

They didn't know that

Showing inequality data in a randomized on-line
experiment

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Symposia

The Top 1 Percent

Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty, and Emmanuel Saez,

“The Top 1 Percent in International and Historical Perspective”

N. Gregory Mankiw, “Defending the One Percent”

Steven N. Kaplan and Joshua Rauh, “It’s the Market:

The Broad-Based Rise in the Return to Top Talent”

Josh Bivens and Lawrence Mishel, “The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes”

Miles Corak, “Income Inequality, Equality of Opportunity, and Intergenerational Mobility”

Adam Bonica, Nolan McCarty, Keith T. Poole, and Howard Rosenthal,

“Why Hasn’t Democracy Slowed Rising Inequality?”

The claim is...

Lack of information drives policy preferences:

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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)

But...

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 - Info not sought?
 - Info not processed?

But...

- If so many can gain from transfers, what is going on?
 - Info not sought?
 - Info not processed?
- Common approach: allow for heterogeneous priors
- Taking models to the data:
 - Measurement is very hard
 - Even a “perfect” survey question not immune to all biases

Division of labor

- Pollsters and political scientists
 - What do American citizens know about:
 - Spending categories of the budget
 - The deficit
 - Willingness to cut specific expenditures

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 - What do American citizens know about:
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 - Willingness to cut specific expenditures
 - Goal here:
 - Try to understand how voters process information
 - Not to predict voting but to **study what models people hold**
 - What do they believe about:
 - The economy
 - The link between work/effort and reward in particular
 - The desirability of public action against inequality

Possible tests of the information hypothesis

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 preferences¹
- Inquire whether subjects believe that taxes are harmful

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

¹Also ask about perceived mobility (framed as opportunities available to the poor).

Design

Subject takes a "survey"

1/3

2/3

Control group
(No information)

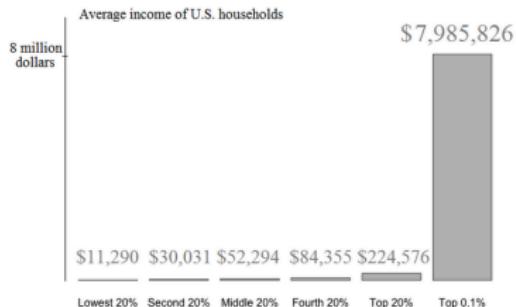
Information treatment

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



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

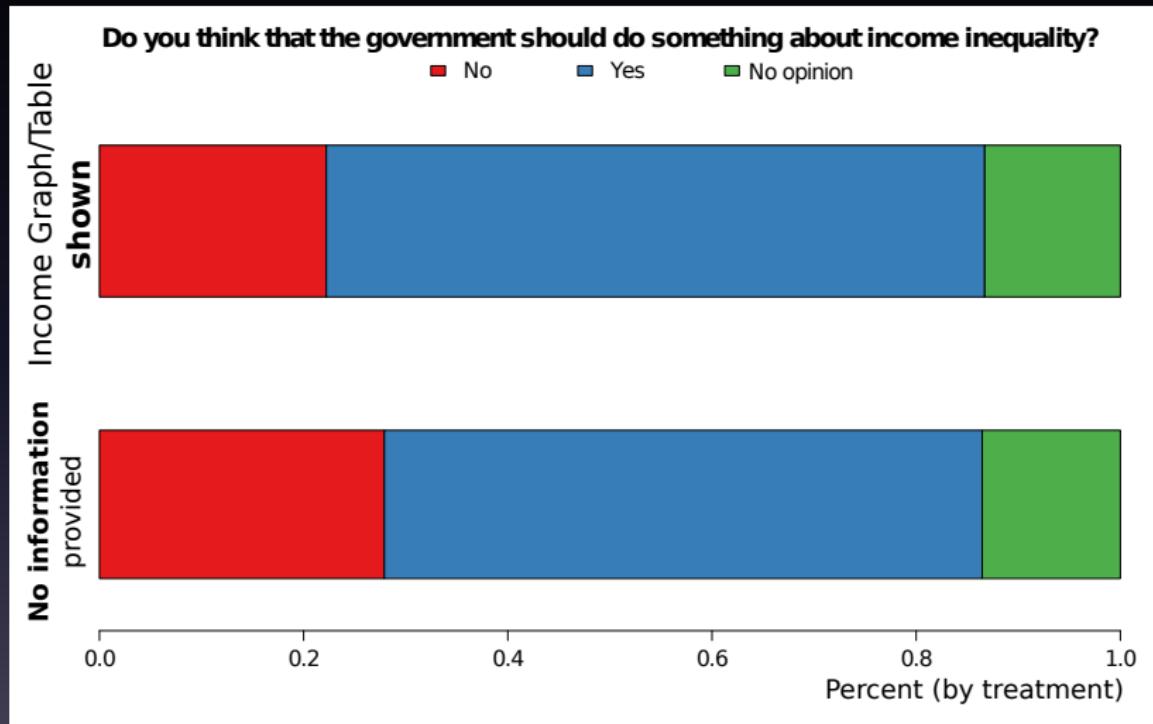
²Social desirability bias almost guaranteed – focus on differences across treatments.

