

# Social Preferences: Empirical Evidence

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# The Mental Models We Use to Think about Redistribution Policy

from *Understanding Tax Policy: How do People Reason?*

- 1. **Perceived efficiency costs:** Impacts on economic activity, on people's behaviors (labor supply, evasion, entrepreneurship, savings etc.). May or may not be in line with reality.
- 2. **Perceived distributional impacts:** Who wins? Who loses?
- 3. **Fairness concerns:** How fair is inequality, are people entitled to keep their income, is income "deserved" (i.e., the result of luck vs. effort?) etc.
- 4. **Views of Government:** Trustworthiness, competence, scope & benevolence.
- 5. **Perceptions of reality:** How things currently are (interplays with the rest).

## Brief Recap of the Theory

Respondent  $j$  will put an implicit or explicit weight on any other agent  $i$ :

$$g_i = g(c_i, T_i, w_i, \mathbb{X}_{-i}, \mathbb{X}_i)$$

where the weight on agent  $i$  is a function of their consumption  $c_i$ , their total tax paid  $T_i$ , their effort  $w_i$ , other personal characteristics captured by vector  $\mathbb{X}_i$  (e.g., age or family status), and possibly the characteristics of others in the economy, captured by  $\mathbb{X}_{-i}$ .

## Respondent $j$ 's preferred top tax rate

$$\tau^{top} = \frac{1 - \bar{g}^{top}/\gamma + a \cdot \pi/z \cdot e_{\pi}}{1 - \bar{g}^{top}/\gamma + a \cdot e}$$

$z(1 - \tau) := \int_{i:z_i \geq \bar{z}} z_i di$ : average income of top bracket taxpayers

$\pi(1 - \tau) := \int_{i:z_i \geq \bar{z}} \pi_i di$ : average rent in the top

$e = \frac{d \log(z)}{d \log(1 - \tau)}$ : elasticity of earnings to the net-of-tax rate;  $e_{\pi} = \frac{d \log(\pi)}{d \log(1 - \tau)}$  the elasticity of the rent.

$a = z/(z - \bar{z})$ : Pareto parameter of the top tail of the distribution.

$\gamma$ : share of revenue that is dissipated instead of being used on productive spending and transfers by the government.

$\bar{g}^{top} = \frac{\int_{i:z_i \leq \bar{z}} z_i g_i}{z \int_i g_i}$ : weight on top earners.

# People Reason very Differently about Tax Policy

## On the left:

**Efficiency:** taxes have small econ. costs.

**Distribution:** Raising taxes to increase revenues helps many; no “trickle down”

**Fairness:** Inequality is mostly unfair; “luck” important for being rich or poor.

**Government:** should have broad scope, more trusted as an institution.

**“Reality”:** taxes are lower & less progressive, inequality is higher

## On the right:

**Efficiency:** taxes have larger econ. costs.

**Distribution:** Raising taxes hurts most; believe in trickle-down.

**Fairness:** Inequality is fair; people rich or poor because of “effort”

**Government:** should have narrow scope, less trusted as an institution.

**“Reality:”** taxes are higher & more progressive, inequality is lower.

# People Care Most about Who Wins and Loses and about “Fairness”

But **fairness is in the eye of the beholder** and perceived winners and losers vary across people.

How can we **model** fairness views in a way that is tractable and allows us to build on existing models (but allowing for more general fairness views?)

**Part 1: Theory**

How can we **empirically** study people’s fairness views and social preferences?

**Part 2: Empirics**, using surveys and experiments.

# Social Economics Surveys and Experiments as a Key Research Tool

Large scale surveys that go in-depth into people's minds and “listen to them.”

Surveys have been used for a long time for statistics. Some variables are now better measured in administrative high-quality data (like income, family situation, employment, etc.)

Yet, some things are invisible in data other than survey data (even great data!): perceptions, attitudes, knowledge, and views.

For the results to be reliable, it is critical that these surveys are well-designed, carefully calibrated, and deployed on appropriate samples.

# Outline for Empirics Part

Factors that shape how fair people perceive redistribution to be and how much they support it, which we will cover in this lecture:

1. Perceptions of social mobility and equality of opportunity
2. Views about immigrants
3. Racial attitudes
4. Perceptions of one's own ranking relative to others

# 1. Social Mobility and Equality of Opportunity

Based on *“Intergenerational Mobility and Preferences for Redistribution”*  
by Alberto Alesina, Stefanie Stantcheva, and Edoardo Teso



## Survey Structure

- **Background** socio-economic questions, own social mobility experience, political experience.
- **Fairness:** Fair system, reasons poor, reasons rich. [▶ Detail](#)
- **Randomized “information”** experiment to shift views on extent of social mobility. [▶ Randomization](#)
- **Perceptions of intergenerational mobility** in own country.
- **Policies:** Overall intervention, overall support for equality of opportunity, income taxes, estate tax, budget.
- **Government:** views on role and capacities of government (order randomized, pre or post info treatment).

