

# Surveys and Experiments to Understand How People Think about the Economy

**Stefanie Stantcheva**

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## Method: Large-scale Social Economics Surveys and Experiments

Surveys are a key tool:

Some things can not be seen in other data, no matter how good it is: Perceptions, attitudes, knowledge, views.

Unlike old-style surveys (that measure variables now better captured in admin data).

New generation surveys: Customizable, controllable, interactive.

Social Economics Lab <http://socialeconomicslab.org>

Website on “Understanding Economics” (what people know about economics):  
[understandingeconomics.org](http://understandingeconomics.org)

# PROJECTS

- (1) "Intergenerational Mobility and Preferences for Redistribution" by Alberto Alesina, Stefanie Stantcheva, and Edoardo Teso
- (2) "Immigration and Redistribution" by Alberto Alesina, Armando Miano, and Stefanie Stantcheva
- (3) "How Elastic Are Preferences for Redistribution: Evidence from Randomized Survey Experiments" by Ilyana Kuziemko, Michael I. Norton, Emmanuel Saez, and Stefanie Stantcheva
- (4) "Understanding Tax Policy: How Do People Reason?" by Stefanie Stantcheva

# Intergenerational Mobility and Support for Redistribution

Alberto Alesina, Stefanie Stantcheva, and Edoardo Teso

<https://scholar.harvard.edu/stantcheva/publications/intergenerational-mobility-and-support-redistribution>

# Intergenerational Mobility and Preferences for Redistribution

Alberto Alesina, Stefanie Stantcheva, and Edoardo Teso



## (Stereo)typically Documented Views

### Americans:

- Econ system mostly “fair,” American dream alive
- Wealth is reward for ability and effort
- Poverty due to inability to take advantage of opportunity
- Effort pays off

### Continental Europeans:

- Econ system is basically unfair
  - Wealth due to family history, connections, sticky social classes
  - Poverty due to bad luck, society’s inability to help the needy
  - Effort may payoff
- 
- 70% of Americans versus 35% of Europeans believe you can climb social ladder if you work hard (WVS)
  - Yet, intergenerational mobility not systematically higher in the US (Chetty *et al.* 2014)

## This Paper: Research Questions

- Do people have realistic views about intergenerational mobility?
- What are their views on fairness, such as the role of effort vs. luck?
- Link between perceived intergenerational mobility and preferred redistribution policies?
  - ▶ **Equality of opportunities** policies (education, bequest taxes)
  - ▶ **Equality of outcome** policies (social insurance, progressive income taxation)?
- Correlation and Causality (experimental).
- Heterogeneity by socio-economic background, political views, own mobility experience?