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
- First question: “*Do you think that the government should do something about income inequality?*”²

²Social desirability bias almost guaranteed – focus on differences across treatments.

Doing something

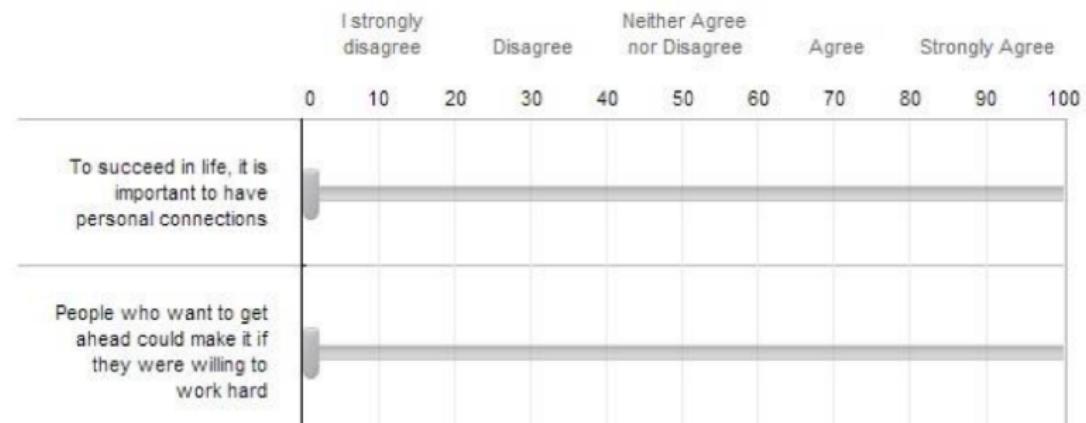


Beliefs about fairness and mobility

