

EXTENDED ABSTRACT:

Perceptions of Income and Wealth Inequality and Fiscal Policy
Preferences *

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December 15, 2023

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In many Western countries, inequality plays an important role in policy debates and voter preferences. In line with this, a growing literature has investigated the public's perceptions of inequality, the accuracy of such perceptions compared to actual inequality levels, and the relation to preferences for redistribution and fiscal policy (Cruces et al., 2013; Kuziemko et al., 2015; Hvidberg et al., 2020; Fehr et al., 2022). So far, this literature focuses exclusively on perceptions of *income* inequality. At the same time, there has been a recent surge in interest in *wealth* inequality, driven by an improvement in methodology of wealth measurement and administrative records, and resulting in salient political discussions on whether and how to tax wealth, both in politics and in academia (Piketty, 2014; Mankiw, 2015).

This raises the question whether the public views income and wealth inequality differently, and how such perceptions of inequalities affect policy views. There is reason to think that there are important differences across the two domains. First, in virtually all countries, wealth inequality is much larger than income inequality. Whereas research suggests that people have fairly accurate beliefs about the overall level of income inequality (Hvidberg et al., 2020), there is some evidence that they underestimate the overall level of wealth inequality (Norton and Ariely, 2011). Second, while income may be seen as the (deserved) reward of effort, wealth derives also from other, unmerited sources like inheritance. As a result, people may be more accepting of income inequality compared to wealth inequality, which may shapes preferences for policies of wealth taxation, which are at the center of current political debates.

*We are thankful for the financial support for this project provided by ODISSEI (Open Data Infrastructure for Social Science and Economic Innovations). The main analysis of the paper was committed to the Open Science F (OSF) on 05.10.2023.

This study is the first to explicitly contrast perceptions of income and wealth inequality, and to consider how both income and wealth shape preferences for redistribution and meritocratic beliefs. Our aim is to improve our understanding of citizens’ perception of inequalities in two specific ways: i) by documenting whether citizens hold accurate beliefs about wealth and income inequality (including their own relative position), and ii) by causally identifying the impact of these variables on citizens’ inequality acceptance and preferences for redistribution. To achieve the latter, we rely on both experimental and quasi-experimental variations—providing causal evidence with high relevance for public policy.

We run a large between-subject survey experiment ran by online Longitudinal Internet studies for the Social Sciences panel (LISS). The study is run on a representative sample of the Dutch population ($N = 4500$), and experimental data is linked to registry data provided by the Centraal Bureau voor de Statistiek (CBS), providing high-quality background information on the *actual* wealth and income of participants. Combining the two data sources allows us to study how people’s perceptions align with actual levels of inequality, and their own position within the income and wealth distribution. Focusing on the potential differences between wealth and income inequality, the duality of the Dutch economy makes for ideal conditions to address our research questions. The Netherlands is a country with a high degree of income equality but also of great wealth inequality. Whereas the top 10% of the wealthiest individuals own a staggering 62% of the total wealth—which is the highest share of all the OECD countries after the U.S. (OECD, 2018)—the top 10% of the highest earners only earn 26% of the total income in the Netherlands.

Our survey experiment is divided into two parts. The first part of the survey documents any discrepancies between people’s perceptions of inequalities and the actual degree of inequality in the Netherlands. To identify how these perceptions in turn affect people’s meritocratic beliefs and preferences for redistribution, we use a between-subject design randomizing participants into different information treatments. The information treatments vary with respect to whether participants are asked and receive information about the actual level of income inequality, wealth inequality, both income *and* wealth inequality, or no information. The treatment variation is implemented by a combination of informative videos and interactive questions and the measure of inequality used is the share of the total income/wealth owned by the top 10% highest earners/wealthiest.

Secondly, our survey experiment serves to document whether people correctly perceive their own situation in the income and wealth distributions. The second part of the survey is designed to understand how these (mis)perceptions causally affect people’s attitude towards inequalities, meritocratic beliefs, and their preferences for redistributive policies. In order to causally identify these effects, we exploit experimental variations in people’s beliefs obtained from randomized information provision in the LISS panel about people’s actual position in the income and wealth distribution, and actual wealth and/or income inequality.

While the literature emphasizes the different implications of income and wealth inequality, our findings suggests that people do not tend to differentiate between the two, neither in terms of actual perceptions nor in the effect they in turn have on preferences for redistribution. Figure 1 shows the distributions of people’s perceived level of income inequality and wealth inequality. Although people,

on average, tend to perceive the Netherlands more equal in terms of income than in terms of wealth, the two distributions are largely overlapping. We also observe that while a large majority of people overestimate the actual level of income inequality (actual share being 26), most people underestimate the level of wealth inequality (actual share being 62).