## Method: Surveys and Randomized Experiments

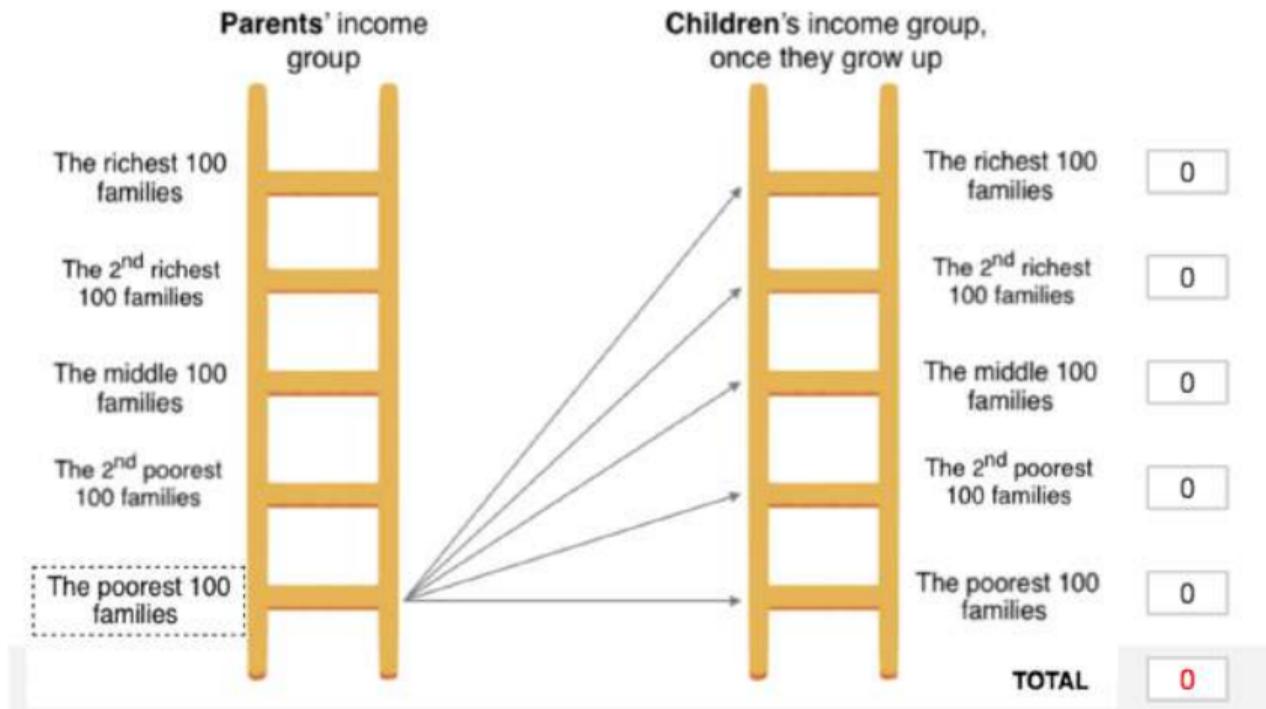
- Online surveys on representative samples in the US, UK, France, Italy, and Sweden. [▶ Stats](#)
- Research agenda ahead.
- Can collect more data to reduce noise, further treatments to test channels. Suggestions very welcome!
- Survey structure: Background / Fairness / Randomized: Info on Mobility / Perceptions of Mobility / Policies / Randomized: Views on government
- Sample collected (mainly) September/October 2016  
 $N \approx 2,000$  for IT, UK, FR,  $N \approx 4000$  for U.S.,  $N \approx 1,500$  for SE. 