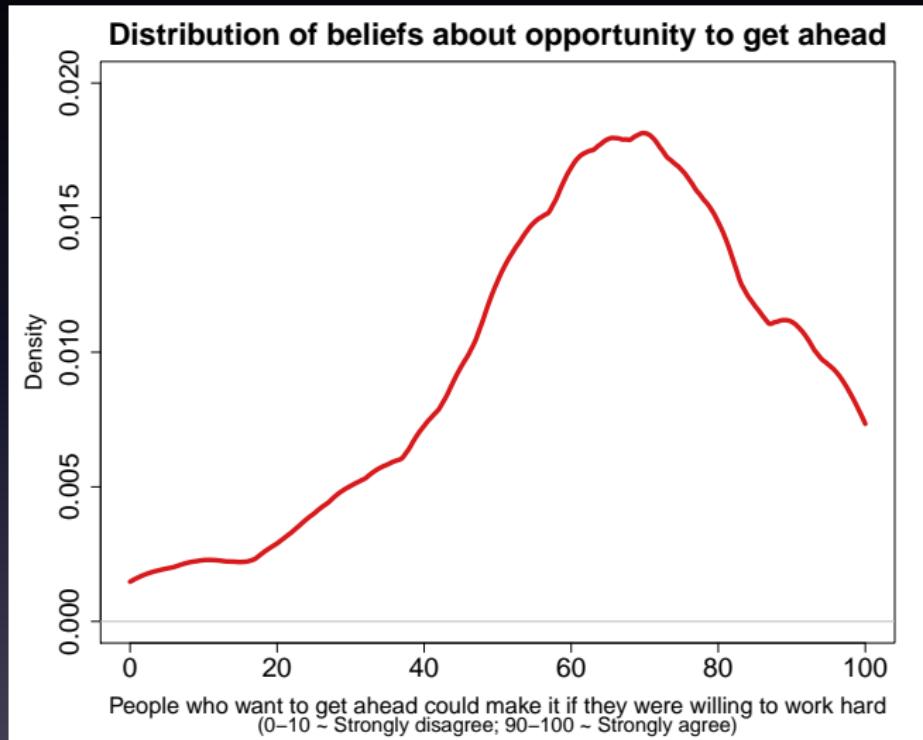
- “People who want to get ahead could make it if they were willing to work hard”
- “To succeed in life, it is important to have personal connections”
- Information exposure: less optimistic perspective/beliefs

The questions

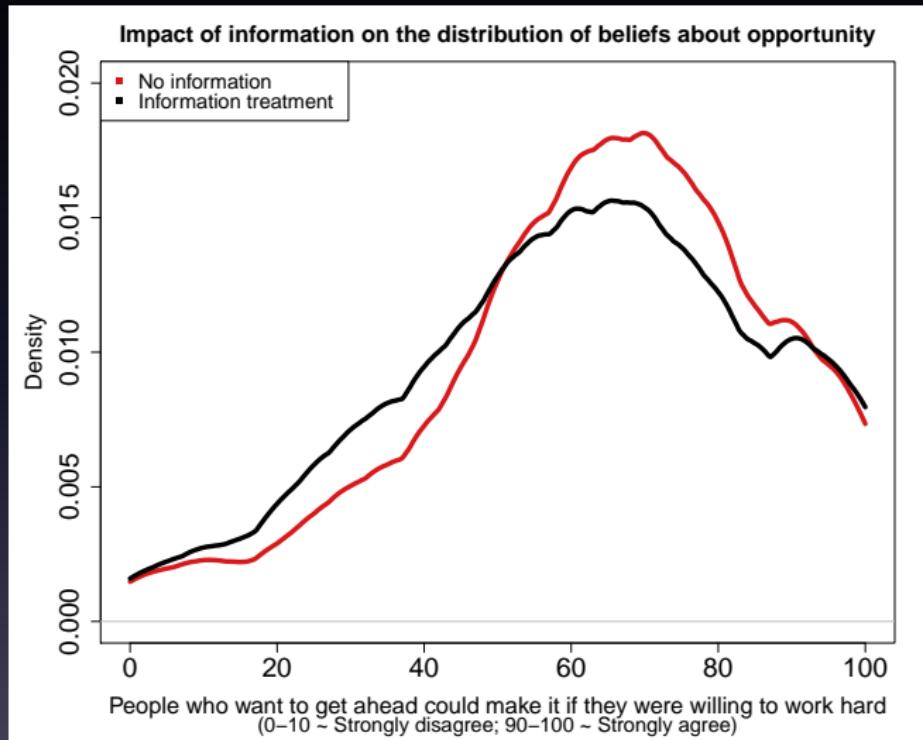
Please tell us your opinion:



