Economics 390: Income, Wealth, and Health Inequality in the United States

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Meeting Time and Place: Tuesday and Thursday, 10:30-11:50, Friedman Hall room 102

TA: Alessandro Lin (E-mail: Alessandro_Lin@Brown.edu)

Office Hours: Wednesday 9-11 AM, Robinson basement

Section meetings: C 01: Wednesday, 1:00 PM - 1:50 PM, Friedman Hall 101
C 02: Wednesday, 7:00 PM - 8:00 PM, Friedman Hall 101

Course Description

This course examines inequality of income, wealth, and health, with a focus on the United States. The course begins with issues of measurement: How do we specifically define and obtain data on income, wealth, and health? Among what units (individuals, households, geographic locations) are these data collected? How do we define inequality and mobility, and how do we measure their changes over time?

We then turn to examine the economic underpinnings of variations in income, wealth, and health. How do individual characteristics such as education and skill map into income, and how does income in turn map into wealth? What is the causal effect of income on health and vice versa? How are characteristics transmitted from generation to generation? How is national income divided between payments to capital owners and workers?
The third part of the course looks at the driving forces behind the large rise in inequality in the United States that has occurred since roughly 1980. Among the factors we examine are changes in technology, globalization, the returns to education, government policy, family structure, and the degree of competitiveness in US industry. We similarly examine differential trends in life expectancy, morbidity and health behaviors among income groups, and examine whether increases in economic inequality have contributed to changes in the distribution of health outcomes.

The last section of the course examines government policies that impact inequality, including progressive taxation, the minimum wage, support of unionization, public education, immigration policy, and government involvement in health care. This section also discussed the political economy of redistributive policies, and the costs and benefits of reducing inequality.

The economics department offers one other course that deals with inequality: Econ 1370: Race and Inequality in the US (Loury). These courses are sufficiently different that a student could profitably take both of them.

**Requirements, Grading, and Class Conduct**

The course grade will be based on two midterm exams (17% each), five homework problem sets (15% total), one short paper (15%), and a final exam (36%). The dates of the exams and due dates for homework assignments and paper are listed on the syllabus.

Absences from exams or failure to hand in the paper or a homework assignment on time will be automatically excused only in cases of medical or family emergency, which must be verified by a letter from the Dean or health services. Any other requests to be excused from an exam must be presented in writing (an e-mail is OK) within the first two weeks of the semester. *It is your responsibility to look into any potential scheduling conflicts.* Late homework will not be accepted in cases other than medical or family emergencies. Unexcused late papers will be accepted with a reduction of ten points (out of 100) per day late or fraction thereof. Because the due date and topic for the paper will be announced far in advance, no extensions will be granted to students who have work for other courses or other scheduled events that conflict with the deadline for the paper.
Students who qualify for SEAS-approved accommodations are asked to meet with Professor Paxson or Professor Weil in the first few weeks of the semester to discuss the specific accommodations required.

The approximate time commitment expected of students is as follows: over the 13 weeks of the class, there will be 3 hours per week of classroom time plus one hour per week of section (total 52 hours). Students can expect to spend 6 hours per week doing assigned readings and homework problems (total 78 hours). Finally students can expect to spend 50 hours writing papers and preparing for midterm and final exams.

The issues raised in this course will quite likely touch on profoundly held political and social views of many students. Further, discussions of economic issues involving income distribution will inevitably have at least some personal dimension (like finding out where in the income distribution your family is). Although we expect and will enforce respectful interaction among participants, we will also encourage vigorous challenges to ideas and arguments. Students taking the class should be willing to tolerate a certain level of discomfort in this dimension.

**Readings and Assignments**

Each topic covered in the course is covered by a Course Module. In each Module, you will see a brief description of the topic to be covered, and readings that should be done ahead of class. All readings are either publicly available and hyperlinked, or available through e-reserves. Accessing some readings held in on-line journals may require that you are logged into the Brown domain.