## Eliciting Beliefs on Upward Mobility

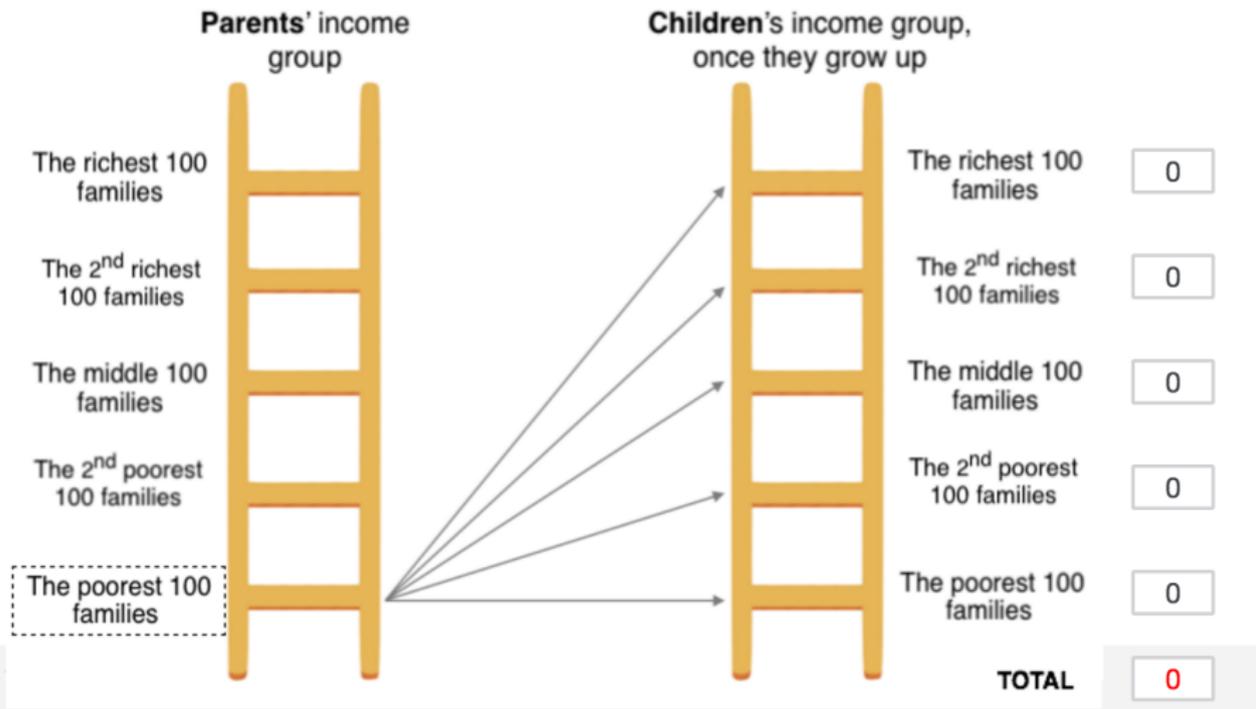
*For the following questions, we focus on 500 families that represent the U.S. population. We divide them into five groups on the basis of their income, with each group containing 100 families. These groups are: the poorest 100 families, the second poorest 100 families, the middle 100 families, the second richest 100 families, and the richest 100 families.*

*In the following questions, we will ask you to evaluate the chances that children born in one of the poorest 100 families, once they grow up, will belong to any of these income groups.*

*Please fill out the entries to the right of the figure below to tell us, in your opinion, how many out of 100 children coming from the poorest 100 families will grow up to be in each income group.*

# Eliciting respondent's beliefs on upward mobility

Here are **500 families** that represent the US population:



# Questions on Policies

**Logic:** Split desired policies into components

- i) overall government involvement and intervention,
- ii) how to share a given tax burden,
- iii) how to allocate a given budget.

