

# Income Inequality: Perceptions and Preferences

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## Why inequality?

### Economic inequality in the United States

- Economic inequality in the United States has increased markedly in the last 40 years, primarily due to the increasing incomes of the very rich.
- After the last recession (which ended in 2009), corporate profits have recovered but average incomes have stagnated. Average hourly earnings today are no higher than they were 30 years ago, while top incomes have reached a near-record high. (Source: Business Insider)
- What are the political implications of these changes? Does the public perceive the increases in income inequality, and if so, do they react to it? What levels of income inequality do Americans prefer (in an ideal world), and do they base their vote decisions on these preferences?
- This project looks at the determinants and consequences of public opinion on income inequality.

## Measuring preferences for inequality

### Question used to probe attitudes to inequality:

- Ask respondents to estimate how much money different occupations make in a year.
- Then also ask them how much these occupations *ought* to make in a year.
- Occupations: Doctor in general practice, Owner of small company, Skilled worker, Unskilled worker, Executive of a large national corporation, Member of the federal cabinet.

### Measure of perceived and preferred levels of inequality:

Inequality ratio = (highest paid occupation / lowest paid occupation)

Include interpretation: how many times more should the rich earn than the poor?

### Functional form:

Dependent variable: Preferences for income inequality

Independent variables: Education (Years), Race, Gender, Individual income bracket (as defined in GSS), Partisan Identification (E-Port scale), Perception of income inequality (ratio measure).

OLS regression

N = 659

R<sup>2</sup> = 0.37

Applied with 95% confidence intervals.

### Source:

General Social Survey (2000), ISSP Module on Social Inequality

## What are preferences for inequality related to?

### Partisanship as a predictor of preferences for income inequality

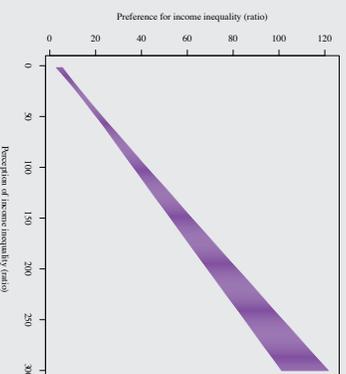
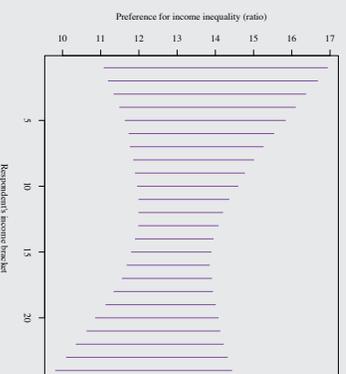
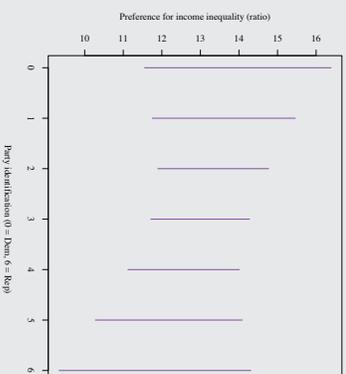
- Partisanship is one of the strongest individual-level, stable political traits. In addition, the left-right divide is, at least theoretically, about questions of (re)distribution. We would thus expect that the respondent's partisanship predicts preferences for inequality, with conservatives preferring higher inequality than liberals.
- The coefficient for partisanship, measured on a 0-6 scale, is 0.44 (0.28 s.e.). The coefficient is significant and in the opposite direction to the prediction.
- It appears that, by this particular measure, income inequality is not a politicized topic.

### Respondent's income as a predictor of preferences for income inequality

- Economic self-interest is a plausible candidate for influencing not only preferences for redistribution (Meltzer-Richard model), but also for influencing preferences for baseline inequality (high income earners have motivation to believe their earnings are justly high, while low income earners have motivation to believe their earnings are unjustly low).
- The coefficient for personal income, measured in 24 income brackets in the GSS, is -0.09 (0.10 s.e.). The effect is insignificant and once again in the opposite direction to the prediction.
- Personal income does not significantly predict preferences for income inequality.

### Perceptions of income inequality as a predictor of preferences for income inequality

- System justification theory argues that humans have a need to view the world as a just place, in order to maintain a sense of control and self-efficacy. According to this perspective, humans tend to think of existing social arrangements as just and even desirable. (Jost et al., 2004)
- Perceptions of inequality, by this logic, ought to predict acceptance of the perceived inequality, exhibited by preferring higher inequality in a hypothetical ideal world.
- The coefficient for perceptions, measured on the same ratio scale as preferences, is 0.36 (0.02 s.e.). The effect is significant in the expected direction.
- Note that the coefficient is below one, and on average respondents still prefer less inequality than they perceive. In other words, system justification has limits; in particular, it does not explain why all the perceived inequality is not justified.
- Perceptions of inequality strongly predict preferences for income inequality.



## Next questions

### What explains the high correlation between perceptions and preferences?

- System justification theory predicts that people justify the world they see more than they actually experience, and this may lead to a more polarized political product that people see what they want to see.)
- Explore the existence of a causal connection between perceptions and preferences by testing system justification theory. Do preferences for income inequality change depending on whether people inhabit more and less equal environments?
- If system justification processes are identified, are there moderating conditions? Not everyone is happy with the (perceived) status quo all the time; in fact people do tend to prefer less inequality than they perceive. What are the (political) factors that limit the influence of system justification tendencies?

### Experimental ideas:

Let subjects play games, where pay-off structures range in terms of inequality of outcomes.

After the game has been played, ask the subject to evaluate 'the game on several dimensions, one of which will be the fairness of the pay-off structure.'

What types of moderating conditions could be tried in the laboratory environment?

### Why is there so little correlation between preferences for inequality and partisan identity (and, by extension, vote choice)?

The left-right divide is, in theory, strongly connected to redistributive questions (how much should the rich pay to help the poor?) and vote choice (government should increase welfare payments) and others not at all (preferences for income inequality?)

- Find out how people think about inequality. Is inequality particularly difficult to think about in systemic terms - i.e. do people instinctively think of earned income as something natural/unalterable, and only make it a political issue when it is explicitly framed as such by political actors? This possibility could explain why some questions matter a lot and others do not.

- Important to control for trust in government, which is an alternative explanation for why inequality preferences do not affect vote choice. How could I test the idea that inequality needs to be specifically politicized before it has an impact on vote choice?

