“Are Demands for Redistribution Driven by Self-Interest or Aversion to Inequality?”
Vivekinan L. Ashok

Over the past 30 years, the United States has experienced two important trends: income inequality has risen, and public support for redistribution has declined (Figure 1). The fact that we observe these shifts over the same period might contradict our intuitions about the way people react to inequality. Furthermore, a seminal model in political economy (Meltzer and Richard 1981) predicts that a rise in the ratio of the mean to median income will increase the demand for redistribution through the preferences of the decisive voter. At the individual level, under the assumptions of this model, a person’s preferred tax rate is strictly greater when below the mean than when above it.

A growing literature posits that the lack of information about inequality may account for the disconnect between theory and public opinion. Indeed, researchers have found that people vastly underestimate the level of inequality in the United States, and when informed, they become modestly more supportive of redistribution. However, the reason why people’s preferences change is unclear—when informed about inequality, respondents might become more redistributive to correct what they perceive to be a broadly undesirable outcome (inequality aversion), or they may see themselves as potential beneficiaries of redistribution (self-interest).

In my project, I attempt to distinguish between these two mechanisms. I do so by conducting a survey experiment where I randomly inform half of the respondents that their household income is $5,000 below the average household’s while the other half are informed that they earn $5,000 more than average. Additionally, respondents assigned to *both* treatments are shown the average incomes of households at the top and bottom 10%. Thus, the experimental design only manipulates whether a respondent falls just below or above the average household in terms of income.

Following this treatment, I propose a federal flat-tax, explain the consequences of such a reform, and measure each respondent’s preferred flat-tax rate. When I compare the average preferred tax rates of the two treatment groups I find the following: *Being told you earn $5,000 less than the average household results in a 2.39 percentage point increase in your preferred tax rate, on average, relative to being told your household earns $5,000 more than the average household* (Figure 2).

To verify that the experimental manipulation did not differentially affect each treatment group’s perceptions of inequality, I asked both groups (1) if inequality is a serious problem in the US and (2) whether the rich deserve their high incomes. I find that there are no meaningful differences between the treatment groups in the proportions answering “Yes” to the two questions above (Figure 3).

In summary, I find preliminary evidence that people do make self-interested calculations when demanding redistribution by responding to their position relative to the average household. In the next iteration, I plan to manipulate both a respondent’s standing as well as the level of inequality in society. This revised design will allow me to clearly separate the effects of self-interest and inequality-aversion in explaining preferences toward redistribution.