**Income taxes** on top 1%, next 9%, next 40%, bottom 50%. [▶ Detail](#)

**Budget allocation** on 1) Defense/ Security, 2) Infrastructure, 3) Education, 4) SS, Medicare, DI, and SSI, 5) Social Insurance and Income Support Programs, 6) Health. [▶ Detail](#)

**Estate tax:** Rate support. [▶ Detail](#)

**Support for equality of opportunity policies:** subject to other policies being reduced (qualitative, robust, no free lunch). [▶ Detail](#)

# Questions on Role and Capacities of Government

Randomized block (outcomes/ pre-existing characteristics):

Trust in government

Tools of the government

Are unequal opportunities a problem?

Scope of government: to reduce unequal opportunities for children from rich and poor backgrounds, from 1 to 7.

Is lowering or raising taxes better for reducing unequal opportunities? [▶ Detail](#)

## Ensuring reasonable answers

Appeal to people's social responsibility. [▶ Detail](#)

Warn that “careless answers” will be flagged.

Constrain answers to add up to 100. Tabulating answers – few strange patterns. [▶ Detail](#)

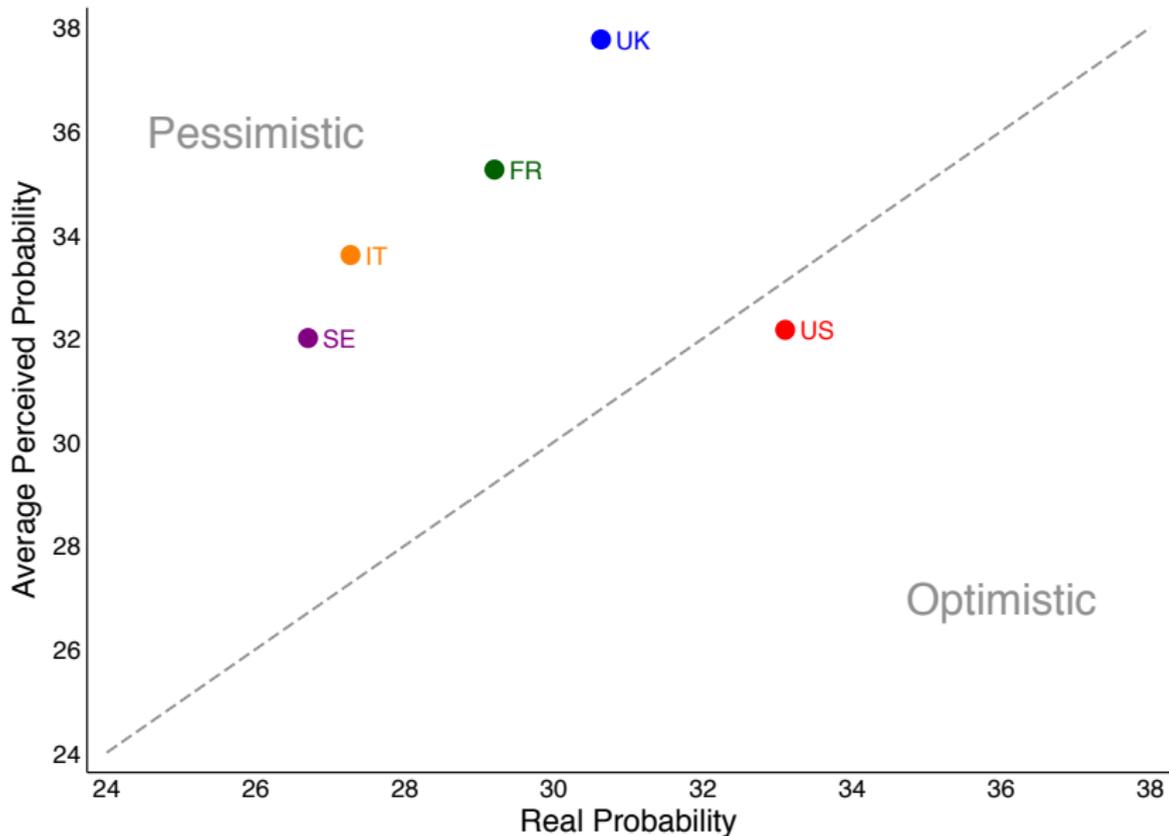
Attention check question (0.88%), Meade and Craig (2012).

Time spent on separate questions' pages and overall survey time.