## Main Findings

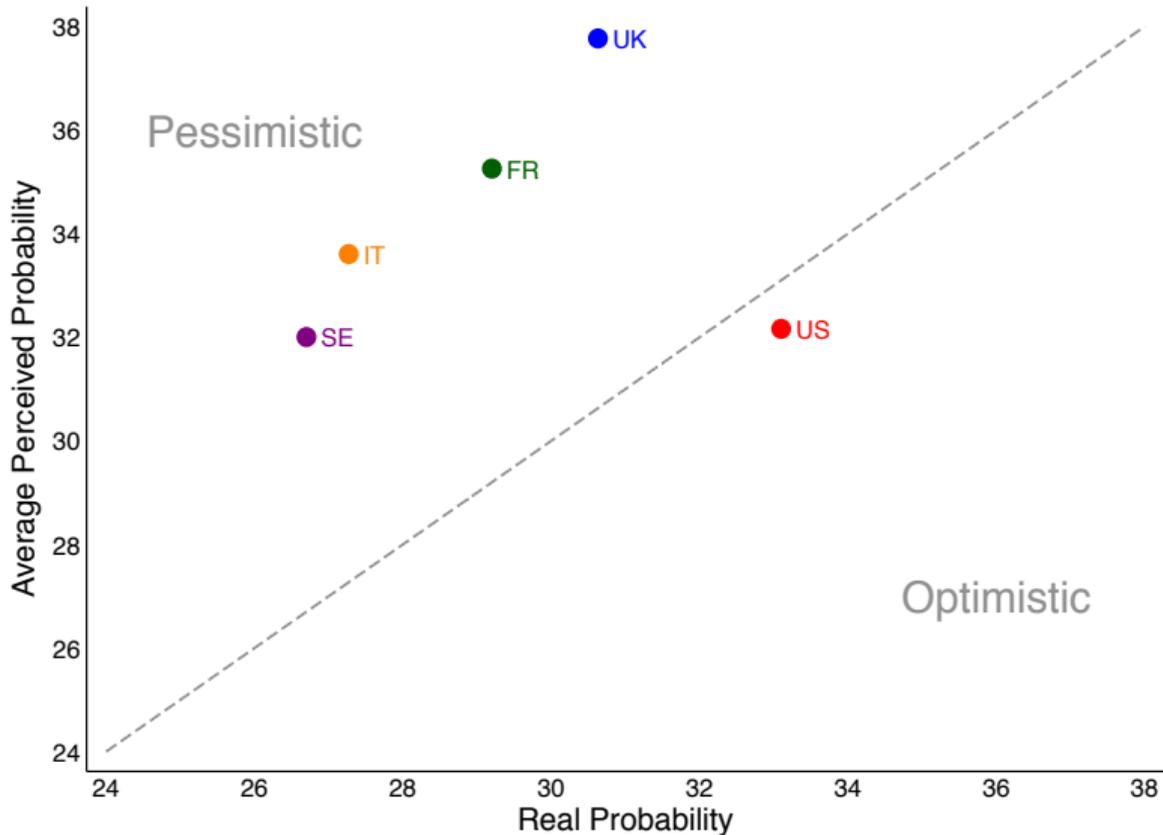
- Americans are more optimistic than Europeans, but:
  - ▶ Americans too optimistic, especially about “American dream.”
  - ▶ Europeans too pessimistic, especially about staying stuck in poverty.
- People believe effort matters, but not for making it to the very top.
- Pessimism on mobility ↔ support for redistribution (especially “equality of opportunity policies.”)