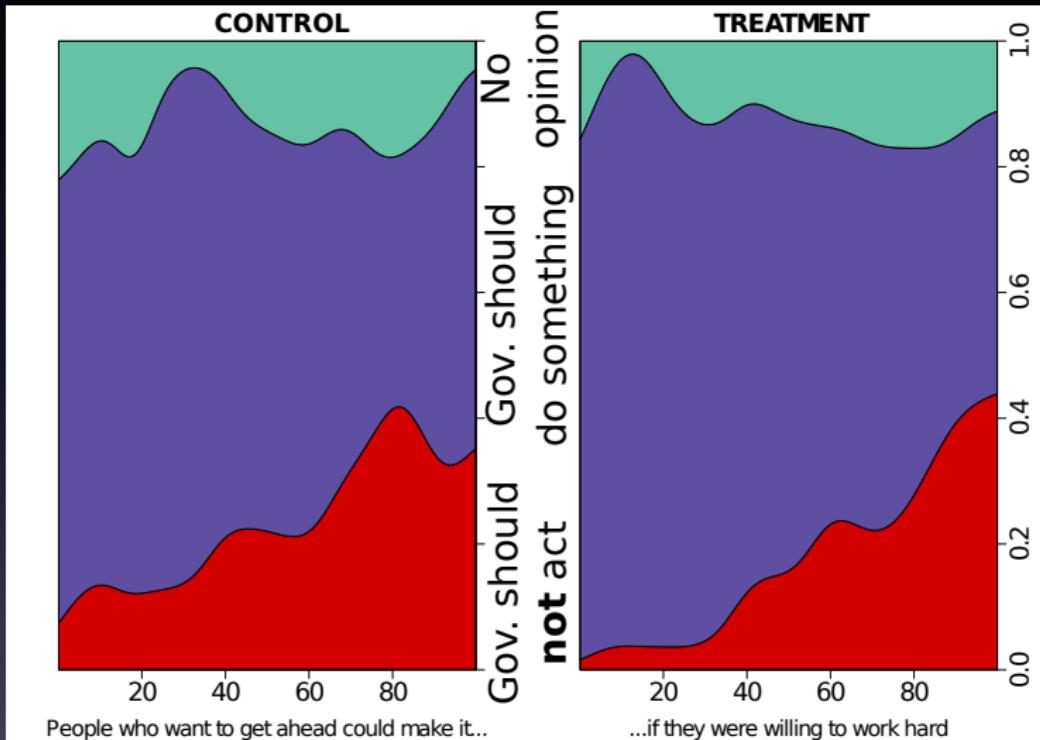
Economic opportunity (CONTROL GROUP)