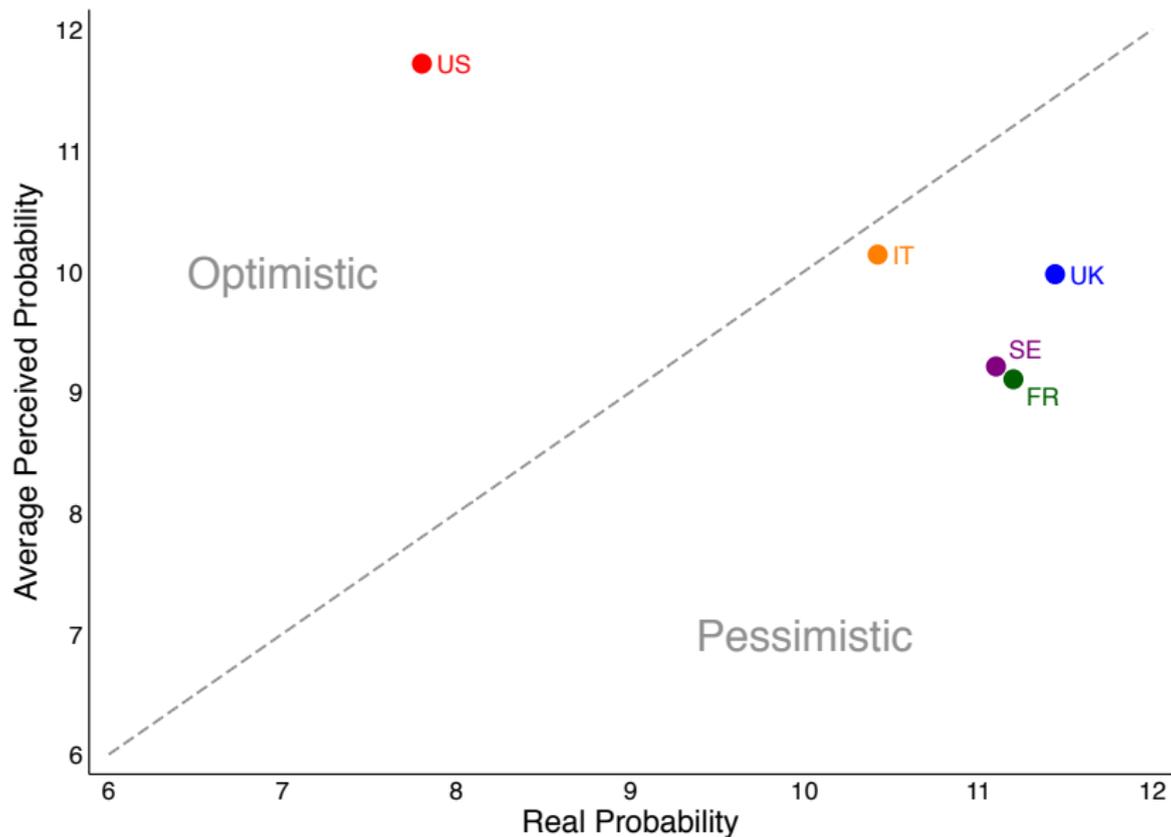
Ask for feedback post survey, whether felt survey was biased (18%).

Asked for questions in different orders (ascending vs. descending) and on different pages.

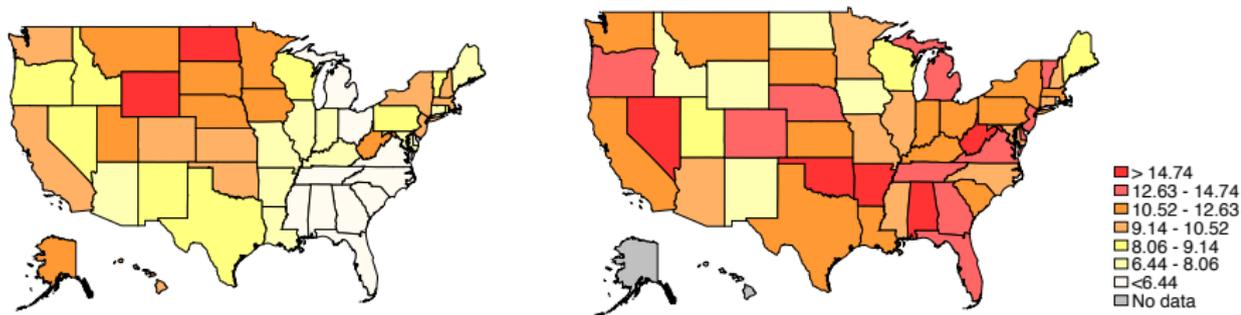
# Probability of Staying in Bottom Quintile (Actual vs. Perceived)