NOTE: Just because a reading is assigned does not mean that we (or you) will agree with its conclusions. Please remember to read critically, with an eye to thinking about why different authors reach different conclusions about the same issue.
# Class Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Time</th>
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<tbody>
<tr>
<td>Thu Sep 6, 2018</td>
<td>Topic: Introduction and motivation (Paxson and Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Sep 11, 2018</td>
<td>Income and wealth measurement (Paxson)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Sep 12, 2018</td>
<td>Section: Regression Primer</td>
<td>1pm to 1:50pm</td>
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<td>Section: Regression Primer</td>
<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Sep 13, 2018</td>
<td>Distributions and the measurement of inequality (Weil)</td>
<td>10:30am to 11:50am</td>
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<tr>
<td>Tue Sep 18, 2018</td>
<td>Economic mobility (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Sep 19, 2018</td>
<td>HW #1 due</td>
<td>due by 12:30pm</td>
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<td></td>
<td>Section: go over HW #1</td>
<td>1pm to 1:50pm</td>
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<td></td>
<td>Section: go over HW #1</td>
<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Sep 20, 2018</td>
<td>Economic mobility (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Sep 25, 2018</td>
<td>Health inequality (Paxson)</td>
<td>10:30am to 11:50am</td>
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<tr>
<td>Wed Sep 26, 2018</td>
<td>HW #2 due</td>
<td>due by 12:30pm</td>
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<td>1pm to 1:50pm</td>
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<td></td>
<td>section: go over HW#2</td>
<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Sep 27, 2018</td>
<td>Health inequality (Paxson)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Oct 2, 2018</td>
<td>Health inequality (Paxson)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Oct 3, 2018</td>
<td>section: Midterm Review</td>
<td>1pm to 1:50pm</td>
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<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Oct 4, 2018</td>
<td>FIRST MIDTERM</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Oct 9, 2018</td>
<td>Educational attainment (Paxson)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Oct 10, 2018</td>
<td>Robert Frank Lecture: How Inequality Harms the Wealthy</td>
<td>5pm to 6:30pm</td>
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<tr>
<td>Thu Oct 11, 2018</td>
<td>Family structure (Paxson)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Oct 16, 2018</td>
<td>A model of inequality(Wei)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Oct 17, 2018</td>
<td>HW #3</td>
<td>due by 12:30pm</td>
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<td>section: go over HW #3</td>
<td>1pm to 1:50pm</td>
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<td></td>
<td>section: go over HW #3</td>
<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Oct 18, 2018</td>
<td>Skill-biased technological change (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Oct 23, 2018</td>
<td>Technology and jobs (Weil)</td>
<td>10:30am to 12pm</td>
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<td>Wed Oct 24, 2018</td>
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<td>1pm to 1:50pm</td>
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<td></td>
<td>section: go over HW #4</td>
<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Oct 25, 2018</td>
<td>Immigration and trade (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Oct 30, 2018</td>
<td>Health consequences of rising inequality (Paxson)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Oct 31, 2018</td>
<td>HW #5</td>
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<td>section: go over HW #5</td>
<td>1pm to 1:50pm</td>
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<td></td>
<td>section: go over HW #5</td>
<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Nov 1, 2018</td>
<td>Health consequences of rising inequality (Paxson)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Nov 6, 2018</td>
<td>Taxes and transfers (Paxson)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Nov 7, 2018</td>
<td>section: review for midterm</td>
<td>1pm to 1:50pm</td>
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<tr>
<td></td>
<td>section: review for midterm</td>
<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Nov 8, 2018</td>
<td>Taxes and transfers (Paxson)</td>
<td>10:30am to 11:50am</td>
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<tr>
<td>Tue Nov 13, 2018</td>
<td>SECOND MIDTERM</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Nov 14, 2018</td>
<td>section: go over midterm</td>
<td>1pm</td>
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<tr>
<td></td>
<td>section: go over midterm</td>
<td>7pm to 7:50pm</td>
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<tr>
<td>Thu Nov 15, 2018</td>
<td>Rents and crony capitalism (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Tue Nov 20, 2018</td>
<td>Very top of the income distribution (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Thu Nov 22, 2018</td>
<td>NO CLASS: THANKSGIVING</td>
<td>12am</td>
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<tr>
<td>Tue Nov 27, 2018</td>
<td>Wealth Dynamics (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Thu Nov 29, 2018</td>
<td>class dinner and lecture</td>
<td>6pm to 8pm</td>
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<tr>
<td>Tue Dec 4, 2018</td>
<td>Political economy and inequality (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Thu Dec 6, 2018</td>
<td>Political economy and inequality (Weil)</td>
<td>10:30am to 12pm</td>
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<tr>
<td>Wed Dec 12, 2018</td>
<td>Writing Assignment Due</td>
<td>due by 12:30pm</td>
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<tr>
<td>Mon Dec 17, 2018</td>
<td>FINAL EXAM</td>
<td>2pm to 5pm</td>
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Preliminary Reading List

Readings for each lecture will be posted in the “Modules” section of Canvas. We have pasted a preliminary version of the readings below for the convenience of students who are shopping the course. Readings actually assigned may differ from those listed here. Please check Canvas, and not this preliminary reading list, to find the readings assigned for each lecture.

