

The Redistributive Consequences of Segregation

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The Question

- Why do we in general observe a non-monotone relationship between income inequality and support for redistributive policies in society?
- Income inequality has increased in many (industrialized) countries over the last 40 years (see Piketty, Saez, Zucman,...).
- In general, demand for redistribution in society has not exhibited the same trend (see Ashok et al. (2015)).

The Question

- Socio-economic segregation is high in areas where inequality is high (Reardon and Bischoff (2011), Chetty et al. (2014)).
- Misperceptions of the income distribution (own survey, Norton and Ariely (2011), Cruces et al. (2013))

Putting the pieces together

- People are segregated according to income.
- They are biased about the overall income distribution.
- This affects people's support for redistributive policies.

Results

- Demand for redistribution is lower than without segregation and misperceptions.
- An increase in inequality always leads to a smaller increase in demand for redistribution
- and can even lead to a decrease in demand for redistribution.

Empirical Evidence

Own Survey

- Do people have biases of the kind that I assume in my application?
- Is the severity of misperceptions correlated with segregation?

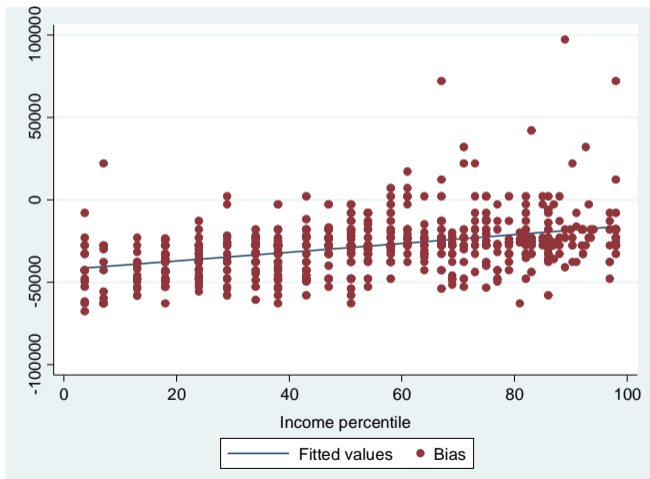
Own Survey

- Conducted in the US via Amazon Mechanical Turk, 600 respondents
- Ask about own household income and certain (perceived) characteristics of the income distribution
- Ask questions to figure out their degree of (socio-economic) segregation

more

Misperceptions of average income

People's estimate of average income is increasing in their own income (Bias = perceived average income - correct average income)



Social segregation I

Lin Position Generator Question:

Which of these people do you know socially?

- | | |
|--|---|
| <input type="checkbox"/> Secretary | <input type="checkbox"/> Artist |
| <input type="checkbox"/> Nurse | <input type="checkbox"/> Electrician |
| <input type="checkbox"/> Teacher | <input type="checkbox"/> Office manager |
| <input type="checkbox"/> Cleaner | <input type="checkbox"/> Solicitor |
| <input type="checkbox"/> University lecturer | <input type="checkbox"/> Farm worker |

Assign CAMSIS (=Cambridge Social Interaction and Stratification) score to each profession and calculate respondent's standard deviation

Social segregation II

- Ask about household income and education of social circle
 - ▶ friends
 - ▶ family
 - ▶ work
- Construct a measure of social segregation via factor analysis

Misperceptions and segregation

People with a more diverse social circle tend to be less biased about average household income

Conclusion

- Model of segregation with misperceptions, interaction of beliefs and segregation
- Non-monotone relationship between inequality and demand for redistribution
- Empirical analysis to investigate relationship between segregation and misperceptions
- Outlook:
 - ▶ Extend empirical analysis, especially to European countries

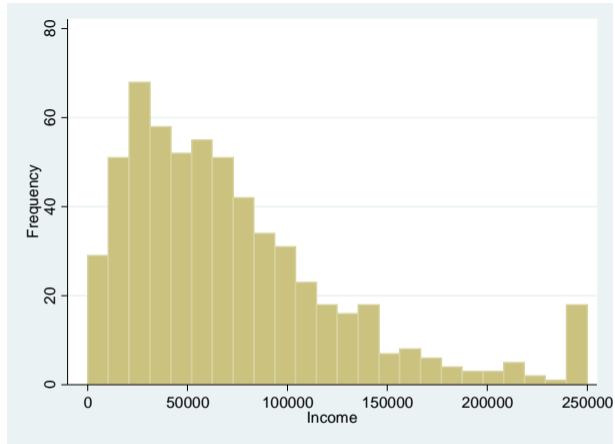


Figure: Sample household income distribution

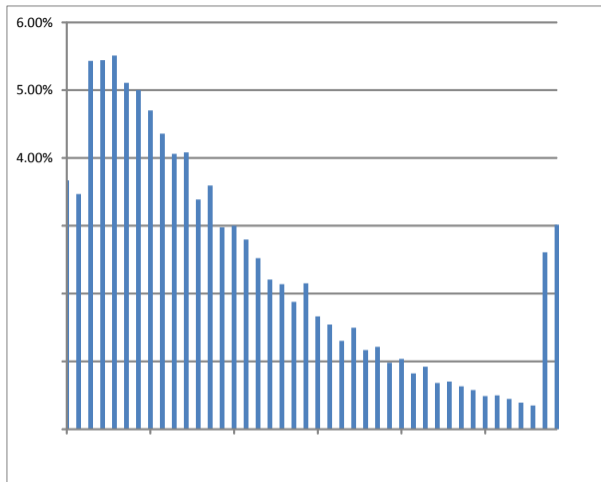


Figure: US household income distribution

	(1)	(2)
	Bias2	Bias2
Social circle status diversity	-0.0107*** (0.005)	-0.00916** (0.015)
Income percentile		-0.00181*** (0.000)
Intercept	0.483*** (0.000)	0.568*** (0.000)
<i>N</i>	592	592

p-values in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	Bias
Income percentile	0.004*** (0.001)
(Income percentile) × (Social segregation)	0.002** (0.001)
Social segregation	-0.073 (0.060)
Intercept	-0.598*** (0.041)
<i>N</i>	592

p-values in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$