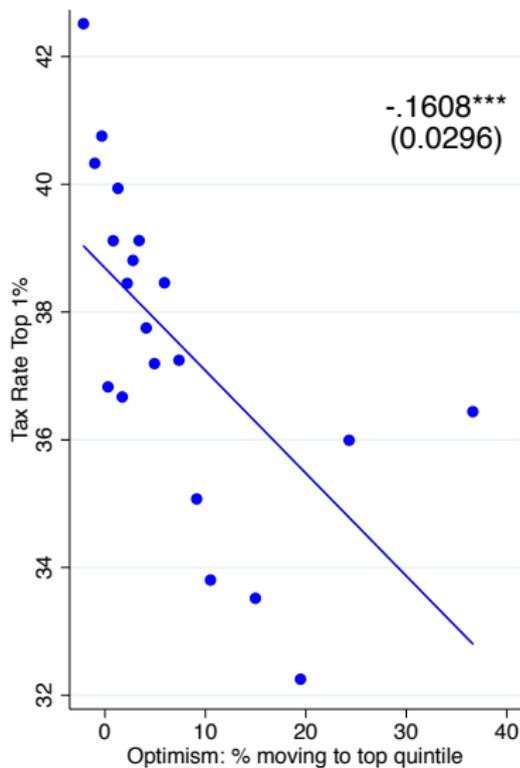
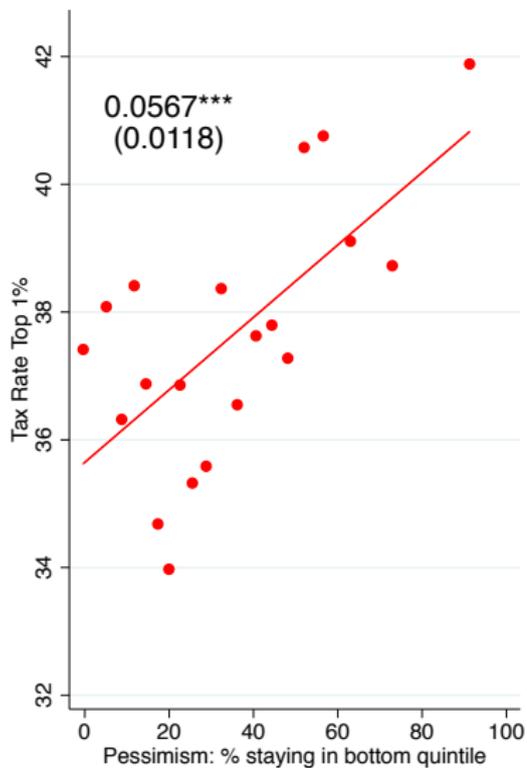
# Probability of Moving to Top Quintile (Actual vs. Perceived)



# Actual and perceived probability of moving from bottom to top quintile



# Pessimism, Optimism, and Top Tax Rate



# Randomized Perception Experiment

**Causal relationship** views on mobility → policy preferences?

Or simply individual characteristics (e.g.: political affiliation).

Cannot exogenously shift actual social mobility → shift perceptions instead.

Our randomized treatment satisfies four criteria:

- 1 Shift perceptions towards more pessimism (Treatment [here](#))
- 2 Homogeneous across countries.
- 3 Does not allude to any policies or to government at all.
- 4 Accurate, not misleading.

# Link Between Perceptions of Mobility and Support for Redistribution

Most people are worried about lack of social mobility and inequality of opportunity.

But, people's favored solution to the problem looks very different on the left vs. right.

Left-wing respondents who are more pessimistic about mobility want more redistribution.

More social insurance, more progressive taxes, and especially more “equality of opportunity” type policies, such as spending on education and health.

Confirmed by an experiment. Showing a randomly selected subsample of people negative information on mobility increases their support for redistribution.

Right-wing respondents view government “as part of the problem, rather than the solution.”

Believe better way to improve equality of opportunity is less government intervention.