Topic and Readings, September 6

The first meeting of this course will cover course mechanics (requirements, assignments, etc) and provide an introduction to the topic of inequality.

Readings:

The following three readings are short articles that provide three different views of whether and why inequality matters.

Bernstein, Jared and Ben Spielberg, "Inequality Matters.” The Atlantic, June 5, 2015.


Topic and Readings, Sept 11

Topic:

This course is concerned with inequality in living standards across people, and there are many different ways to conceptualize and measure living standards. This class
covers different measures of living standards (e.g. income, consumption and wealth) and their relationship to each other.

Readings:

The first article provide a lot of data on income inequality in America. For this class, Section I (which talks about measurement of income) is the most important, but it will be useful for future classes for you to read the text and skim through the figures and tables.


The next two readings are based on a single article, which asks the question of whether "money buys happiness." The first is a non-technical summary of the article, and the second is the full article, which has more information but is somewhat technical. The second is optional.

"Does Money Buy Happiness? A Brief Summary of "High Income Improves Evaluation of Life But Not Emotional Well Being".


This following critiques the method used by the United States to measure poverty:

Why the United States Needs an Improved Measure of Poverty Congressional Testimony, by Rebecca Blank

**Topic and Readings, Sept 13**

**Distributions and Inequality Measurement**

Topic:

In other to discuss inequality and mobility, we first have to get a good grounding in the some basic mathematical and statistical concepts. This lecture will go over univariate and bivariate distributions as well as measures of dispersion and correlation. We will also introduce the Gini coefficient, which is frequently used to measure inequality.

Readings:
Topic and Readings, Sept. 18 and 20

Income and Wealth Mobility

Topic:

Income inequality is measured at a point in time (often referred to as a "cross section"). However, we may also be interested in how the positions of households or individual within the income distribution change over time: from year to year, over the course of a life cycle, or from generation to generation. A society in which there is high mobility would strike many people as more just than one in which income ranks were stable over time, even if they had the same level of cross-sectional inequality.

Measuring inequality is much easier than measuring mobility, especially mobility over long periods of time like generations. That is because measuring mobility requires being able to track people over time.

We will begin our discussion of this topic by looking at "high frequency" (year to year) mobility, before devoting most of our attention to intergenerational mobility. The mathematical tools used to study mobility can be a bit complex, so we will take some time to nail these down before turning to look at data on mobility in the US and how it has changed over time.

Readings:

1) Corak, Miles, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility" *Journal of Economic Perspectives*, Summer 2013

   This is a good general introduction to the measurement of mobility and discussion of how it varies across countries, as well as a discussion of the factors that affect it.

This is a short but very dense article describing the trends in mobility in the US over time, and also comparing regions. You should read it carefully.


This is the paper on which we will focus most heavily. The math in it can be tough, but you should try to get as much as you can (and look again at it after lecture). You can skip sections III and IV of the paper.

4) Clark, Gregory, “Your Ancestors, Your Fate” (Opinion piece, Feb. 2014)

This is an easily accessible discussion of mobility over several generations.

**Topic and Readings, September 25, September 27 and October 2**

Health is an important component of living standards. This module, which covers three lectures, examines how health is related to income and wealth. We will begin with a class on how “health” is defined and measured, and review evidence on the status of the health of the U.S. population. The second class will look at how health is related to income, and examine how and whether income affects health, health affects income, or both. The third class will look at the role health plays in economic mobility—both downward and upward—over the life-cycle. Throughout the discussion, we will discuss the implications of the articles for the possible effects of increases in inequality on the distribution of health outcomes, and the possible effects of health improvements on inequality.

**Readings**

**September 25: Health basics: definition and measurement**

Deaton, Angus. *The Great Escape: Health, Wealth and the Origins of Inequality*, Princeton University press, 2013. Please read chapters 1, 2 and 4. Students who are interested in health in developing countries may also want to read chapter 3. These chapters are on e-reserves.


*Health, United States, 2016*, National Center for Health Statistics. You do not want to read or print this whole report! Please read/skim through pages 1 through 37 to get a
sense of what health indicators are tracked in the United States, and how they vary across different socioeconomic groups.

**September 27: Health, wealth and income**

"Life and death on the social ladder", by Helen Epstein, New York Review of Books. This article provides a great review of several earlier influential books on "socioeconomic status and health."


