss, by groups, which is the painter of a new painting they see. If they are right, they get money.
- ▶ Third stage, they allocate money between two other anonymous participants, but might just know if the person likes Klee or Kandisky
- ▶ Lastly, they play a two-person sequential game

Large Share of Individuals Show Preference for their In-Group

APPENDIX: SEQUENTIAL GAMES WITH SELF-OTHER ALLOCATIONS

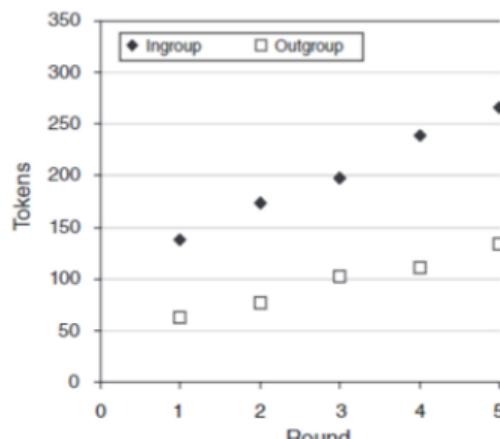
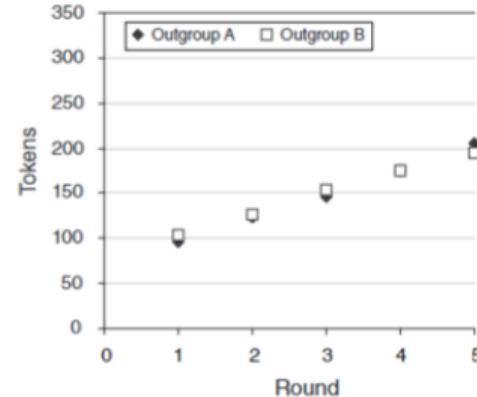
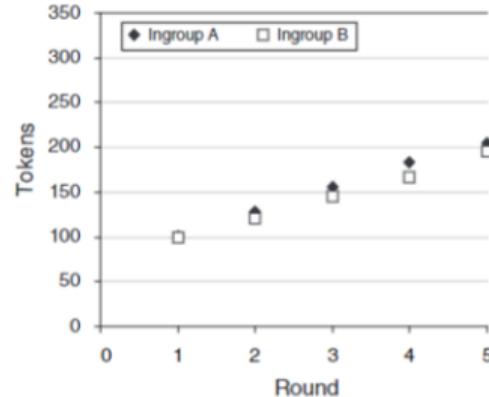
TABLE A1—GAMES AND SUMMARY STATISTICS

