

Does Information about Income Inequality Shape Demand for Redistribution?

Canadian Economics Association

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Claim:

Demand for redistribution low because of lack of information

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- Ariely and Norton (2011): “*Americans appear to drastically underestimate the current level of wealth inequality*”
- Bartels (2005): “[M]ost Americans support tax cuts not because they are indifferent to economic inequality, but because they largely fail to connect inequality and public policy.”
- Bush tax cuts involved “the deliberate crafting of policy to distort public perceptions” (Hacker and Pierson, 2005)
- Di Tella et al. (2004): Beliefs about the income process are motivated and self-serving.
- Theory of *deliberate information avoidance* (Bénabou and Tirole, 2005): “[M]aintaining somewhat rosy beliefs about the fact that everyone will ultimately get their just desserts can be very valuable.”

Is limited information really important?

Possible tests:

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- ② Provide information to a random group of respondents
- ③ (Organize elections after a salient event)

- I take approach #2
- Subjects: 1,300 recruited on-line, located in the U.S.
- 2 information treatments, one control group
- Ask about taxation and other policy preferences
- Also ask about perceived opportunities to get ahead

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Subjects not aware of the experiment (living room \sim field)

Subject takes a "survey"

1/3

2/3

Control group
(No information)

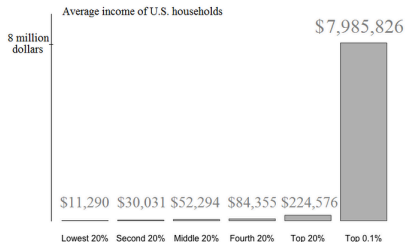
Information treatment

1/2

1/2

	Average income
Lowest 20%	\$11,290
Second 20%	\$30,031
Middle 20%	\$52,294
Fourth 20%	\$84,355
Top 20%	\$244,576
Top 0.1%	\$7,985,826

Source: Tax Policy Center



Selected quotes:

“I believe that most people earn what they deserve. Making a lot of money doesn’t make you evil. Most of the time, those people worked hard to get where they are.”

“I believe that the people on the right side of the graph making the most money are the people who have worked the hardest, and therefore deserve the money they are making.”

“I am surprised that I make more money than 20% of the population.”

“I’m not against people being wealthy or successful but it can get absurd like this.”

Selected results

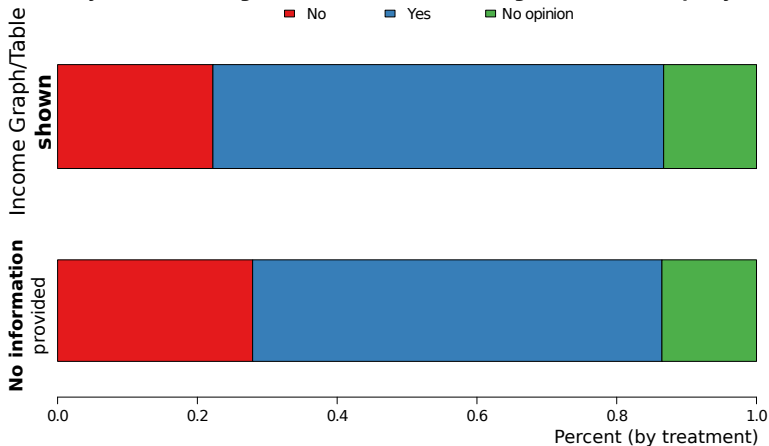
- Information \rightarrow preferences for taxation **unchanged**
- More subjects in favor of **some** government activity, but not through redistribution

Selected results

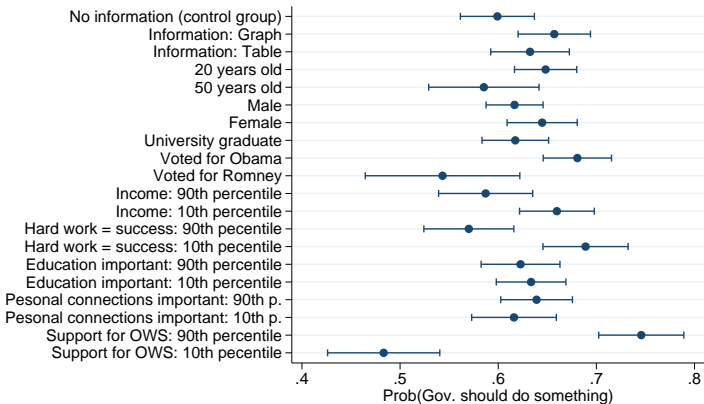
- Information → preferences for taxation **unchanged**
- More subjects in favor of **some** government activity, but not through redistribution
- *Question: “Do you think that the government should do something about income inequality?”* (social desirability bias almost guaranteed – look at differences across treatments, not absolute values)

Do you think that the government should do something about income inequality?