The following two articles (plus a short prologue) are from volume of *Health Affairs* that featured the relationship between the health and incomes of individuals. The table of contents for the journal (from which you can link to the articles) is here:

*Health Affairs, March 2002, Volume 21, Issue 2*.

Please read the Prologue and the articles by Angus Deaton ("Policy Implications of the Gradient of Health and Wealth") and Michael Marmot ("The Influence of Income on Health: Views of an Epidemiologist")

**October 2: Health and economic mobility over the life course**


The next article is technical in places, but I will walk through it in class.


**Topic and Readings, October 9**

This lecture will consider how increases in education--in particular at the college level--influences income inequality. One reading considers whether increases in educational attainment among people without college degrees would reduce inequality. Another reading documents the role that colleges and universities play in moving
individuals from lower parts of the income distribution (as children) to higher parts of the income distribution (as adults.)

Readings:

Hershbein, Brad, Melissa Kierney and Lawrence Summers (2015) "Increasing Education: What it Will and Will Not Do for Earnings and Earnings Inequality." The Hamilton Project, Brookings. Note that this short research article is featured in an article in The Atlantic, which can be found here.

Chetty, Raj et al. (2017) "Mobility Report Cards: The Role of College in Intergenerational Mobility," NBER Working Paper no. 23618. To find this article, along with an associated "fact sheet," non-technical summary, and powerpoint deck, go here. It is currently the third paper listed (although the authors could add a new paper at any time, which would bump it down.) You may be interested in looking up statistics on individual colleges on the interactive NYTimes Tool which can be linked to from this page.

**Topic and Readings, October 11**

This lecture will examine the causes and consequences of changes in family structure (marriage, single parenthood, etc.) for income inequality. This topic is quite controversial--not because there is disagreement about about the facts of how family structure has changed, but rather because of disagreements about the reasons for these changes and appropriate policy responses.

Readings:

Pew Research Center "The American Family Today (Links to an external site.)," December 17 2015.


Income Inequality: Basic Models, Technological Change, and Education

This section introduces a set of simple economic models that can be used to understand changes in the distribution of labor income. Our focus will be on the changes in the ratio of wages of skilled to unskilled workers, rather than on the very top of the income distribution ("the 1%"), which we will get to later. As will be seen, most theories about the evolution of the skill premium relate it to technological progress, so we will spend a good deal of time discussing that as well (theories of the skill premium also relate it international trade, which we will also cover in a later module).

Readings:

1) **Autor, David, 2010 “The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings**

   This is an empirical assessment of the role of technology in driving inequality in the US. We will spend a good deal of time on it in lecture.


   This book is the classic analysis of the interaction of technology and relative wages.

3) **Brynjolfsson and McAfee, "Race Against the Machine" Summary**

   This is a short summary of their book, which discusses how technology is destroying jobs.

4) **Frey and Osbourne - The Future of Employment: How Susceptible are Jobs to Computerisation**, Technological Forecasting and Social Change, Volume 114, January 2017

   This study attempts to figure out which jobs are going to be taken away by robots. There are a few places where the math gets a bit crunchy, but you can read past these and get the point pretty easily. You must be on a Brown IP address to access this journal.

This is an easy to read discussion of the possibility of artificial intelligence replacing many doctors -- an unusual case (at least so far) in which technology replaces high skill workers and thus reduces inequality. Especially important to read if you are a pre-med or are friends with one.

**Topics and Readings for October 25**

**Trade and Immigration**

Increased openness to trade is a potential explanation for rising wage inequality. Standard trade theory predicts that, while openness raises income on average, it may lower the income of factors of production, such as unskilled labor, that are scarce in the US relative to the rest of the world. Beyond this, Donald Trump claims that the problem is not with free trade itself, but rather that the US has made bad trade deals and is the victim of predatory practices, dumping, and currency manipulation.

In a similar fashion, immigration can potentially be bad for US workers who have characteristics similar to immigrants: for example, low-skill (often illegal) immigration could be bad for the wages of low skilled natives.

In this module we assess the empirical importance of both these channels in affecting US wages over the last several decades.

Readings:


**Topic and Readings, October 30 and November 1**
These two lectures will consider how changes in the income distribution are related to changes in health and health care. In the first lecture, we will discuss changes in mortality and morbidity in the 21st century, a time period when there were increases in some demographic groups of deaths from drug and alcohol overdoses, suicides, and deaths from chronic diseases associated with alcohol. In the second lecture, we will look at how health insurance in general, and the Affordable Care Act Act in particular, can be expected to change inequality in health care and health outcomes.