	A stays out	If A enters, B chooses	Control			Percent A Diff	Percent B Diff
			Out	Enter	Left		
<i>Two-person dictator games</i>							
Dict 1		(400, 400) vs. (750, 400)		0.33	0.67		0.26
Dict 2		(400, 400) vs. (750, 375)		0.82	0.18		0.26
Dict 3		(300, 600) vs. (700, 500)		0.76	0.24		0.24
Dict 4		(200, 700) vs. (600, 600)		0.50	0.50		0.29
Dict 5		(0, 800) vs. (400, 400)		0.64	0.36		0.24
<i>Two-person response games: B's payoffs identical</i>							
Resp 1a	(750, 0)	(400, 400) vs. (750, 400)	0.29	0.71	0.32	0.68	0.21
Resp 1b	(550, 550)	(400, 400) vs. (750, 400)	0.70	0.30	0.39	0.61	0.32
Resp 6	(100, 1000)	(75, 125) vs. (125, 125)	0.30	0.70	0.35	0.65	0.21
Resp 7	(450, 900)	(200, 400) vs. (400, 400)	0.83	0.17	0.13	0.87	0.14
<i>Two-person response games: B's sacrifice helps A</i>							
Resp 2a	(750, 0)	(400, 400) vs. (750, 375)	0.59	0.41	0.73	0.27	0.30
Resp 2b	(550, 550)	(400, 400) vs. (750, 375)	0.95	0.05	0.64	0.36	0.14
Resp 3	(750, 100)	(300, 600) vs. (700, 500)	0.82	0.18	0.55	0.45	0.19
Resp 4	(700, 200)	(200, 700) vs. (600, 600)	0.55	0.45	0.23	0.77	0.30
Resp 5a	(800, 0)	(0, 800) vs. (400, 400)	0.81	0.19	0.45	0.55	0.24
Resp 5b	(0, 800)	(0, 800) vs. (400, 400)	0.00	1.00	0.64	0.36	0.04
Resp 8	(725, 0)	(400, 400) vs. (750, 375)	0.74	0.26	0.83	0.17	0.24
Resp 9	(450, 0)	(350, 450) vs. (450, 350)	0.74	0.26	0.87	0.13	0.22
<i>Two-person response games: B's sacrifice hurts A</i>							
Resp 10	(375, 1000)	(400, 400) vs. (350, 350)	0.38	0.62	0.95	0.05	0.26
Resp 11	(400, 1200)	(400, 200) vs. (0, 0)	0.82	0.18	0.91	0.09	0.21
Resp 12	(375, 1000)	(400, 400) vs. (250, 350)	0.22	0.78	0.96	0.04	0.11
Resp 13a	(750, 750)	(800, 200) vs. (0, 0)	0.83	0.17	0.91	0.09	0.08
Resp 13b	(750, 750)	(800, 200) vs. (0, 50)	0.74	0.26	0.83	0.17	0.13
Resp 13c	(750, 750)	(800, 200) vs. (0, 100)	0.78	0.22	0.78	0.22	0.10
Resp 13d	(750, 750)	(800, 200) vs. (0, 150)	0.87	0.13	0.91	0.09	0.08

Note: Column "Percent A Diff" (Percent B Diff) refers to the percentage of player A (B) decisions that differentiate between ingroup and outgroup matches in treatments.

Share that acts differently when matched with their In-group

Large Share of Individuals Show Preference for their In-Group



Takeaways from this research

1. Preferences for immigration are not necessarily tied to economic outcomes
2. In-group / Out-group bias can take many forms, and could explain preferences for immigration and redistribution

Intergenerational Mobility and Preferences for Redistribution

Do people know about intergenerational mobility?

Alesina, Stantcheva and Teso (2020) ask:

1. Do people have realistic views about intergenerational mobility?
2. What are their views on fairness (effort vs luck)?

What is the link between perceived intergenerational mobility and preferred redistribution policies?

- ▶ Equality of opportunities (education, bequest taxes)
- ▶ Equality of outcomes (social insurance, progressive income taxation)

