

# Information about inequality

A randomized on-line experiment

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# Paper about beliefs

- Common approach: people have heterogenous priors
- Bayesian updating
- Taking models to the data: we wish to know what beliefs are held by agents
  - Measurement is very hard
  - Even a “perfect” survey question not immune to all biases
  - $\Rightarrow$  Surveys viewed with suspicion

# Division of labor

- Pollsters and political scientists
  - What do American citizens know about:
    - The budget
    - Taxes
    - Income inequality
  - Goal here:
    - Try to understand how voters process information
    - What do they believe about:
      - The economy
      - The link between work/effort and reward in particular
      - The desirability of public action against inequality

# Facts

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# Facts

- Many adverse effects of taxation are well-documented but. . .
- Poverty rates are high
- 50 million Americans live in food insecure households
- Social services & the safety net are modest; calls to limit food stamps, etc.
- Limited income mobility
- Personal income taxes are relatively low

## (References)

- 21.9 percent of children are in poverty AFTER transfers, according to the U.S. Census Bureau.
- Household Food Security in the United States in 2011. USDA .
- On stripping the farm bill of food stamps (first time since 1973) see the 2013 Farm bill proposals  
<http://www.nytimes.com/2013/07/12/us/politics/house-bill-would-split-farm-and-food-stamp-programs.html>
- In Atlanta, a child raised in the bottom fifth had a 4% chance to rise to the top fifth. See Raj Chetty's  
<http://www.equality-of-opportunity.org/>
- Stickiness documented by Pew: "Sixty-six percent of those raised in the bottom of the wealth ladder remain on the bottom two rungs themselves, and 66 percent of those raised in the top of the wealth ladder remain on the top two rungs."  
[http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2012/Pursuing\\_American\\_Dream.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pursuing_American_Dream.pdf)

# Why is public intervention limited?

- 1 Optimism about self (I don't want to be taxed later)<sup>1</sup>
- 2 Attribution of stereotypes to the poor
- 3 Distaste for government action /tolerance of inequality /mis-trust of government's motives & competence
- 4 (Focus today) Limited information

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<sup>1</sup>Theory of *deliberate information avoidance*: Benabou and Tirole, (2005): “[M]aintaining somewhat rosy beliefs about the fact that everyone will ultimately get their just desserts can be very valuable.”; Ray (2003): in the countries like the U.S. “culture may be constructed to enhance impressions of economic mobility.”

The claim is . . .

Lack of information drives policy preferences:



# The claim is. . .

Lack of information drives policy preferences:

- “Americans appear to **drastically underestimate** the current level of wealth inequality” Ariely and Norton (2011)
- “[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.” Bartels (2005)
- Bush tax cuts involved “the deliberate crafting of policy to distort public perceptions” (Hacker and Pierson, 2005)

# Possible tests

- 1 Observational evidence
  - How to measure what people know?
  - What are the relevant controls?
  - How to elicit beliefs about future prospects?
- 2 Exogenous introduction of information

# This paper

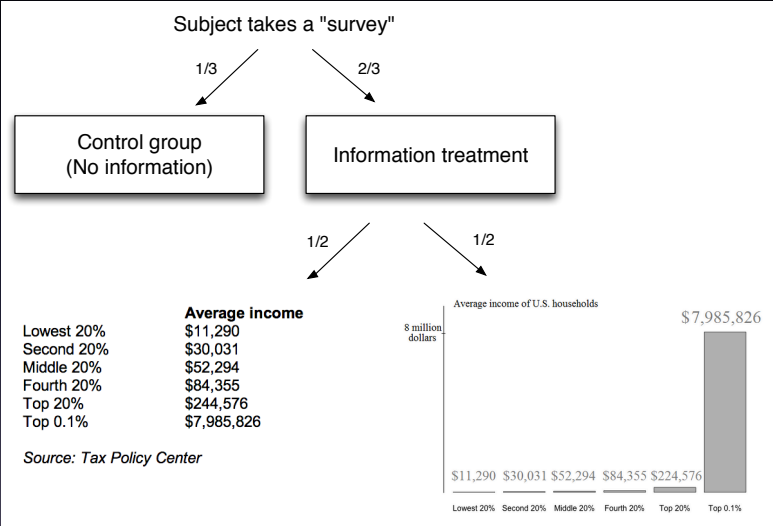
- Takes the second approach
- Subjects: ~1,300 recruited on-line, located in the U.S.
- Information treatments, one control group
- Ask about taxation and other policy preferences<sup>2</sup>
- Inquire whether subjects believe that taxes are harmful

Subjects not aware of the experiment (“lab in the living room”)

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<sup>2</sup>Also ask about perceived mobility (framed as opportunities available to the poor.)

