Perceptions of Inequality Using Social Economics Surveys

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This talk: Perceptions – not only reality – are key in shaping people’s views on policies. Social Economics Survey Labs help get into people’s minds and understand perceptions, beliefs, attitudes.

1. A new tool for research: Why use “Social Economics Surveys”?

2. Belief in the American Dream shapes views on redistribution


4. Worse news about inequality decreases trust in government, does not increase demand for redistribution.

5. Misunderstanding of and views on tax policy.
A New Tool for Research: Why Use Social Economics Surveys?

Some things are invisible in other datasets, no matter how high quality.

Surveys were used before for things we can now better see in admin data.

Perceptions, attitudes, reasoning underlying econ behavior & outcomes.

High-quality surveys are key. Large sample, representative or targeted.

There are “surveys” .. and then there are “surveys.” Design interactive, animated, intuitive questions and treatments.

Experimental components. Can control info and frame provided.

Combined with natural experiments.
Belief in the “American Dream” Shapes Views on Redistribution
MORE SOCIAL MOBILITY & EQUAL OPPORTUNITY ⇒ LESS NEED FOR REDISTRIBUTION & MORE UNEQUAL OUTCOMES ARE FAIR
MORE PERCEIVED SOCIAL MOBILITY & EQUAL OPPORTUNITY ⇒ LESS NEED FOR REDISTRIBUTION & MORE UNEQUAL OUTCOMES ARE FAIR
Eliciting respondent’s beliefs on upward mobility

Here are 500 families that represent the US population:

Parents’ income group

- The richest 100 families
- The 2nd richest 100 families
- The middle 100 families
- The 2nd poorest 100 families
- The poorest 100 families

Children’s income group, once they grow up

- The richest 100 families
- The 2nd richest 100 families
- The middle 100 families
- The 2nd poorest 100 families
- The poorest 100 families

TOTAL 0

0 0 0 0 0
Pessimism, Optimism, and Top Tax Rate

Pessimism: % staying in bottom quintile

Optimism: % moving to top quintile

Taxes Spending
Pessimism, Optimism, and Bottom Tax Rate

\[-0.0352^{***} (0.0067)\]

Tax Rate Bottom 50%

Pessimism: % staying in bottom quintile

\[0.1397^{***} (0.0167)\]

Optimism: % moving to top quintile

- Graph shows the relationship between pessimism, optimism, and bottom tax rate.

- The negative coefficient suggests a decrease in pessimism with an increase in the bottom tax rate.

- The positive coefficient indicates an increase in optimism with an increase in the bottom tax rate.
Probability of Staying in Bottom Quintile (Actual vs. Perceived)

<table>
<thead>
<tr>
<th>Country</th>
<th>Optimistic</th>
<th>Pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>UK</td>
<td>26</td>
<td>1</td>
</tr>
<tr>
<td>FR</td>
<td>28</td>
<td>2</td>
</tr>
<tr>
<td>IT</td>
<td>30</td>
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<tr>
<td>SE</td>
<td>36</td>
<td>3</td>
</tr>
<tr>
<td>FR</td>
<td>38</td>
<td>3</td>
</tr>
</tbody>
</table>

Average Perceived Probability:

- US: 24
- UK: 26
- FR: 28
- IT: 30
- SE: 32
- US: 34
- SE: 36
- FR: 38

Real Probability:

- US: 19
- UK: 1
- FR: 2
- IT: 3
- SE: 3
- US: 3
- SE: 3
- FR: 3
Probability of Moving to Top Quintile (Actual vs. Perceived)

US
UK
FR
IT
SE

Pessimistic
Optimistic

Average Perceived Probability
Real Probability

20 1
Actual probability of moving from bottom to top quintile

<table>
<thead>
<tr>
<th>Probability Range</th>
<th>Color</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 14.74</td>
<td>Red</td>
</tr>
<tr>
<td>12.63 - 14.74</td>
<td>Red</td>
</tr>
<tr>
<td>10.52 - 12.63</td>
<td>Red</td>
</tr>
<tr>
<td>9.14 - 10.52</td>
<td>Orange</td>
</tr>
<tr>
<td>8.06 - 9.14</td>
<td>Orange</td>
</tr>
<tr>
<td>6.44 - 8.06</td>
<td>Orange</td>
</tr>
<tr>
<td>&lt; 6.44</td>
<td>Light</td>
</tr>
</tbody>
</table>

- Red: > 14.74
- Orange: 6.44 - 8.06
- Light: < 6.44
Perceived probability of moving from bottom to top

Average Perceived Probability

- > 14.74
- 12.63 - 14.74
- 10.52 - 12.63
- 9.14 - 10.52
- 8.06 - 9.14
- 6.44 - 8.06
- <6.44
- No data

Map showing the perceived probability of moving from bottom to top across the United States, with color coding for different probability ranges.
Actual and perceived probability of moving from bottom to top quintile
What are local perceptions correlated with, controlling for individual-level characteristics?

