

Misperceptions of income distributions — Cross-country evidence from a randomized survey experiment

Elisabeth Bublitz ^{♣*}

[♣]*Hamburg Institute of International Economics, Germany (HWWI)*

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*Corresponding author: Elisabeth Bublitz, Baumwall 7, 20459 Hamburg, Germany, +49-(0)40-340576-366, E-mail: bublitz@hwwi.org

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1 Summary

Personal perceptions regularly differ from fact-based descriptions of the state of the world. Regardless of their origin, misperceptions can exert an important influence e.g. on personal decision making (Tversky and Kahneman, 1974). Taking this into account, when analyzing existing social policies (cf. model by Meltzer and Richard, 1981), it would not be enough to include standard (objective) indicators of inequality or of redistribution. Instead, both variables would also needed to be measured on the individual level to identify how individuals (mis-)perceive inequality and how that influences their opinions on related policy issues. The potential of such a approach becomes visible when standard Gini coefficients are replaced with subjective measures of inequality that incorporate potential misperceptions (Gimpelson and Treisman, 2015; Kuhn, 2015; Niehues, 2014; Engelhardt and Wagener, 2014). While previously the empirical support had been mixed, the new cross-country analyses confirm a positive relationship between the demand for redistribution and inequality, as predicted in the seminal work by Meltzer and Richard (1981). However, due to data constraints, identifying misperceptions in existing data sources is only possible with indirect measures. Using a different methodological approach, reseachers have also gathered their own empirical evidence in tailor-made survey experiments, allowing them to estimate the causal effect of misperceptions of income inequality (Kuziemko et al., 2015; Karadja et al., 2014; Cruces et al., 2013). While significant treatment effects appear for certain groups, there is no consistent evidence for changing demand for redistribution for all respondents. Yet, there have been no survey experiments involving more than one country, using the same survey design. Taken together, this leaves the questions open to what degree misperceptions, and reactions to them, systematically differ not only within but also between countries or whether certain patterns on the group level can be extended from one country to another. For instance, important differences between countries regarding their demand for redistribution persist and could help explain varying results in previous studies (Luttmer and Singhal, 2011; Alesina and Angeletos, 2005; Kuklinski et al., 2000). Hence, the aim of this paper is to test the relevance of subjective inequality measures, in the form of misperceptions, for views on policy on an individual level in a cross-country comparison.

The data were collected in a survey experiment in the following six countries: Brazil, France, Germany, Russia, Spain, and the United States. After the initial questions, half of the participants in each country were randomly chosen to receive information on the shape of the income distribution, including data on the average income of selected groups, and on their own position in the distribution. Both treatment and control group then answered questions regarding their views on inequality and redistribution. Regarding the information shown in the treatment we relied on the European Union Survey on Income and Living Conditions (EU-SILC: France, Germany, Spain) and on the Luxembourg Income Study (LIS: Brazil, Russia, US).

The empirical results confirm that countries differ systematically in how the average individual perceives the own income position and the unemployment rate. With the exception of Brazil, in all other countries the majority of the population has a negative income position bias, implying an underestimation of the own rank in the income distribution. There exist important differences in how the income position bias is distributed across income quintiles, social classes, and education levels. The analysis then shifts to the effect of the treatment (information on true income inequality). The treatment does not significantly alter the degree to which inequality is perceived as a problem, suggesting that perceptions of inequality between the treatment and control group do not differ. Thus, assuming that individuals trust the information given to them during the treatment, their perception of inequality is potentially confirmed. In Germany and Russia, the treatment significantly decreases the demand for government intervention. This suggests that these respondents prefer individuals to be more responsible for themselves. In addition, views on these two issues tend to converge across countries in the treatment group in the following ways: Differences between Germany, Russia, Spain, Brazil, and France become smaller when looking at preferences for income differentials and disregarding the US. As for the demand for government intervention, Germany, Russia, Brazil, and France converge while Spain and the US move in opposite directions.

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