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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