Once again, large survey

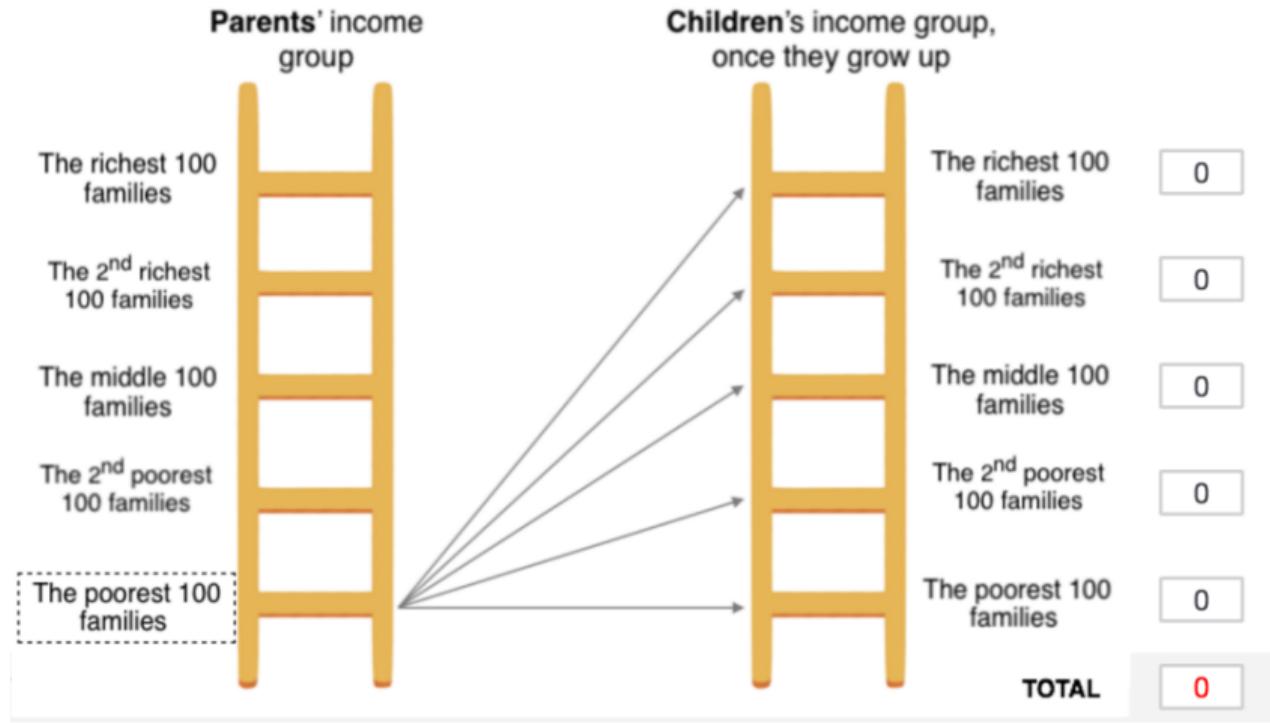
- ▶ Questions on background
- ▶ Fairness: of the system, reasons to be poor, reasons to be rich
- ▶ Randomize information experiment to see if there is shift on views on mobility
 - ▶ **Treatment:** tell them that mobility is very low to make them more pessimistic
- ▶ Perceptions of mobility, and policies

Eliciting Beliefs on Upward Mobility

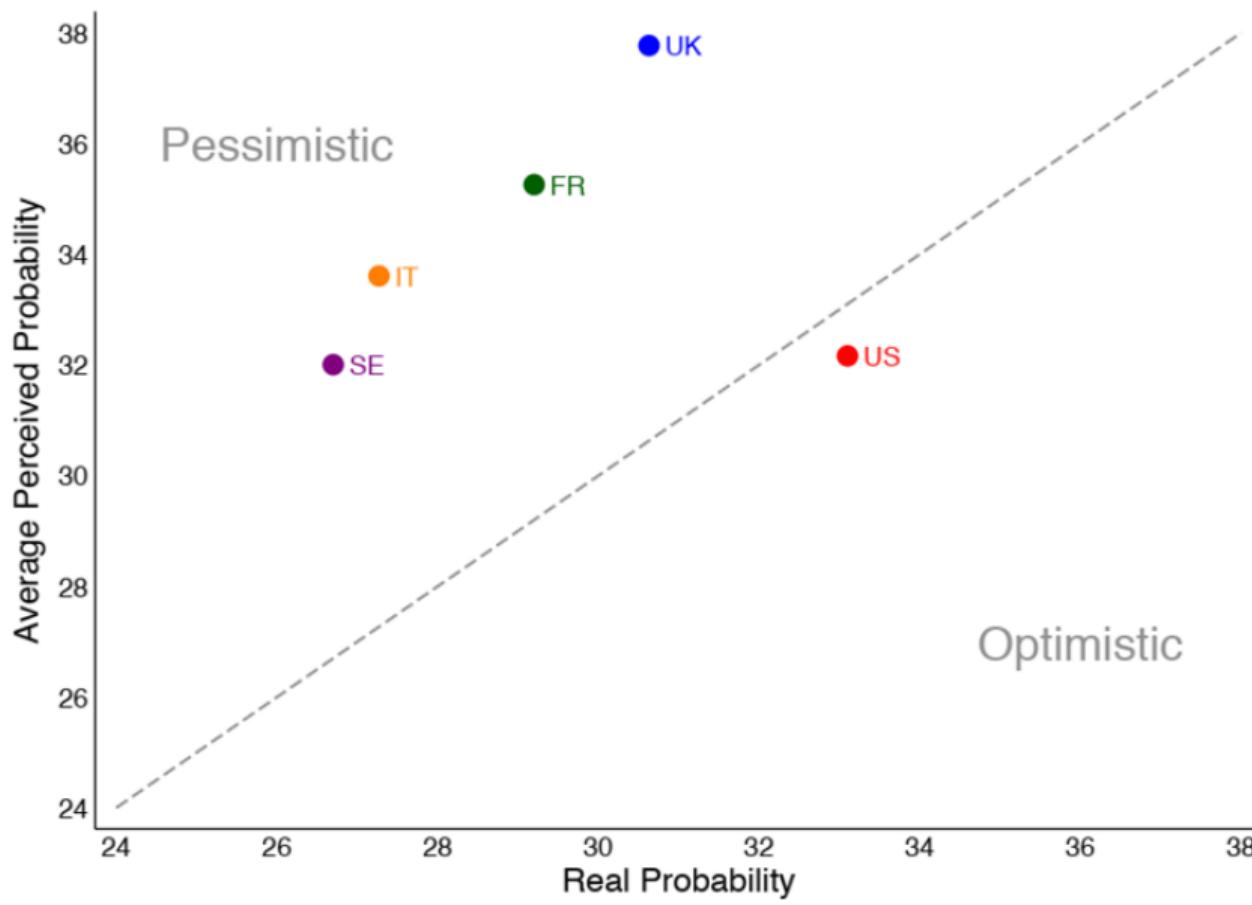
- ▶ For the following questions, we focus on 500 families that represent the U.S. population. We divide them into five groups on the basis of their income, with each group containing 100 families. These groups are: the poorest 100 families, the second poorest 100 families, the middle 100 families, the second richest 100 families, and the richest 100 families.
- ▶ In the following questions, we will ask you to evaluate the chances that children born in one of the poorest 100 families, once they grow up, will belong to any of these income groups.
- ▶ Please fill out the entries to the right of the figure below to tell us, in your opinion, how many out of 100 children coming from the poorest 100 families will grow up to be in each income group.