National
Who Benefits from Redistribution? Wrong Views about Immigrants
Generosity travels less well across national, religious, ethnic lines

Simply making people think about immigrants before asking questions on preferred progressivity and redistribution reduces support for redistribution.

Including private donations to charity.

But perceptions about immigrants are very wrong.
Perceived Share of Immigrants

Figure 6: Perceived vs. Actual Share of Immigrants

Notes: The left panel shows the average perceived share of immigrants (red squares) and the actual share (blue diamonds) in each country. The right panel shows the average misperception (perceived minus actual share) of the share of immigrants by groups. Groups are defined by the indicator variables listed to the left: the mean misperception when the indicator is equal to 1 is represented by the orange or red diamonds. The shaded areas are 95% confidence intervals around the mean.
Perceived Share of Muslim Immigrants

(a) Perceived vs. Actual Share of Muslim Immigrants
(b) Perceived vs. Actual Share of Christian Immigrants

Notes:
Panel A shows the perceived and actual share of Muslim immigrants; panel B shows the perceived and actual share of Christian immigrants. See the notes for Figure 6.
Does Mohammad Get More Transfers & Pay Less Taxes than John?

Share of Respondents

Share of Respondents
Worse News about Inequality: Less Trust in Government, Not More Demand for Redistribution
Where are you in the income distribution?

Please enter your annual household income* in the box below:

$ 25000

39% of US households earn less than your household

We now encourage you to move the blue slider above (by clicking on the line) to explore the US income distribution on your own and to answer the questions below.

79% of households earn less than $73,000.

https://hbs.qualtrics.com/SE/?SID=SV_77fSvTy12ZSBihn
Where would you have been in the income distribution?

Income Inequality has increased dramatically in the United States since 1980. Incomes of poorer and middle-income families have grown very little while top incomes have grown a lot.

How would YOU be doing if inequality had not increased?

The slider below shows how much each group would make if incomes had grown by the same percentage since 1980 for all groups: the poor, the middle class, and the rich. Use the slider to answer the questions below.

A household making $25,800 today would instead be making $35,200 if inequality had not changed since 1980. In other words, if growth had been evenly shared, this household would have earned 37% more.

https://hbs.qualtrics.com/SE/?SID=SV_77fSvTy12ZSBihn
Misunderstanding of and Views on Tax Policy
Everyone Thinks Top Tax Bracket Kicks In at Much Lower Income Levels

Income threshold
top tax rate

Perception
Reality

Annual income

173,872
600,000
No One Knows How High Top Tax Rates Were in the 1950s

![Bar chart showing top federal income tax rates]

- Perception: 31.55% in 1950s, 29.44% today
- Reality: 91.00% in 1950s, 37.00% today
Overestimate Share of Entrepreneurs, Scientists, Entertainers in Top 1%. Underestimate Managers and Executives.
What Should Be the Goal of a Good Income Tax System?
What are Key Considerations about Income Tax?

- Distribution
- Fairness
- Gov. Spending
- Social Safety
- Efficiency
  - Flat Tax
  - Loopholes
  - Public Goods
  - Don't Know

**Clinton Liberal** | **Clinton Moderate** | **Trump Moderate** | **Trump Conservative**
The Estate Tax: Unpopular and Misunderstood

People think 364 out of 1000 households pay estate tax.

Exemption threshold believed to be $4.6 million

Do parts of tax reforms go unnoticed when packaged with others?

Just informing people about who pays estate tax leads to much more support for it.

What are the main perceived shortcomings of the estate tax?
What are Key Considerations about Estate Tax?

- Distribution
- Fairness
- Gov. Spending
- Efficiency
- Loopholes
- Double Tax
- Grieve
- Public Goods
- Don't Know

Legend:
- Clinton Liberal
- Clinton Moderate
- Trump Moderate
- Trump Conservative