Impact of information

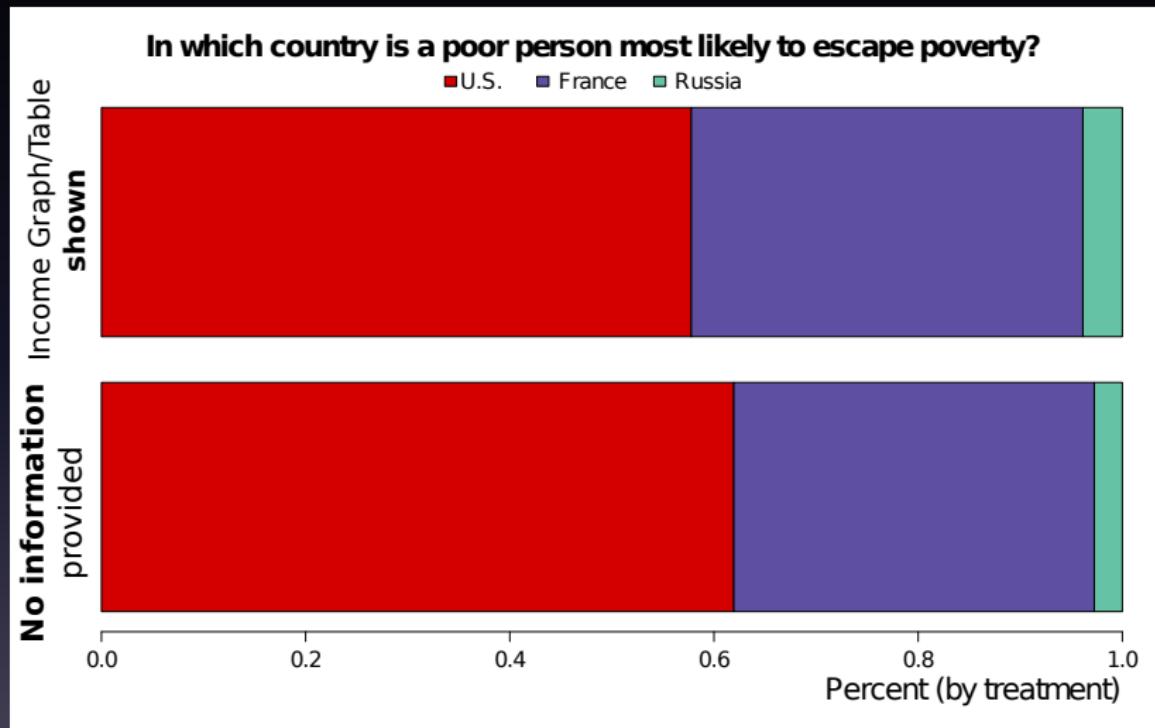


Expression of support (by treatment)