## 2. Immigration

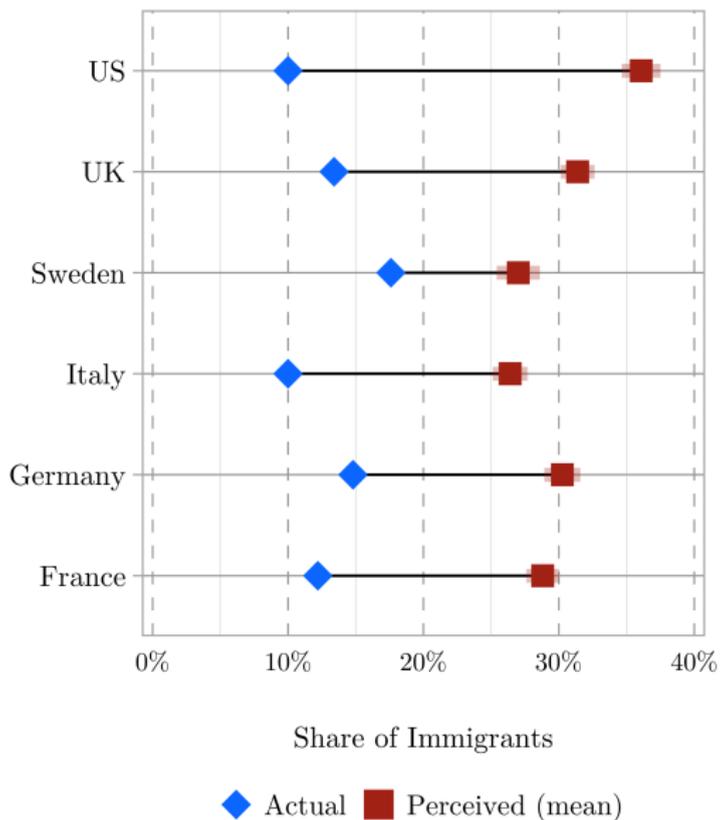
*"Immigration and Redistribution"* by A. Alesina, A. Miano, & S. Stantcheva



55% DES FRANÇAIS OPPOSÉS  
À L'ACCUEIL DES MIGRANTS



# Perceived vs. Actual Number of Immigrants (By Country)



# Misperceptions about Immigrants

Most people within countries have inaccurate perceptions they think that immigrants are

economically weaker, more unemployed, less educated,  
more reliant on government transfers,  
more culturally distant from them.

The misperceptions are largest for those without a college education, those working in lower-paid jobs in sectors that employ many immigrants, and right-wing respondents.

Left and right-wing respondents perceive the same **share** of immigrants, but they think immigrants have **different characteristics**.

# Link between Immigration and Support for Redistribution

We perform an **experiment**: A random half of the sample is asked questions about immigrants *before* they are asked questions on policies for redistribution. Vice-versa for the other half.

The group answering policy questions first has not been prompted to think about immigration at all. The other group has thought about immigration before answering policy questions.

Finding: **Just making people think about immigrants, before asking them questions on policies for redistribution makes them less likely to support redistribution.**

What explains this?

**Key predictors** of whether people will reduce support for redistribution:

- 1) Perception that immigrants are economically weak
- 2) that they “free-ride” on the system and do not work hard.

Not so predictive: perceived cultural distance. Not predictive at all: perceived share of immigrants.

## Hard Facts vs. Narratives

Showing information on the share of immigrants and their origins does not shift people's views on redistribution.

Telling people a story about a “day in the life of a very hard-working immigrant” has positive impacts on support for redistribution. Why? Because it counters the “free-rider” narrative which matters a lot for people's views.

“Hard facts” do not work that well on the issue of immigration, “narratives” have a strong hold.

### 3. Racial Attitudes



Based on *“Perceptions of Racial Gaps,  
their Causes, and Ways to Reduce  
Them”*

Alberto Alesina, Matteo Ferroni,  
and Stefanie Stantcheva

# Attitudes Towards Race and Racial Inequities Shape Support for Redistribution

To study this interaction, we survey non-Hispanic Black and white respondents across the US.

Survey both adults and teenagers aged 13 to 17.

Black respondents are oversampled & represent half of the sample.

We ask respondents about:

their **perceptions of the economic conditions & opportunities** of both Black & white Americans;

their attitudes on racial issues & **views on causes of racial inequities**;

their degree of **support for race-targeted & general redistribution policies**.

# Disagreements on What Causes Racial Inequities

Across race groups and political affiliations, people perceive the economic conditions & opportunities of Black & white Americans differently..

... but by far the biggest disagreements between people lie in their perceived causes of racial inequities

and, consequently, in what should be done to remedy them.

People's support for general redistribution (or race-targeted policies) does not depend on their perceptions of the magnitudes of racial gaps, it depends on **why they think those gaps exist.**

# Large Partisan Gaps in Perceived Causes of Racial Gaps & Redistribution

White respondents are strongly divided by political affiliation: Along many dimensions, white Dem. are more aligned with Black Dem. respondents than with white Rep.