- Experiment: more pessimistic → increases support for redistribution... but only among left-wing respondents.
- Strong polarization between left and right wing on government, redistribution: same information, very different effects.

# Eliciting respondent's beliefs on upward mobility

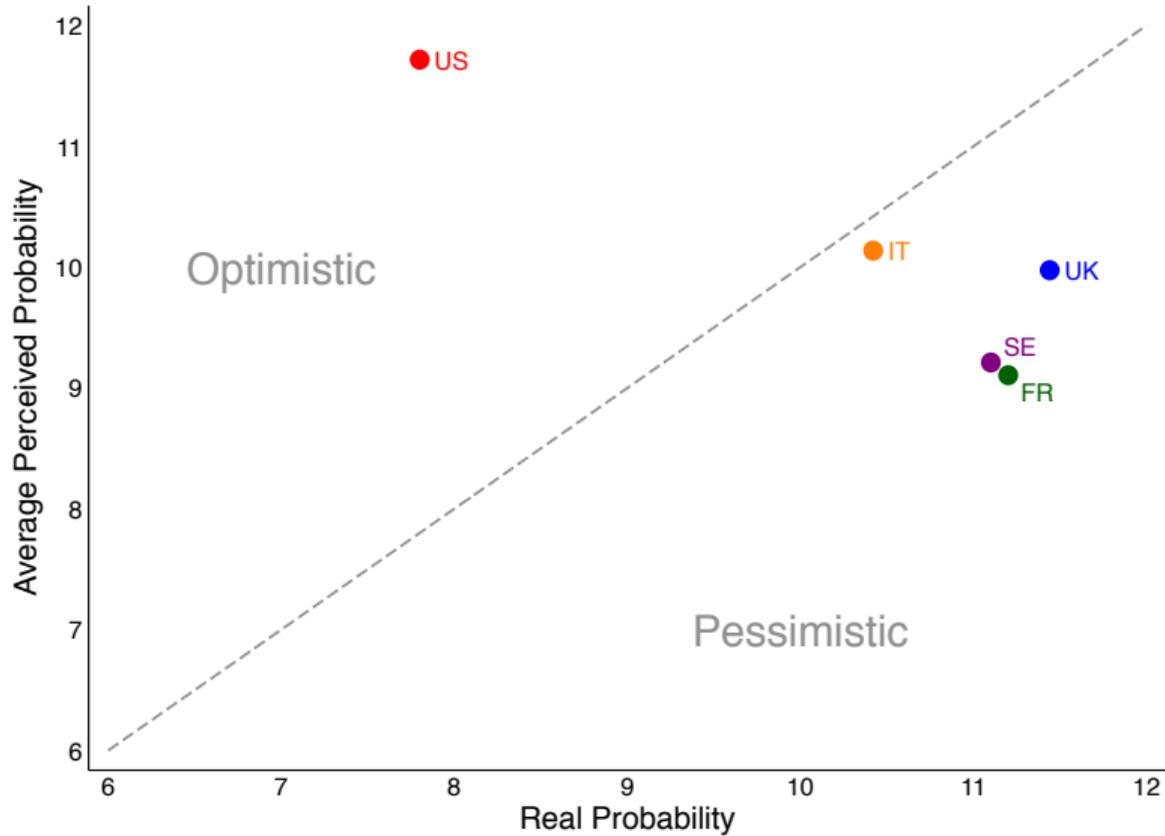
Here are **500 families** that represent the US population:



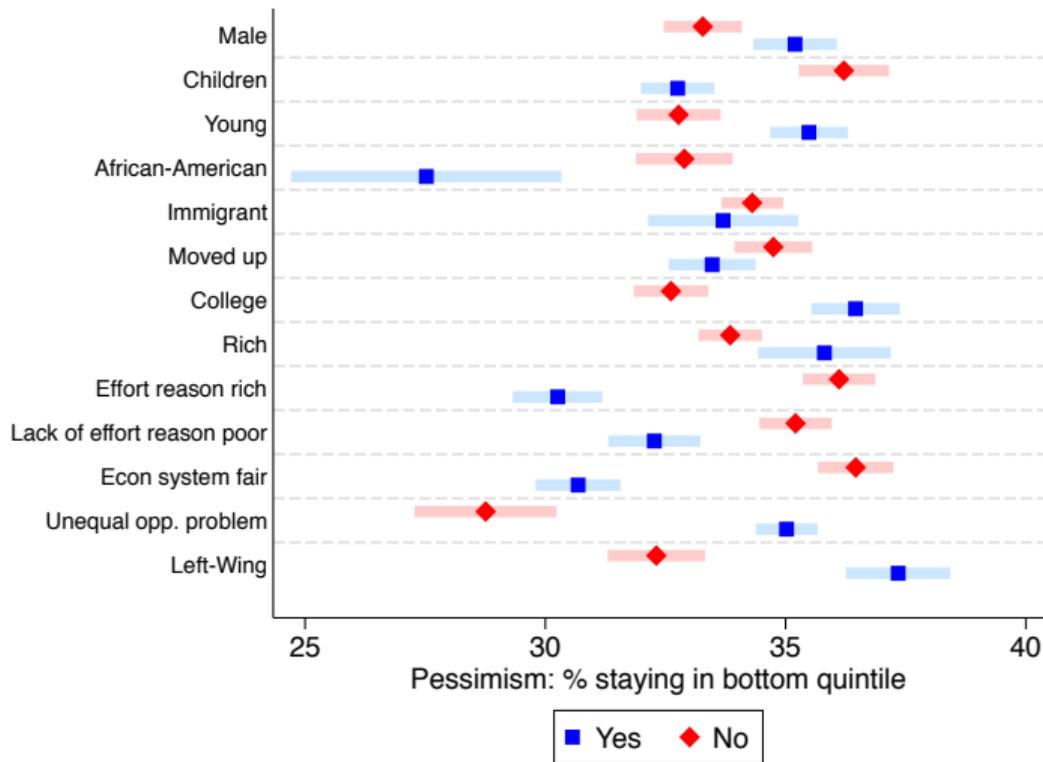
# Probability of Staying in Bottom Quintile (Actual vs. Perceived)