# Design



## Some 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 think that everyone has the chance to be in that top .1 percent.”
- “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.”

# Reactions

- “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.”

# Main results

- More subjects in favor of *some* government activity, but not through redistribution
- Slight increase in pessimism
- Information → no change in preferences for taxation

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<sup>3</sup>Social desirability bias almost guaranteed – look at differences across treatments, less absolute values.

# Main results

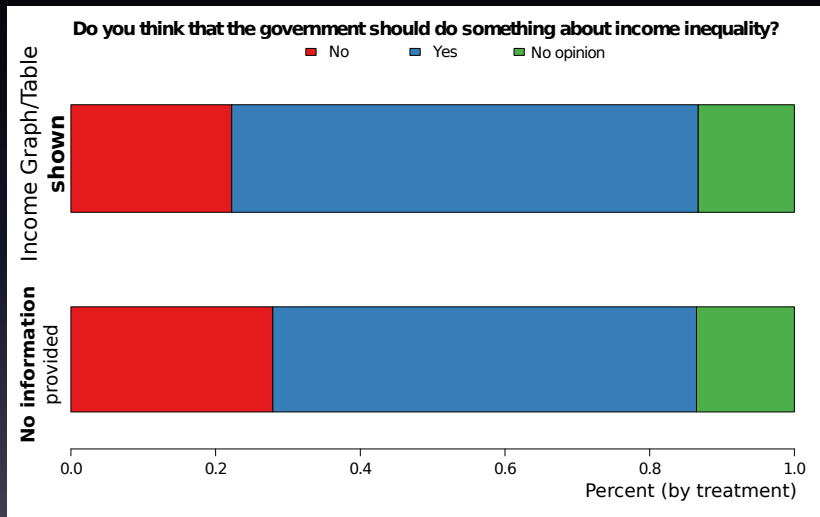
- More subjects in favor of *some* government activity, but not through redistribution
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- First question: *“Do you think that the government should do something about income inequality?”*<sup>8</sup>

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# Doing something

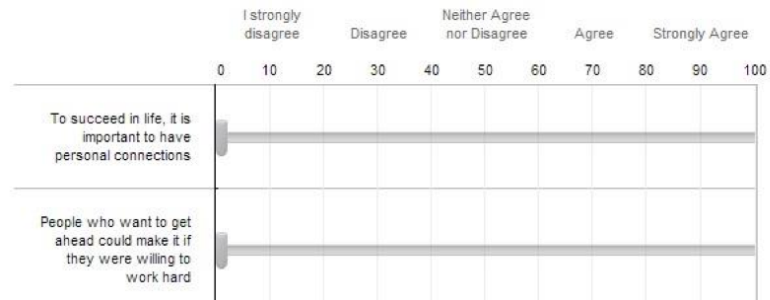


# Beliefs about fairness and mobility

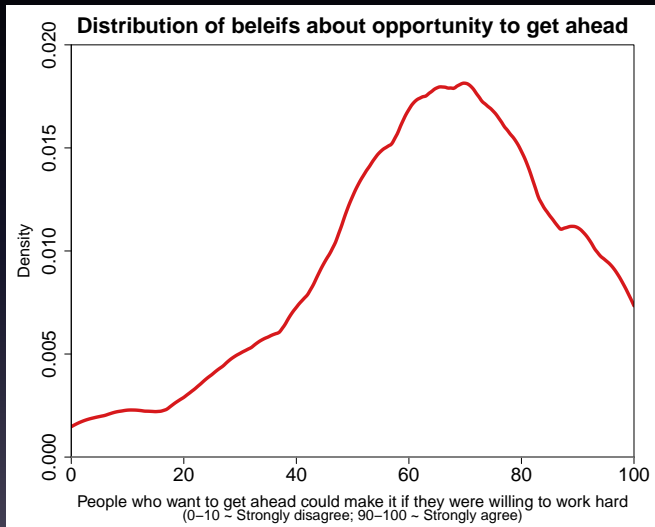
- “People who want to get ahead could make it if they were willing to work hard”
- “To succeed in life, it is important to have personal connections”
- Information exposure: less optimistic perspective/beliefs