Eliciting Beliefs on Upward Mobility

Here are **500 families** that represent the US population:



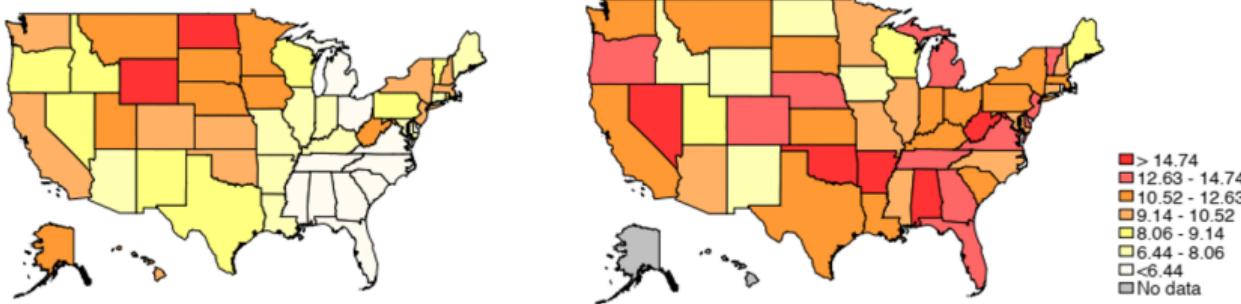
Probability of Staying in Bottom Quintile (Actual vs. Perceived)