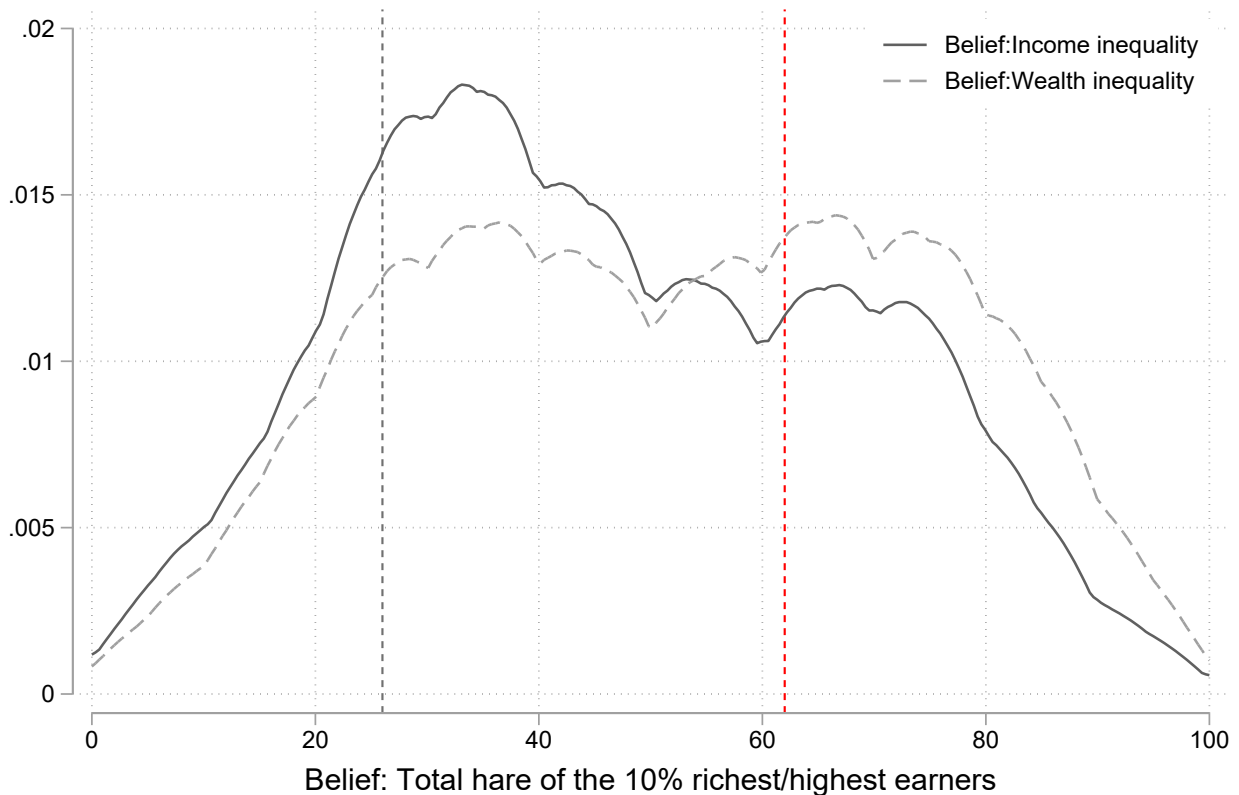


Figure 1: Perceived income inequality and wealth inequality

Note: The figure shows the distributions of perceived income inequality and perceived wealth inequality, separately. The measure of inequality used is the share (0–100) of the total income/wealth owned by the top 10% highest earners/richest individuals in the Netherlands. The black vertical line marks the actual level of income inequality, and the red vertical line refers to the actual level of wealth inequality (excluding pensions).

The fact that people tend to overestimate income inequality, but underestimate the level of wealth inequality has important implications for the effects of our information treatments. Correcting participants' perceptions of income inequality causes a reduction in how unfair they perceive the economic inequalities to be and a reduction in their preferred level of tax progressivity. For the wealth treatment, when the definition of wealth excludes pension, our information treatment causes a participants to find economic inequality more unfair.

Once again, our findings underscore the prevailing tendency among individuals to blur the distinction between income and wealth. As a manipulation check, we elicit subjective beliefs about how unequal they

perceive Netherlands to be, both in terms of income and in terms of wealth. Although our information treatments have the expected effects, we also find that receiving information about income/wealth inequality also causes perceptions of wealth/income inequality. E.g., receiving information about the actual level of wealth inequality causes people to find the Netherlands more unequal in terms of wealth, but also more unequal in terms of income. Interestingly, we also find that receiving information on both income and wealth inequality does not cause any significant change in the perceptions of income nor wealth inequality. This finding suggests that learning that the Netherlands is more unequal in terms of income and less unequal in terms of wealth, the effects averages out, as if people update based on the relative inequality.

Consistent with previous literature (e.g., [Hvidberg et al., 2020](#)), we find that also the Dutch population tend to underestimate their own position in the income distribution. The same is true for their (mis)perceptions of their relative wealth. Comparing the distributions of misperceptions regarding relative income and relative wealth, a substantial level of overlap becomes evident. Although people seem slightly better informed about their relative income than their relative wealth, the extent of the overlap remains surprising. For both perceptions of relative income and wealth, we observe a clear 'center-bias', meaning that people tend to think their income and wealth is more representative of that of the 50th percentile than it actually is. Strikingly, the average perceived rank of even the lowest income/wealth percentiles is 40.

Correcting people's misperceptions of their own relative income and/or wealth has no effect on their perceptions of how meritocratic economic success is, nor their preferences for redistribution. Consistent with many information provision experiments ([Haaland et al., 2023](#)), we find that our treatments significantly affects people's beliefs, i.e., people who learn that they are richer than they thought now place themselves higher in the distribution, but that these changes in beliefs do not translate to changes in preferences or behavior.

The public economics literature makes a prominent distinction between wealth and income inequality. However, our findings suggest that people do not differentiate between the two in their perceptions. As a result, people underestimate wealth inequality, and overestimate income inequality. When informed about these differences, subjects update their assessments of the fairness of economic outcomes. These findings are important on the policy debate on inequality. It suggest that economists and politicians should do more to explain and highlight these differences, and that the way they communicate about inequality (i.e. about wealth or income) will matter for the perceptions and policy preferences of the general public.

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