# Probability of Moving to Top Quintile (Actual vs. Perceived)

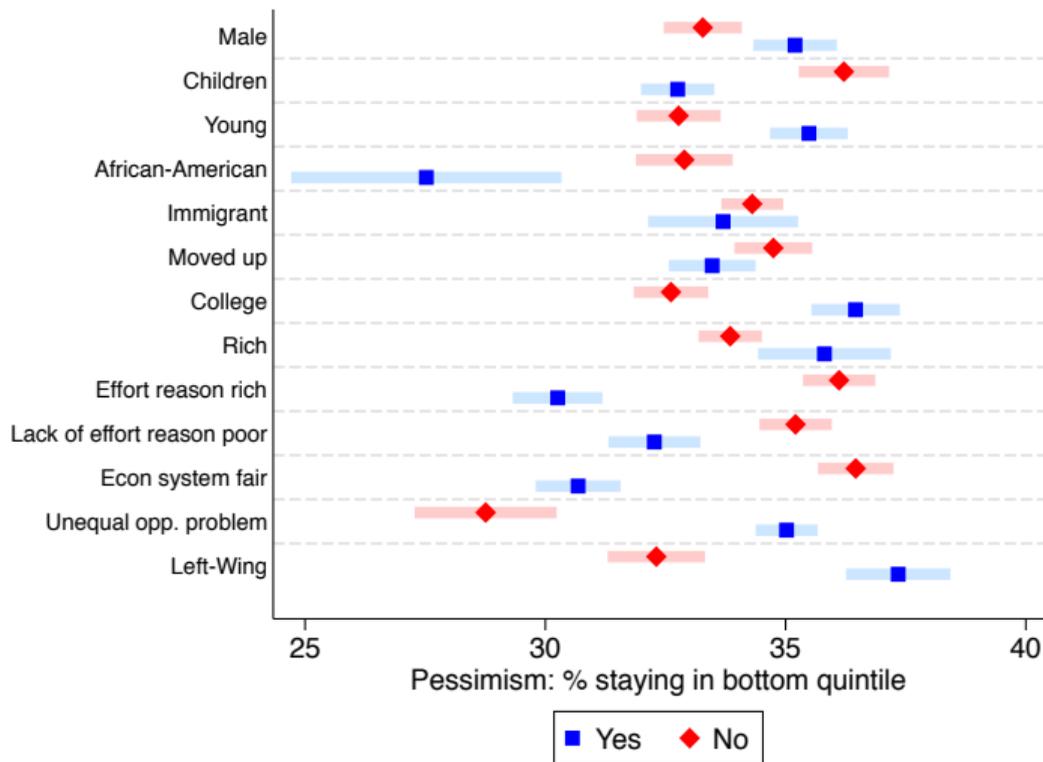


# Which Groups are More Pessimistic?



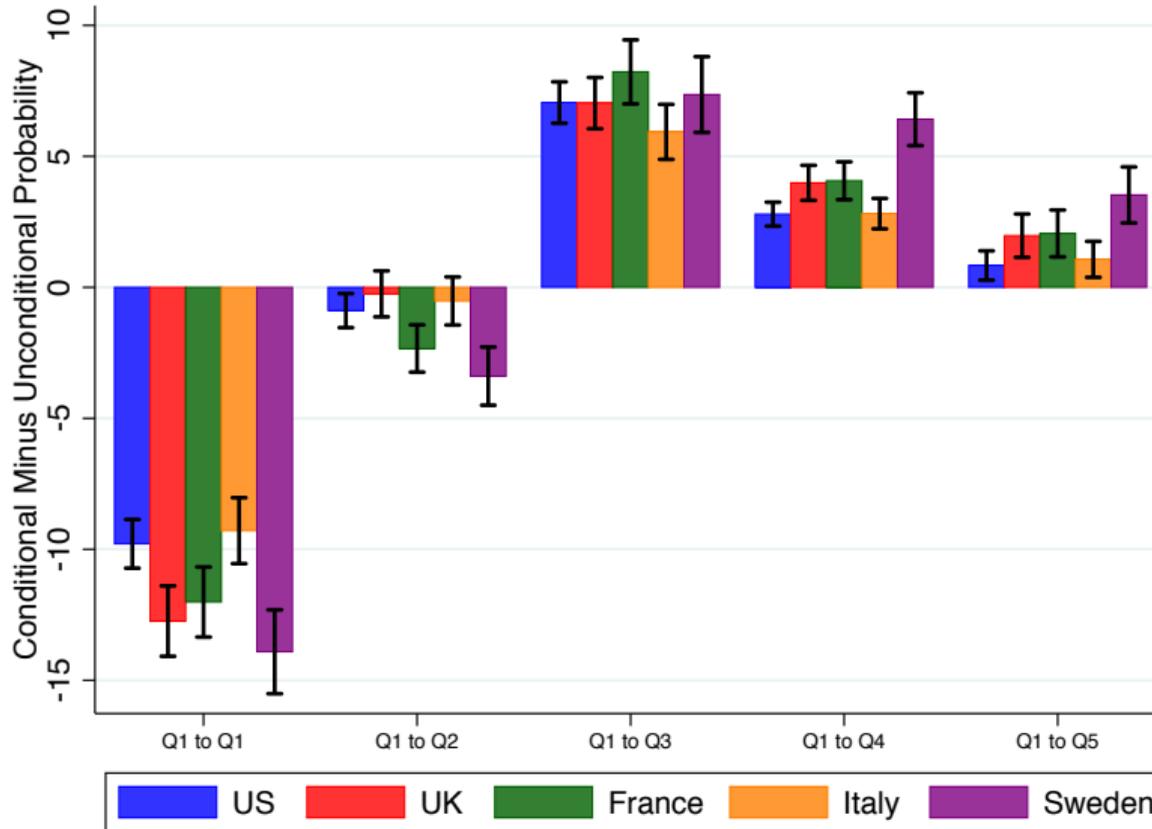
Men, people without children, high income, college-educated, young, non African-American, those who do not believe in effort, think unequal opp. are problem. 23|1