■ No ■ Yes ■ No opinion



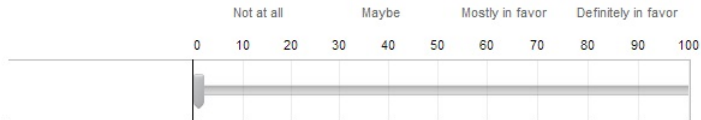
Predicted demand for government activity (long regression)



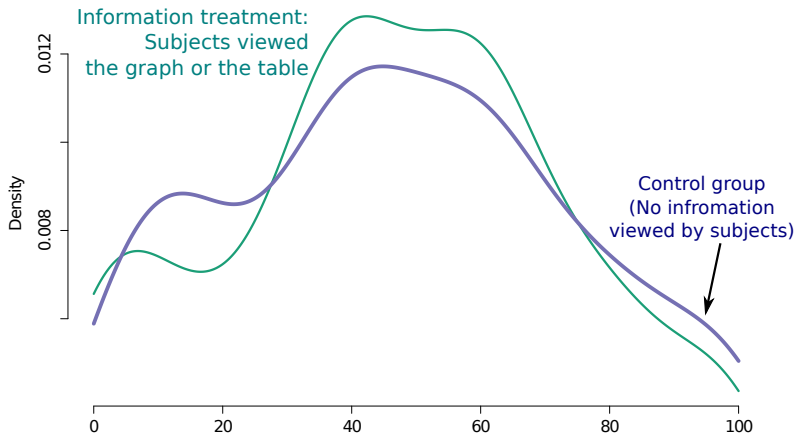
Predicted probabilities of answering yes to the question “Do you think that the government should do something about income inequality?”

Screenshot

Would you be open to higher taxes, if the revenue was used to improve social insurance (such as unemployment insurance)?

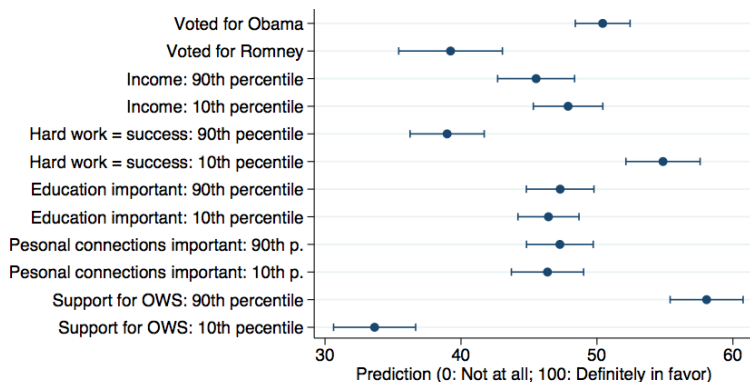


Would you be open to higher taxes? (Revenue used for social insurance)



Reported openness to higher taxes, by information treatment [estimated probability density]. 100 = definitely in favor

Would you be be open to higher taxes?



Beliefs about fairness and mobility

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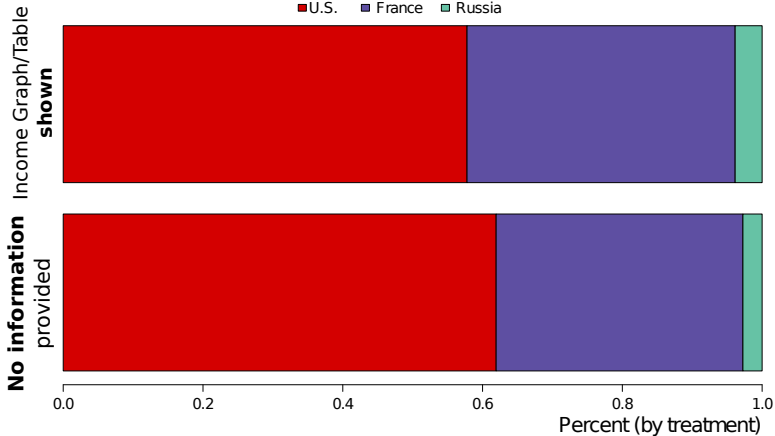
- “To succeed in life, it is important to have personal connections” (more likely to agree after exposure)
- “People who want to get ahead could make it if they were willing to work hard” (agreement less likely after exposure to the table)
- Information → U.S. viewed less optimistically (seen as less mobile)

