

# The Political Economy of Occupational Mobility and Redistribution Policy\*

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## Abstract

In this study, we ask why countries with similar labor market characteristics experience different occupational mobility levels and redistribution policies. We develop a two-type (rich and poor) politico-economic model which integrates occupational mobility affected individuals' educational investments with voting on redistribution policies. It is shown that a rigid labor market will tend to produce multiple equilibria: a poor-majority equilibrium with lower mobility and higher redistribution and a rich-majority equilibrium with higher mobility and lower redistribution. However, a flexible labor market will tend to produce a unique, poor-majority equilibrium with high mobility and low redistribution, that supports the POUM (prospect of upward mobility) hypothesis. Deregulation in the labor market enhances mobility but may degrade social welfare.

**Key words:** Occupational mobility; Political economy; Stationary Markov perfect equilibrium; Redistribution

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