# The questions

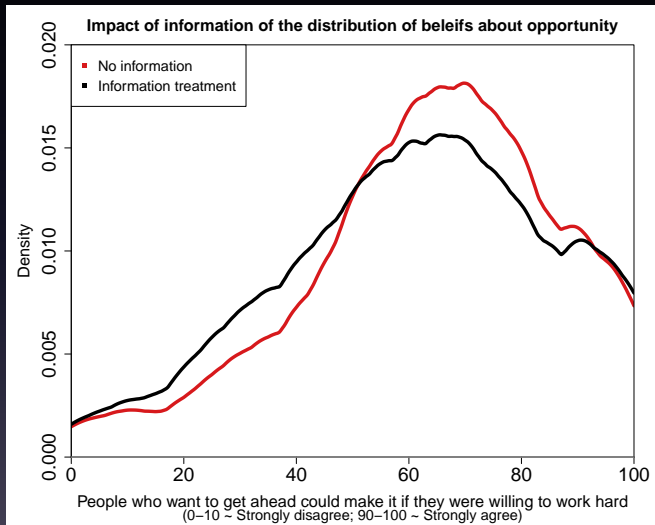
Please tell us your opinion:



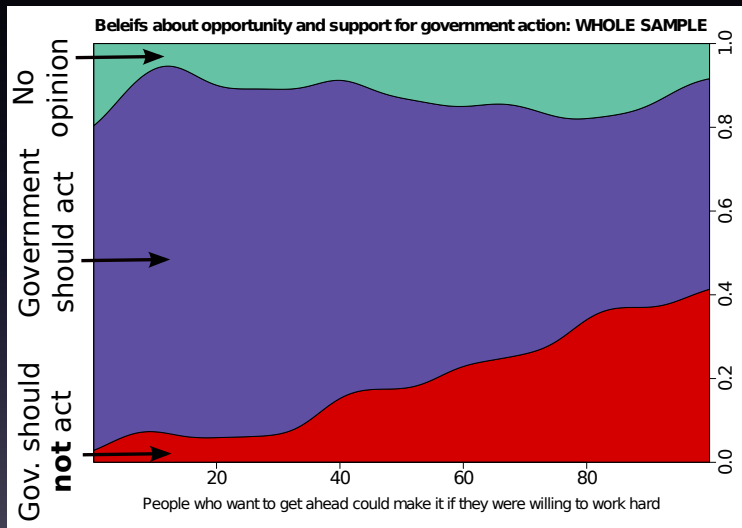
# Economic opportunity (CONTROL GROUP)



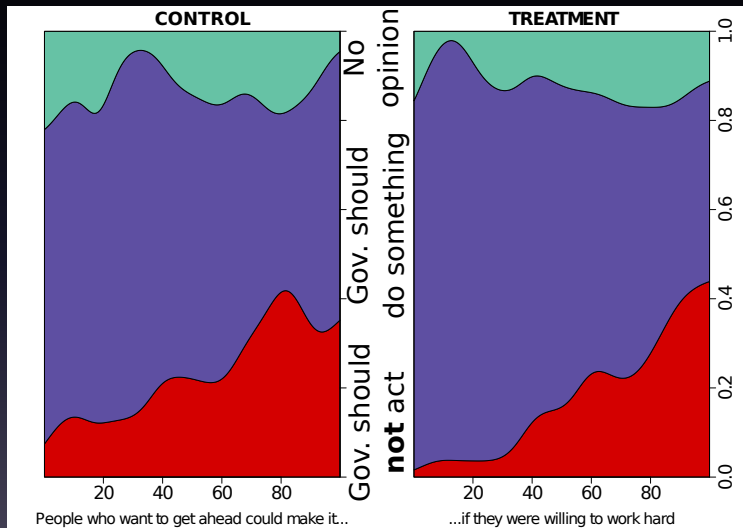
# Impact of information



# Expression of support for public action



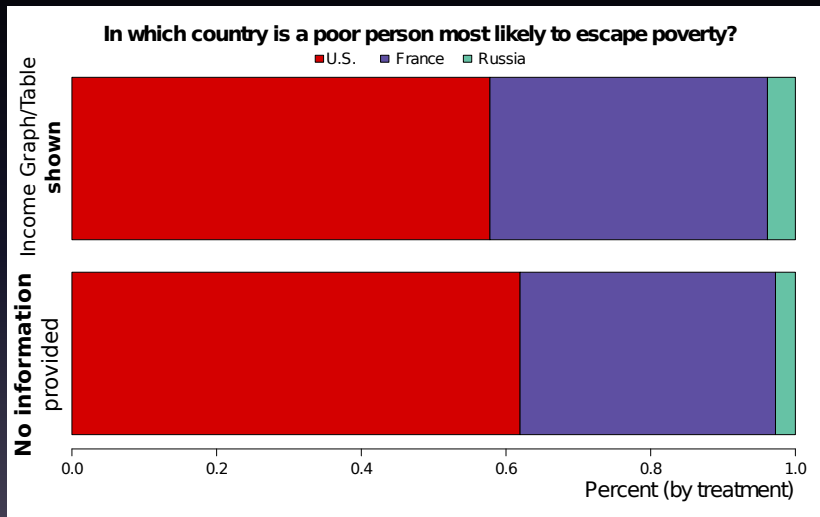
# Expression of support (by treatment)