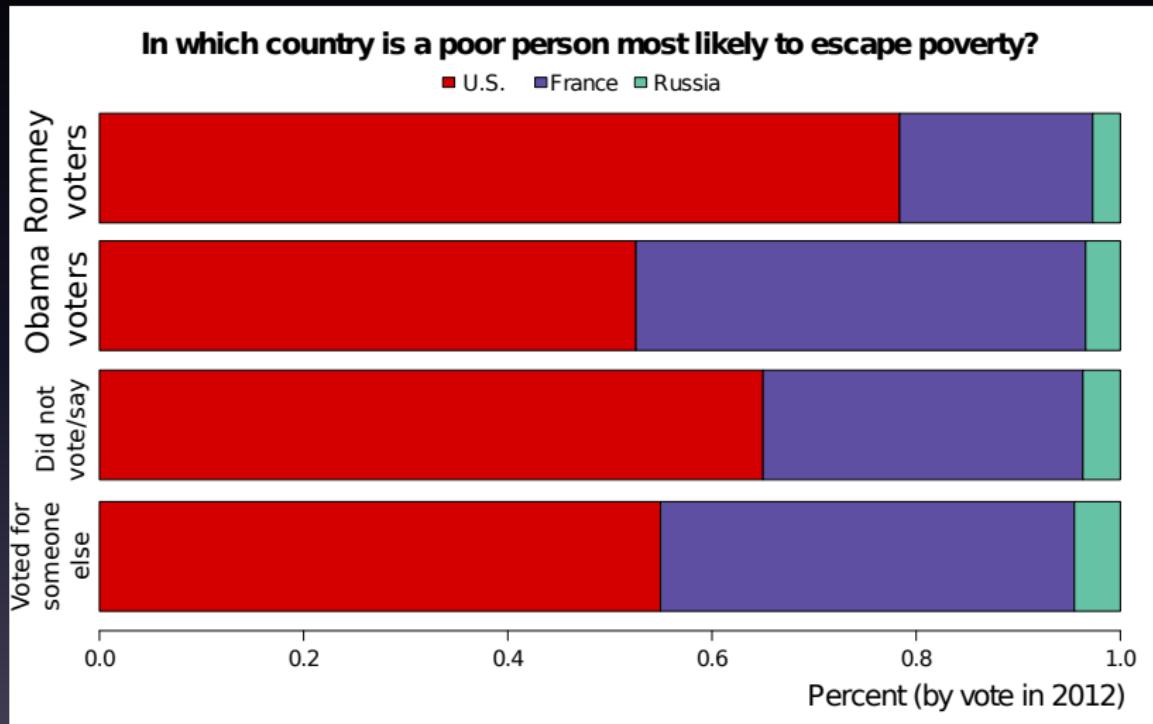


Asking directly about mobility

Asking directly about mobility



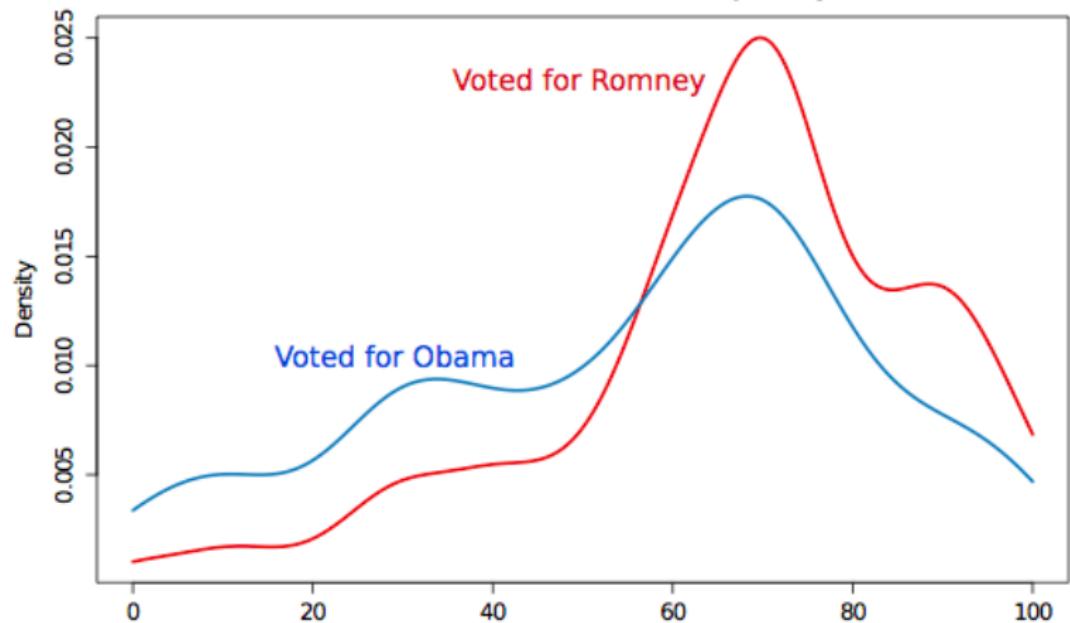
An ideological split



Perceived reasons

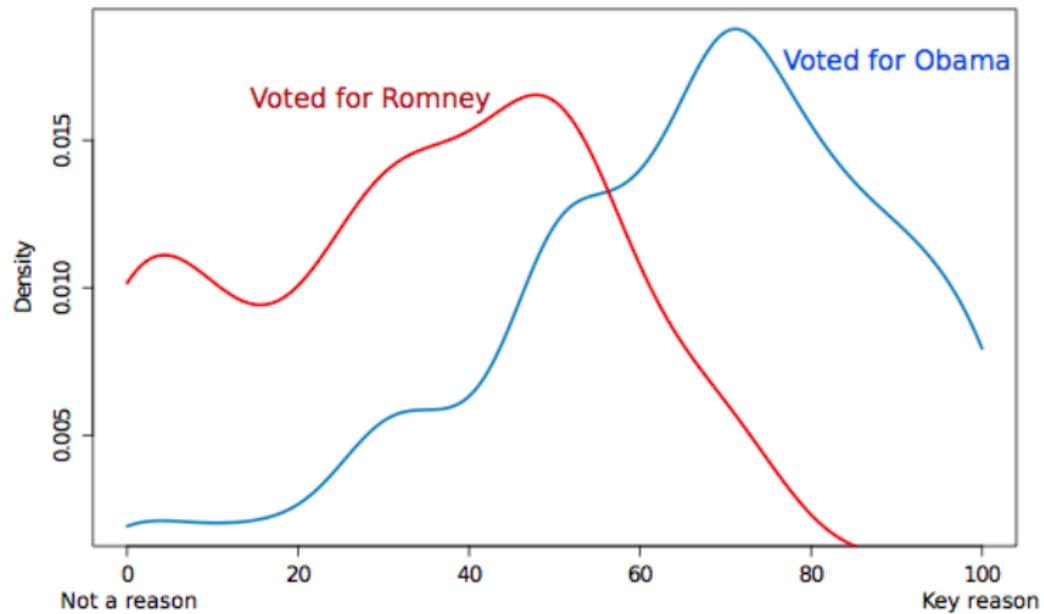
Perceived reasons

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