Black & white Democratic respondents:

attribute persistent racial gaps to past slavery, long-standing discrimination, & racism.

support income-targeted redistribution & race-targeted policies.

White Republican respondents:

tend to view racial inequities primarily as the result of lack of effort and individual decisions

less inclined to support redistribution and race-targeted policies to reduce them.

Strikingly, these racial & partisan gaps are already prevalent among teenagers.

Teens' views imply substantial partisan gaps in line with their parents' political affiliation (sometimes even more polarized!)

## Changing Policy Views

**Experiment:** showing people information on gaps in earnings & opportunities between Black & white people does not move policy views.

Explaining some of the causes & consequences of systemic racism does.

Simply showing **how** unequal circumstances & opportunities are does not move people's beliefs on **why** they are unequal, does not change the narrative that respondents believe in.

Yet, the beliefs that matter most are also entrenched and some respondents towards the right of the political spectrum consider the explanations to be “left-wing” biased.

On tiny scale, mirrors the world: although there are clearly large racial gaps along many econ & social dimensions & although many people are (at least to some extent) aware of them, they disagree on their causes and, hence, on the way or even need to resolve them.

And this has important implications for their support for overall redistribution too.

# 4. Position Relative to Others

Based on *“Social Positions and Fairness Views on Inequality”* by Kristoffer B. Hvidberg, Claus T. Kreiner and Stefanie Stantcheva



## Eliciting the Cohort Median Income (P50)

What do you think the income for **P50** was in 2017 for individuals born in 1970?

Remember that P50 is the income, where half have an income that is the same as or lower than this income, and half have an income that is higher than this income.

Remember also that income is before tax for the whole of 2017 and consists of salary, net profit from self-employment, other business income, unemployment benefits, transfers and payments from private and public pensions.

**Note:** Please state your answer in **entire thousand DKKs**. If you enter 1 it corresponds to 1,000 DKK.

thousand DKK

## Eliciting the Median (P50) in Reference Groups

We will now ask you what you think the before tax income for **P50** was in 2017 for the groups below, which you are a part of. The first slider shows your answer from the previous question. You can use the other sliders to select, what you think the income was for P50 for the different groups of **people who were born the same year as you.**

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P50 for people **born in 1970**

400.000

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P50 for **men** born in 1970