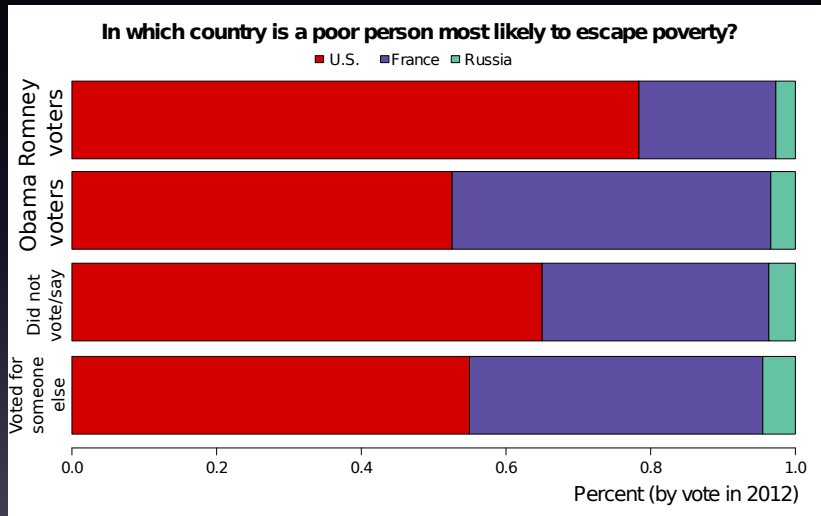
Asking directly about mobility



# Asking directly about mobility



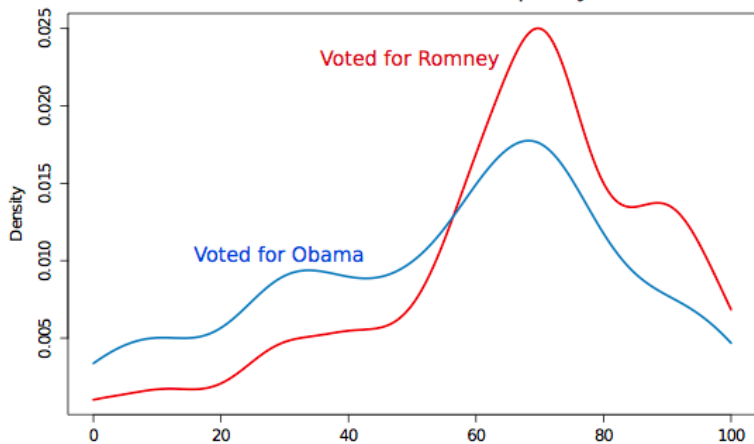
# An ideological split



# Perceived reasons

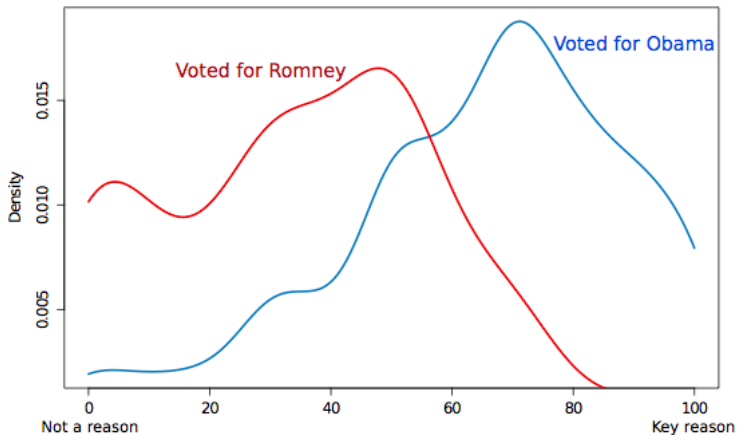
# Perceived reasons

Perceived importance of a **lack of skills** by many people as a cause for income inequality