Beyond income (survey)

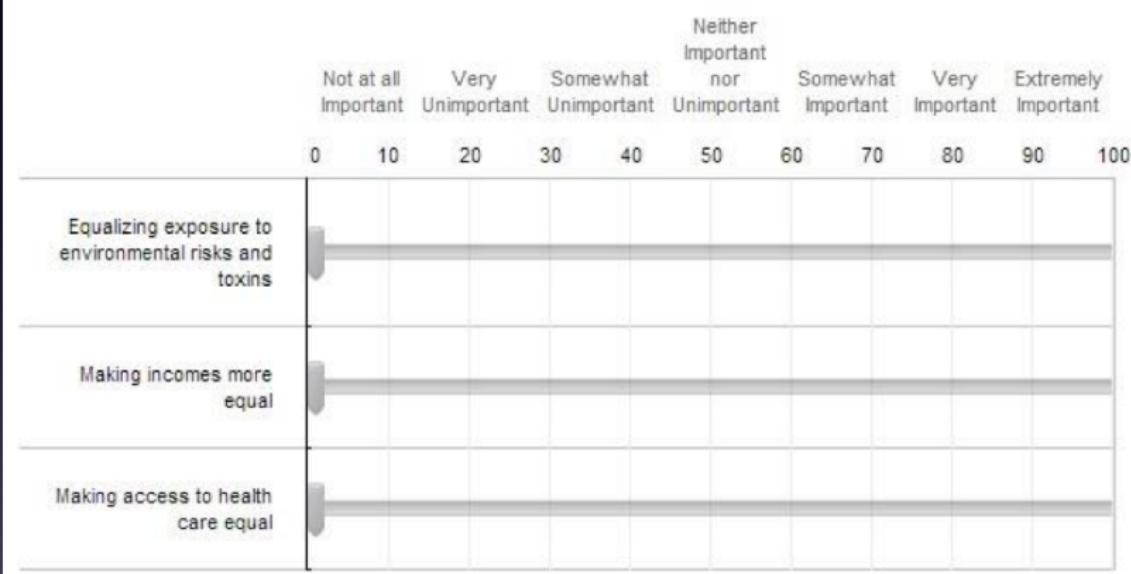
In an ideal society, would you find these goals important?

- ① Making incomes more equal
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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?