20.000

P50 for people who also lived in **Københavns municipality**

20.000

P50 for people who also had the educational level **Master or PhD program**

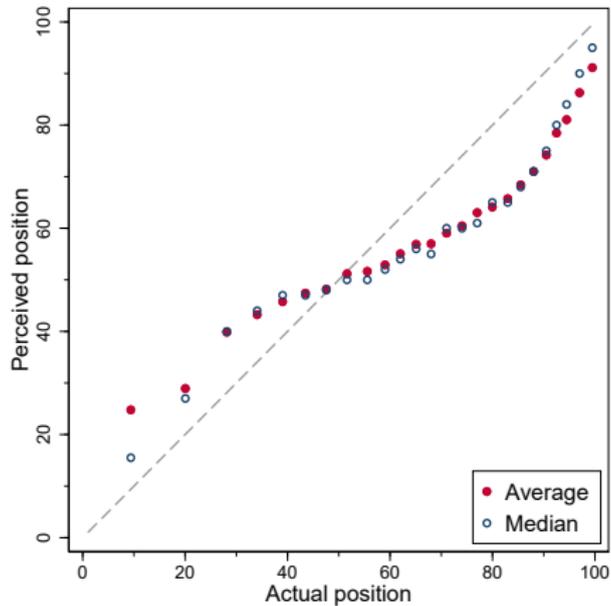
20.000

P50 for people who also worked in the sector **Finance and insurance**

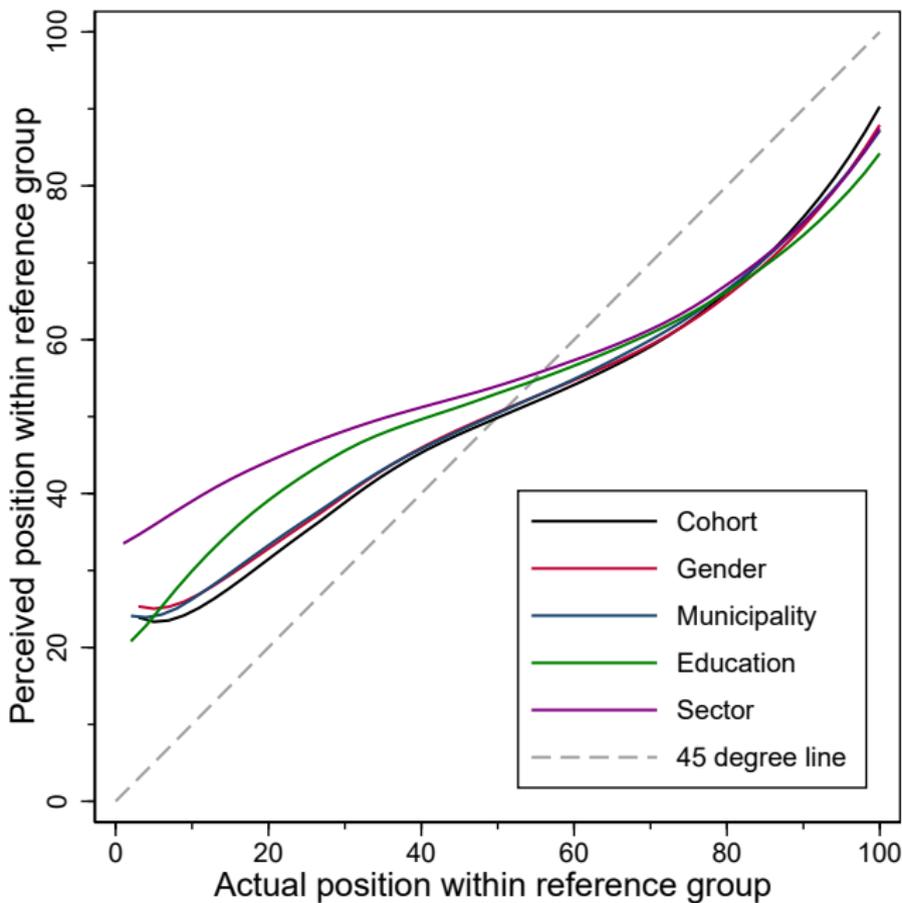
20.000

## Systematic Misperception of Own Position: "Center Bias"

Average / Median Perceptions



# Perceived vs. Actual Social Position in Different Groups



# Which Type of Inequality is Considered to be Most Unfair?

Inequalities between **co-workers (in firm or sector) & people with same education** are considered most unfair ... and are much bigger than people think!

People are more accepting of inequalities conditional on factors considered less relevant for income (municipality, age, gender) than of inequalities conditional on factors that they think are crucial for shaping income (education, sector, firm).

# How Does Social Position Shape Views on Inequality?

People who are ranked higher in each group think that income inequality within that group is fairer.

They also think that income differences in that group are due to differences in effort, rather than in “luck” (different circumstances), believe that their own hard work has paid off, and that high income earners deserve their income.

They are also more likely to vote for right-of-center parties and support less redistribution.

Some of these views are stickier & do not fluctuate with position changes over time (e.g., political views), other views move when your position moves (e.g., perceived fairness of inequality).

## Changes in Position and Fairness Views

What happens to people's views after positive events (promotion at work) and negative events (unemployment, disability, hospitalization)?

A negative event make people think inequality is less fair.

A positive event makes them think inequality is fairer.

# Information Treatment

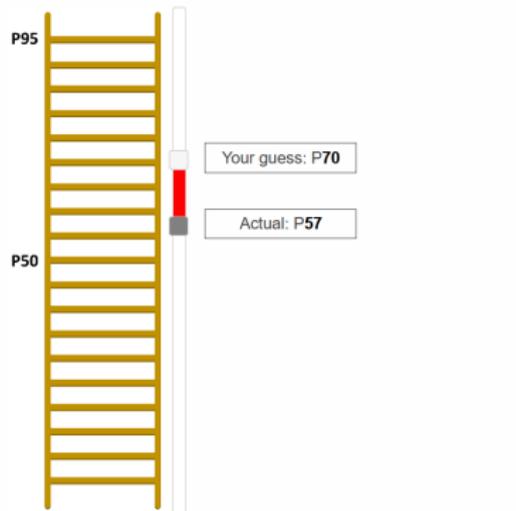
## Positive Misperception

**Rank among all people born in 1970**

You GUESSED that you were on position **P70**.

Based on the income you reported, your TRUE position is **P57**.

You are actually 13 positions lower on the ladder than you thought.



**If interested in these methods and issues..**

Social Economics Lab (<http://socialeconomicslab.org/>)

And lots of references in each of these papers.