Readings:

For October 30:


Finally, a paper by Alan Krueger has linked opioid use to declines in male labor force participation. A summary of the article is here. You can link through to the underlying article if you are interested, but this is optional.

For November 1:

Dickman et al. (2016) "Health Spending For Low-, Middle-, And High-Income Americans, 1963–2012" Health Affairs, 35(7). A blog about this article is here.


Blumenthal, David and Sara Collins (2013) "The Effects of Health Insurance on Health: What We Can Expect from the Affordable Care Act," Commonwealth Fund (blog post).


Topic and Readings for Nov. 6, 8
Inequality and Public Policy: Labor Markets, Taxes, and Transfers

The role of public policy has been implicit in many of the topics discussed in the class thus far. Now we bring it to the foreground. What policy levers are available for reducing inequality? What are their associated distortionary costs or other drawbacks? How much of the rise in inequality over the last three decades is attributable to changes in policy? Among the policies to be analyzed are minimum wages, the Earned Income Tax Credit, and tax policy more generally.

Readings:

Tuesday November 6

This class will focus on policies that aim to increase wages and/or incomes of people who are poor—the minimum wage, the Earned Income Tax Credit, and Temporary Assistance for Needy Families.

Two short articles on the minimum wage by David Neumark: The Effects of Minimum Wages on Employment, and Reducing Poverty via Minimum Wages, Alternatives. The second of these also has some discussion of the Earned Income Tax Credit

A Revolution in Poverty Policy, by Hilary Hoynes (very short and non-technical)

Two chapters from the book “A Safety Net that Works.” Please read the chapter by Bruce Meyer titled “The Earned Income Tax Credit” (pp 1-18) and the chapter by Ron Haskins titled “Temporary Assistance for Needy Families” (pp 129-146)

Thursday November 8

This class will focus on the effects of income tax policy on inequality, with a focus on the tax package passed in the fall of 2017

(Readings to be added)

Topics and Reading for Nov 15

Rents, Monopoly, and Crony Capitalism
Much of the analysis in previous sections has been within the standard neoclassical paradigm of clearing markets and near perfect competition, so that payments to factors of production such as capital, skilled labor, and unskilled labor largely reflect the value marginal products of these inputs. Here we explore the argument that declining competition and associated departures from the neoclassical model are a source of rising inequality.


**Topics and Readings Nov. 20**

**The Very Top of the Income Distribution**

The previous module (Rents, Monopoly, and Crony Capitalism) gave the left-wing view of the rise of the 1%. Here we give the right-wing team its equal time.


**Topic and Readings for Nov. 27**

**Wealth Dynamics**
Most of our focus in this course has been on labor income, but the return to capital (i.e. payments to holders of wealth) constitutes almost a third of national income. Wealth is far more unequally distributed than is labor income, and wealth also plays an outsized role in the perpetuation of inequality from one generation to the next.

1) Piketty, Thomas, *Capital in the 21st century* (Harvard University Press, 2014) [chapters 7 and 8]

**Topic and Readings Nov 27 and Dec 4**

**Inequality and Political Economy**

In the *Communist Manifesto*, Marx and Engels wrote that every class struggle is a political struggle. The institutions and policies that determine the division of income, either between capital and labor or among different groups of workers, are the result of political decisions. Relevant policies include progressive taxation, minimum wage, the distribution of government expenditures, trade protection, and so on. One of the great questions in political economy is why, in a democracy, the poor don't simply use their votes to redistribute wealth and income toward themselves. Are they held back by practical concerns, such as the distortionary effects of taxes? Are they philosophically opposed? Are they unaware of their class interest? Are they blocked by the power of the wealthy?


This article (by political scientists, not economists) presents a detailed examination of how the US has responded politically to rising inequality over the last several decades. Topics discussed include ideological shifts, increased polarization, differential participation as a function of income, and the role of campaign contributions.


This paper examines what survey respondents in five countries believe about intergenerational mobility, with two aims. First, the authors compare beliefs about mobility to actual levels of mobility. Second, they ask how beliefs about mobility compare to preferred degrees of redistribution. The authors also examine how beliefs about and preferences for redistribution differ across the political spectrum and how
they are related to the views of individuals regarding the efficacy of government policies. You should skip over the mathematical parts of section 2, and just absorb from that section the predictions of the model (which are very intuitive).