# Perceived reasons

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



## Beyond income (survey)

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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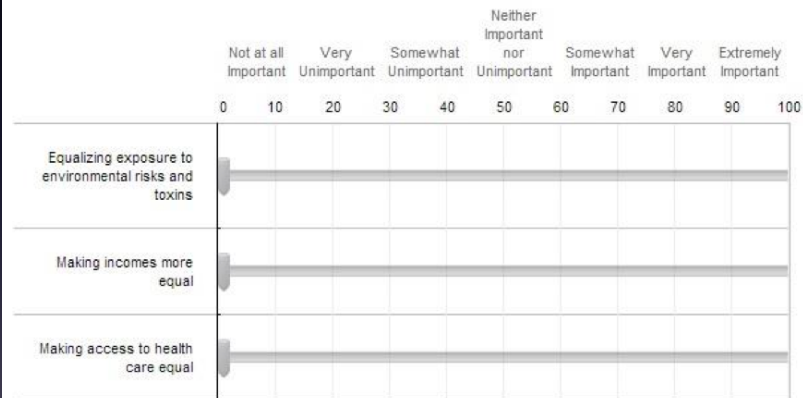
In an ideal society, would you find these goals important?

- 1 Making incomes more equal
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- 3 Equalizing exposure to environmental risks and toxins

The third question makes many people egalitarian

# Questions

In an ideal society, would you find these goals important?





# Health care

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

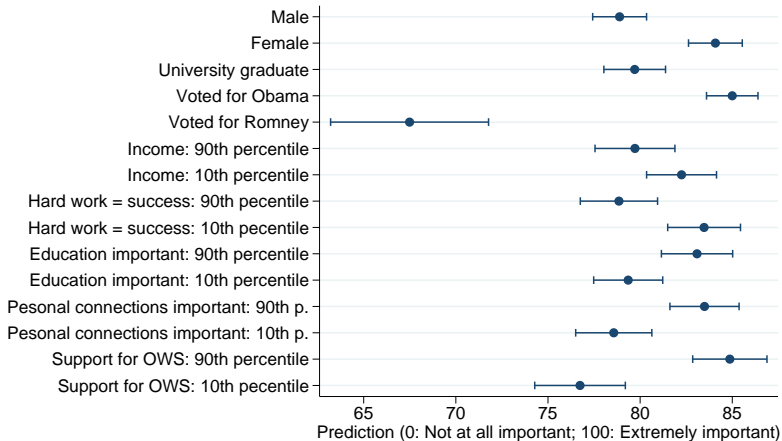
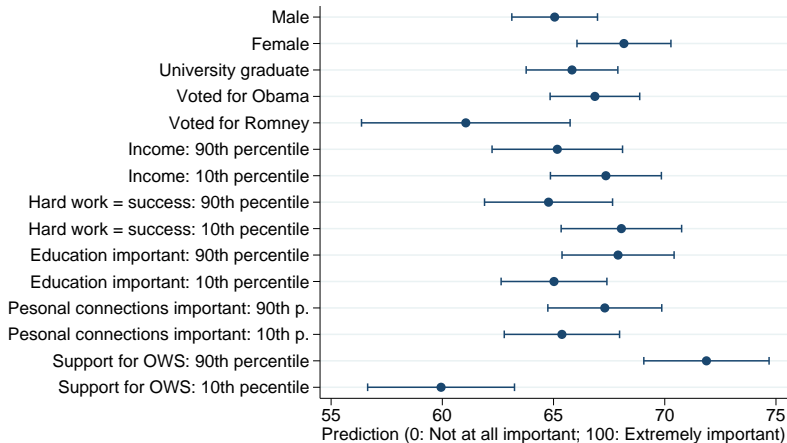


Figure : Predictions from a probit regression

# Toxins

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



# Caveats

- The information I provide may not be credible. . .
- A good citizen is skeptical.
- Beliefs may be inelastic in the long-term?

# Recap

- The income distribution surprises many 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 taxes
- Open questions
  - Spending on a major equalizer (education) has not increased
  - Is information harmful?

## More reactions

- “It’s none of my business nor do I care how much income other people make.”
- “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 don’t really have any negative reaction, as this graph does not show how quality of life has changed for each group.”
- “Hard working and educated people have greater income.”

## Still more

- “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.”
- “It’s not surprising that most people actually don’t make a great deal of money. It not anybody’s fault, though, really.”
- “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.”

## More reactions

- “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.”
- 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

Thank you

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