What is important for success? (subjective)

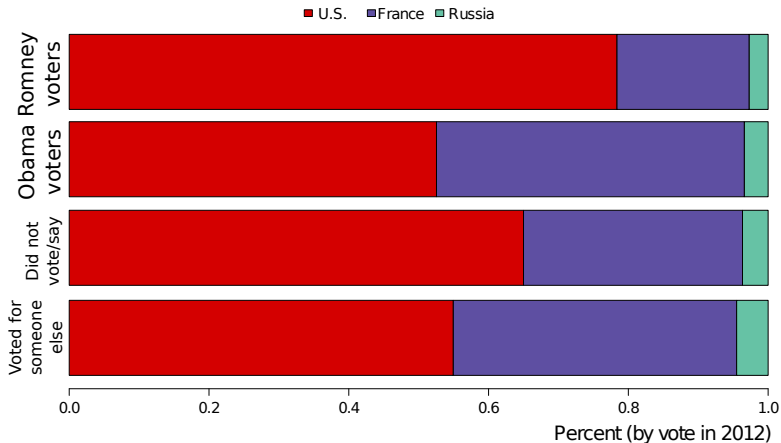
	Hard work leads to success (1)	Personal connections are important for success (2)
Information treatments		
Treatment: Table	-3.901** (1.540)	3.160** (1.331)
Treatment: Graph	-0.873 (1.519)	2.494* (1.313)
Political preferences		
Voted for Obama	-2.327 (1.518)	0.392 (1.312)
Voted for Romney	11.893*** (2.152)	-2.091 (1.862)
Other co-variables		
Female	-1.784 (1.345)	-1.768 (1.163)
Uncertain about the future	-0.124*** (0.029)	0.119*** (0.025)
Optimism	0.254*** (0.033)	0.052* (0.029)
Income group	0.400 (0.263)	-0.174 (0.228)
Education group	0.042 (0.789)	0.749 (0.681)
Employed	2.751* (1.450)	-1.362 (1.255)
Age	-0.578 (0.371)	-0.089 (0.332)

In which country is a poor person most likely to escape poverty?

■ U.S. ■ France ■ Russia



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Saliency treatment

- 1/2 of subjects asked
 - ① Do you think that high taxes lead to government waste?
 - ② Do you think that high taxes discourage effort and innovation?
 - ③ Do you think that high taxes lead to lower job creation?
- No effect on preferences
- Ideology maps closely what respondents believe

Probit: do you believe that higher taxes lead to...

	(1)	(2)	(3)
	Taxes lead to waste	Taxes discourage effort	Taxes lower job creation
Voted for Obama	-0.123 (0.130)	0.0201 (0.134)	0.145 (0.136)
Voted for Romney	0.525*** (0.190)	0.423** (0.184)	0.700*** (0.190)
Other / did not vote	0 (.)	0 (.)	0 (.)
Female	-0.244** (0.120)	-0.0345 (0.119)	-0.0734 (0.123)
Income	-0.0345 (0.0234)	-0.0155 (0.0229)	-0.0362 (0.0231)

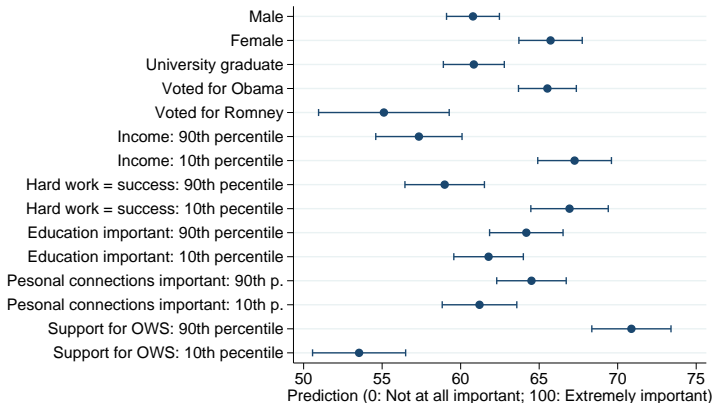
Beyond income (survey only)