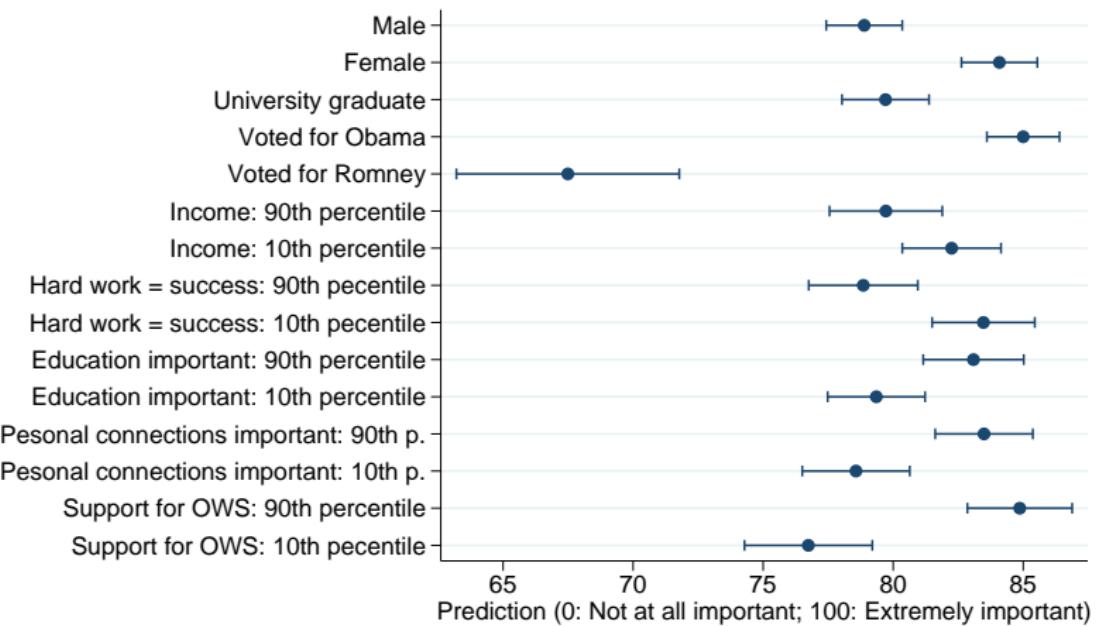
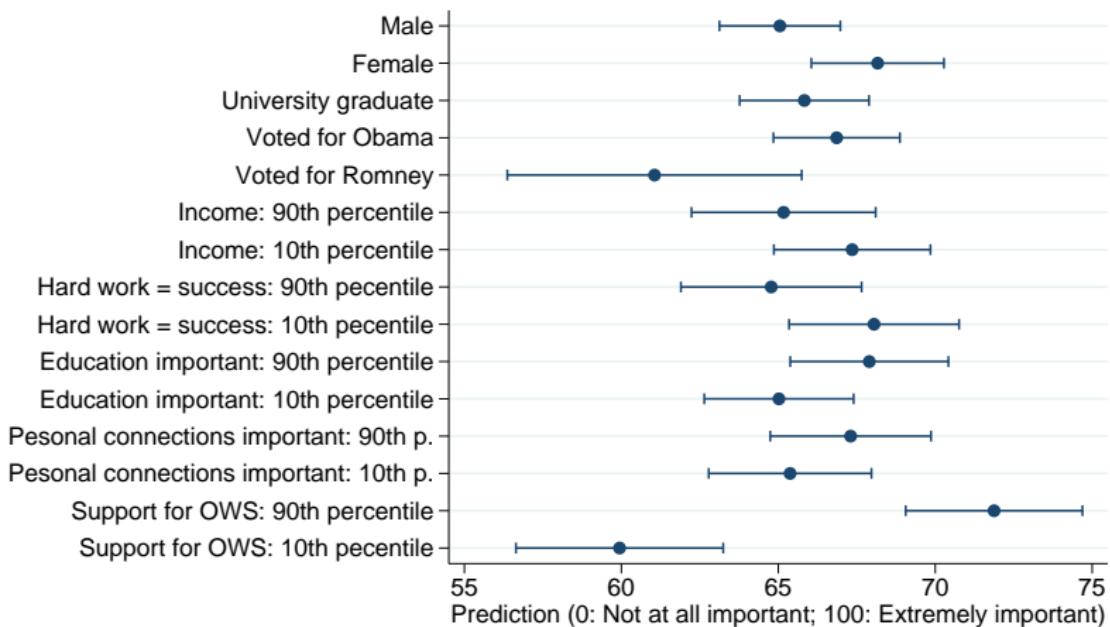


Figure : Regression predictions

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: Why is public intervention limited?

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

³Theory 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.”

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

Please send comments to zilinsky@chicagobooth.edu