Income, Asset-Ownership, and Preferences for Redistribution: A Comprehensive Model

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Abstract

The financialisation of advanced economies has been one of the most important phenomena of the last few decades. Facing stagnating wages in a low-growth environment, many citizens have increasingly invested in private assets, which has created a "society of rentiers" (Piketty 2014). What impact does this have on peoples preferences for redistribution? In order to answer this question, we provide a new theoretical model for redistributive preferences in this paper. Previous models have either focused exclusively on income (Meltzer and Richard 1981) or risks (Moene and Wallerstein 2001, 2003) to explain redistributive preferences. However, these models do not allow us to study the impact of financialisation because capital ownership reduces current consumption but acts as a form of insurance against risks by increasing future consumption. Consequently, we develop a heterogeneous agent model that explicitly explores the relationship between income, asset holdings, and preferences for redistribution. Our model supports initial evidence that asset ownership reduces support for redistribution (Ansell 2014, Auf dem Brinke 2015), but it suggest that this effect is relatively small. Moreover, the effect is influenced by an individual's level of income and it depends on the liquidity of the assets that an individual owns. We test these hypotheses by using data from the International Social Survey Programme (ISSP) for 22 advanced economies and show that there is preliminary evidence for all our hypotheses. This indicates that the financialisation of advanced economies has complicated the preferences of citizens towards the welfare state, which future research should explore more fully.

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