- In an ideal society, would you find these goals important?
 - ① Making incomes more equal
 - ② Making access to health care equal
 - ③ Equalizing exposure to environmental risks and toxins

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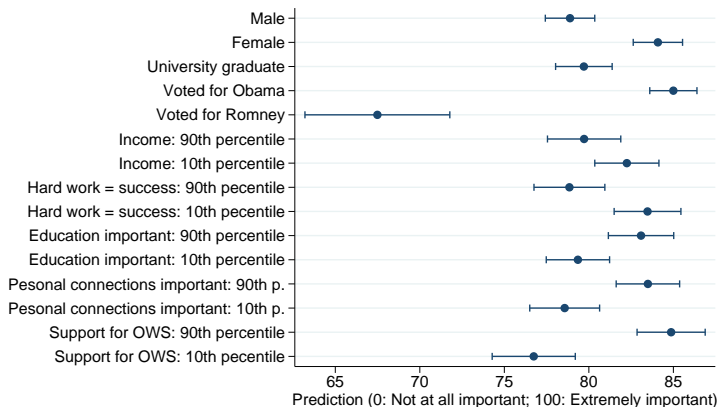
- In an ideal society, would you find these goals important?
 - ① Making incomes more equal
 - ② Making access to health care equal
 - ③ Equalizing exposure to environmental risks and toxins
- The third question makes many people egalitarian

In an ideal society, making INCOMES more equal would be important



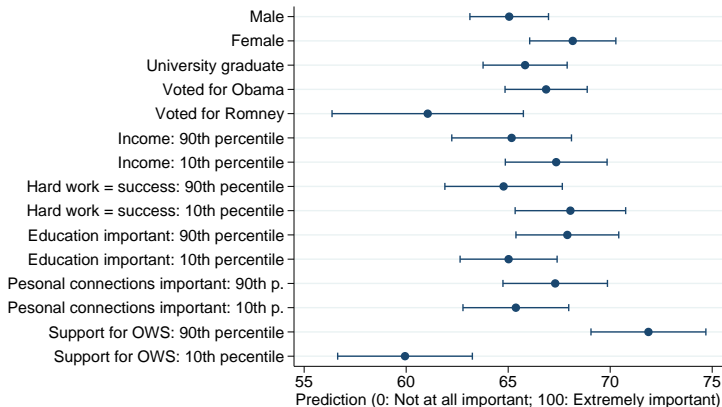
In an ideal society, would making incomes more equal be important?

In an ideal society, would making access to HEALTH CARE more equal be important?



In an ideal society, would making access to health care more equal be important?

In an ideal society, would equalizing exposure to environmental risks and TOXINS be important?



In an ideal society, would equalizing exposure to environmental risks and toxins be important?

Note: R^2 falls from .4 to .11

Conclusion

- The income distribution surprises the subjects
- Updating of views is nonetheless limited to a general sentiment
- Yes, the “government should do something”
- No, I do not want to pay more in taxes
- Open questions
 - ▶ Spending on a major equalizer (education) has not increased: why?
 - ▶ Why not more backlash against high pay in finance after the crisis?

Thank you.
Please send comments to zilinsky@chicagobooth.edu

Additional slides – included for discussion (not presentation)

T1: Table w/ income groups

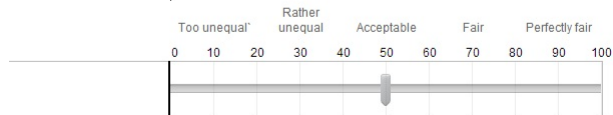
Income statistics for different income groups in the U.S. are shown below:

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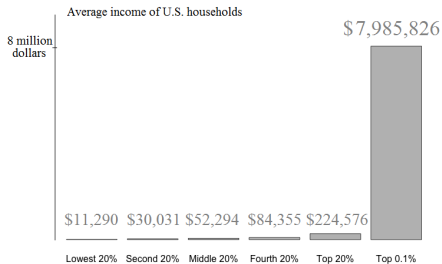
Please comment on the table above, giving your honest opinion, if you have any reaction (1 sentence in enough).