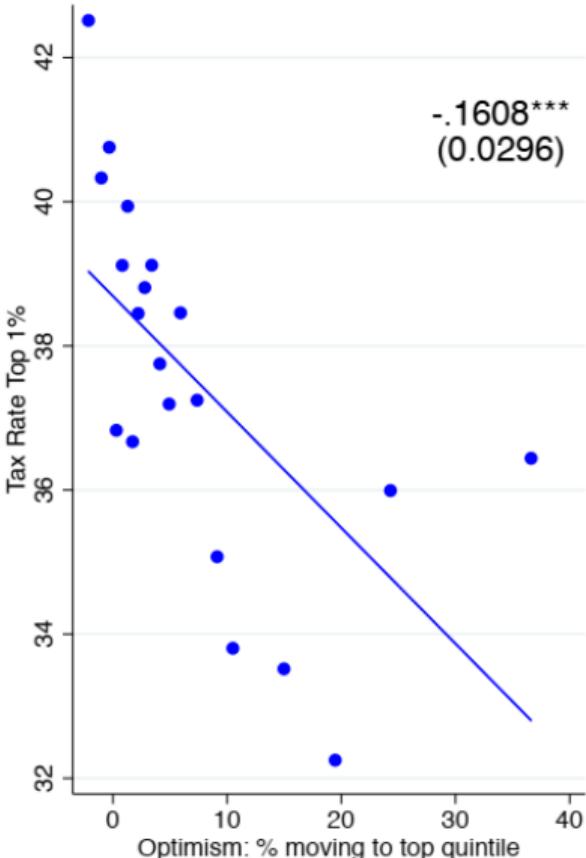
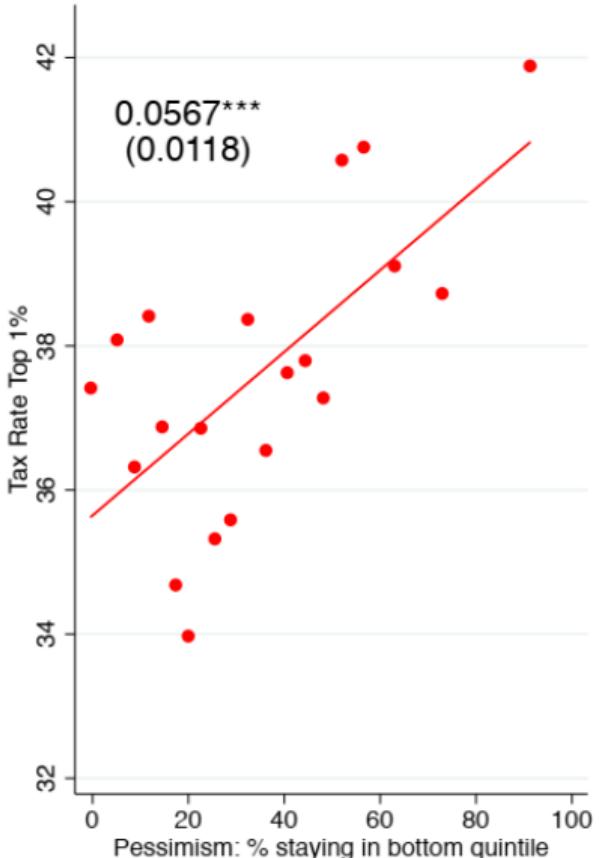
Probability of Moving to Top Quintile (Actual vs. Perceived)



Probability of Moving From Bottom to Top Quintile (Actual vs. Perceived)



Pessimism, Optimism, and Top Tax Rate



Randomized Perception Experiment

- ▶ Is there a causal effect of views about mobility on policy preferences?
- ▶ Or simply individual characteristics (policy affiliation)
- ▶ Cannot exogenously shift actual mobility, but can shift perceptions instead

Effect of Showing True Data on Perceptions

	Q1 to Q1 (1)	Q1 to Q2 (2)	Q1 to Q3 (3)	Q1 to Q4 (4)	Q1 to Q5 (5)	Q1 to Q4 (Qual.) (6)	Q1 to Q5 (Qual.) (7)	American Dream Alive (8)
A. Unconditional Beliefs								
Treated × Left-Wing	10.209*** (0.980)	-2.126*** (0.488)	-6.093*** (0.532)	-2.053*** (0.353)	0.063 (0.603)	-0.189*** (0.032)	-0.180*** (0.035)	-0.010 (0.016)
Treated × Right-Wing	11.145*** (0.979)	-2.181*** (0.487)	-6.139*** (0.531)	-2.236*** (0.352)	-0.589 (0.602)	-0.225*** (0.032)	-0.236*** (0.035)	-0.045*** (0.016)
p-value diff.	0.499	0.937	0.951	0.713	0.445	0.422	0.248	0.140
Cont. Mean Left	37.476	23.005	20.713	9.700	9.105	2.183	1.747	0.238
Cont. Mean Right	32.387	22.843	23.374	11.156	10.240	2.409	1.999	0.459
Observations	8585	8585	8585	8585	8585	8585	8585	8585