Would you say that the income distribution today is:



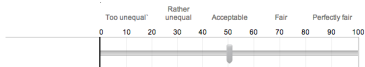
Treatment 2: Visual

Income statistics for different income groups in the U.S. are shown below.



Please comment on the graph, giving your honest opinion, if you have any reaction (1 sentence in enough).

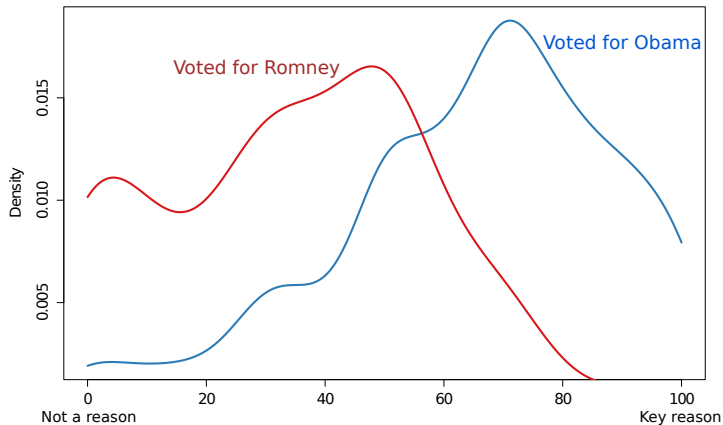
Would you say that the income distribution today is:



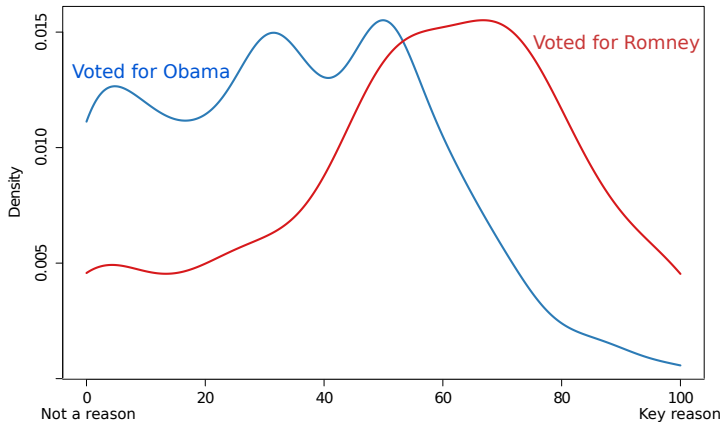
Sources of inequality

- You guessed it: attribution follows ideology
- But how much?

Perceived importance of **Bush tax cuts** as a cause of income inequality



Perceived importance of **Obama bailouts** as a cause of income inequality



How subjects reacted to the table/graph:

- I believe that the people on the right side of the graph making the most money are the people who have worked the hardest, and therefore deserve the money they are making.
- It's not surprising that most people actually don't make a great deal of money. It not anybody's fault, though, really.
- I think that everyone has the chance to be in that top .1 percent.
- I believe that most people earn what they deserve. Making a lot of money doesn't make you evil. Most of the time, those people worked hard to get where they are.
- This is not surprising, and it's good that there is a small proportion of very rich people who can commit capital to growing the economy.
- Hard working and educated people have greater income.
- It may seem unfair, but It is definitely a logical distribution.
- people earn what they deserve to earn.
- I think the gravity of this stratification is a little overblown. item I don't really have any negative reaction, as this graph does not show how quality of life has changed for each group.
- It's none of my business nor do I care how much income other people make.

- I'm not against people being wealthy or successful but it can get absurd like this.
- I don't understand what a single household in the top 20% would do with that income, or why they would need it. But I suppose if they've fairly earned it, then they should be allowed to have such an income without judgement.
- I am surprised that I make more money than 20% of the population.
- Some people are very very well off, and the poor are truly poor.
- wow, that's amazing...that sure gets you thinking
- I think this is pretty sickening
- The entire economy is a sham when the government gives banks free money to loan out, it's all crooked and they need to be reigned in. It's only getting worse as the problems are exponential.
- The top earners make way too much money
- I am shocked. I did not realize that there was such a massive gap between the different income groups and it is disappointing and sad to see.
- I am honestly not surprised by this chart at all.
- The gap has been widening for decades, there must be some equity restored soon.
- I think the top .1% shouldn't have so much money compared to all the other classes.
- I think the inequality of incomes is very saddening to look at.

Government should do something