Homogeneous across left and right wing respondents (no significant difference)

No Effects on Policy Preferences for Full Sample

	Budget Opp. (1)	Support Estate Tax (2)	Support Equality Opp. Policies (3)	Government Interv. (4)	Unequal Opp. Very Serious Problem (5)	Budget Safety Net (6)	Tax Rate Top 1 (7)	Tax Rate Bottom 50 (8)	Govt. Tools (9)	Redistribution Index (10)
A. Treatment Effects										
Treated	0.108 (0.227)	0.002 (0.010)	0.010 (0.022)	-0.020 (0.030)	0.046*** (0.013)	0.225 (0.160)	0.357 (0.398)	0.155 (0.226)	-0.017 (0.013)	0.013 (0.009)
B. Treatment Effects for Left and Right Wing										
Treated X Left-Wing	0.823** (0.398)	0.032* (0.017)	0.078** (0.039)	0.124** (0.053)	0.103*** (0.022)	0.111 (0.281)	0.551 (0.686)	0.257 (0.389)	-0.008 (0.023)	0.052*** (0.015)
Treated X Right-Wing	0.031 (0.397)	-0.001 (0.017)	-0.025 (0.039)	-0.020 (0.053)	0.018 (0.022)	0.200 (0.281)	0.661 (0.691)	-0.386 (0.392)	-0.049** (0.023)	0.006 (0.015)
p-value diff.	0.159	0.164	0.061	0.056	0.007	0.823	0.910	0.245	0.211	0.030
Observations	8585	8584	8585	8585	4281	8585	6851	6851	4281	8585

Hides underlying Heterogeneity: Significant Treatment Effects on Policies Only For Left-Wing...

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Observations	8585	8584	8585	8585	4281	8585	6851	6851	4281	8585

...No Treatment Effects on Policies For Right-Wing

	Budget Opp. (1)	Support Estate Tax (2)	Support Equality Opp. Policies (3)	Government Interv. (4)	Unequal Opp. Very Serious Problem (5)	Budget Safety Net (6)	Tax Rate Top 1 (7)	Tax Rate Bottom 50 (8)	Govt. Tools (9)	Redistribution Index (10)
A. Treatment Effects										
Treated	0.108 (0.227)	0.002 (0.010)	0.010 (0.022)	-0.020 (0.030)	0.046*** (0.013)	0.225 (0.160)	0.357 (0.398)	0.155 (0.226)	-0.017 (0.013)	0.013 (0.009)
B. Treatment Effects for Left and Right Wing										
Treated X Left-Wing	0.823** (0.398)	0.032* (0.017)	0.078** (0.039)	0.124** (0.053)	0.103*** (0.022)	0.111 (0.281)	0.551 (0.686)	0.257 (0.389)	-0.008 (0.023)	0.052*** (0.015)
Treated X Right-Wing	0.031 (0.397)	-0.001 (0.017)	-0.025 (0.039)	-0.020 (0.053)	0.018 (0.022)	0.200 (0.281)	0.661 (0.691)	-0.386 (0.392)	-0.049** (0.023)	0.006 (0.015)
p-value diff.	0.159	0.164	0.061	0.056	0.007	0.823	0.910	0.245	0.211	0.030
Observations	8585	8584	8585	8585	4281	8585	6851	6851	4281	8585

Conclusions

- ▶ Preferences for immigration policies are not tied to economic effects of migration
- ▶ That is part of a larger issue of formation of in-group and out-group preferences
 - ▶ Could depend on migration status, language, race, religion
 - ▶ But might even go beyond those markers
- ▶ The distinction affects preferences for redistribution
- ▶ Better information does not necessarily change preferences