# Which Groups are More Pessimistic?

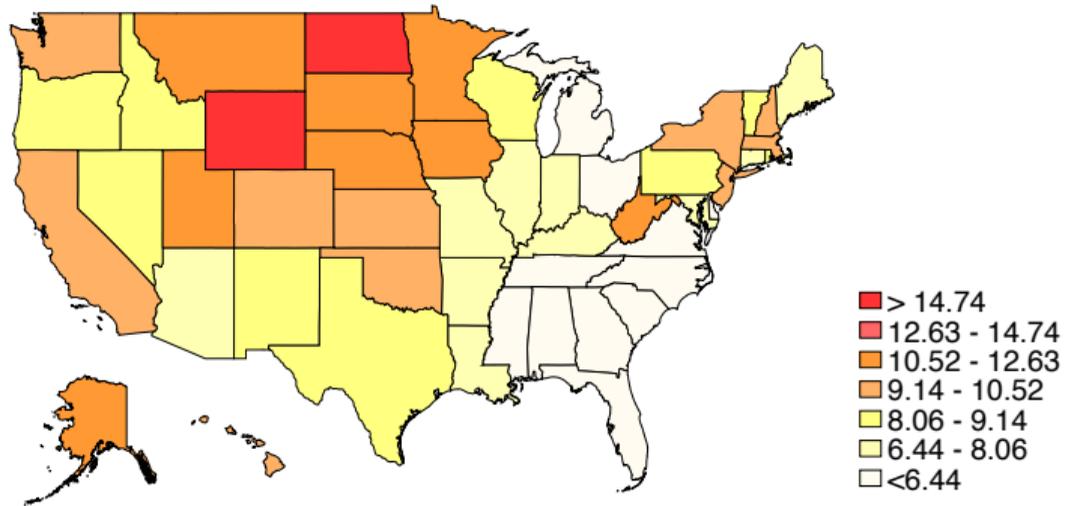


Strongest predictor are political views (left/right wing).

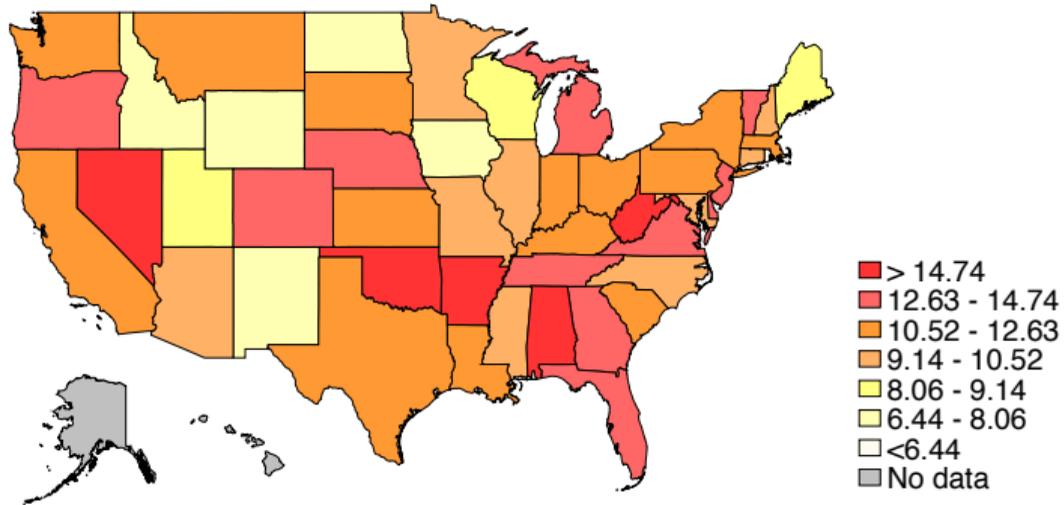
# Does Effort Change the Perceived Mobility?



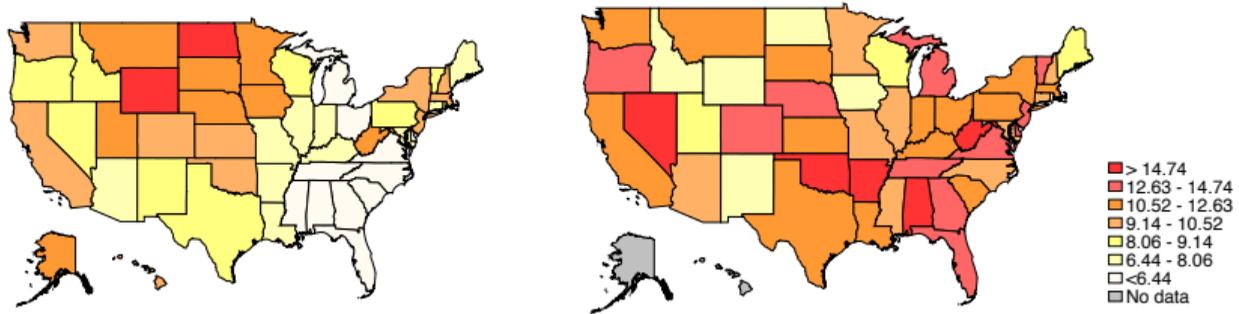
# Actual probability of moving from bottom to top quintile



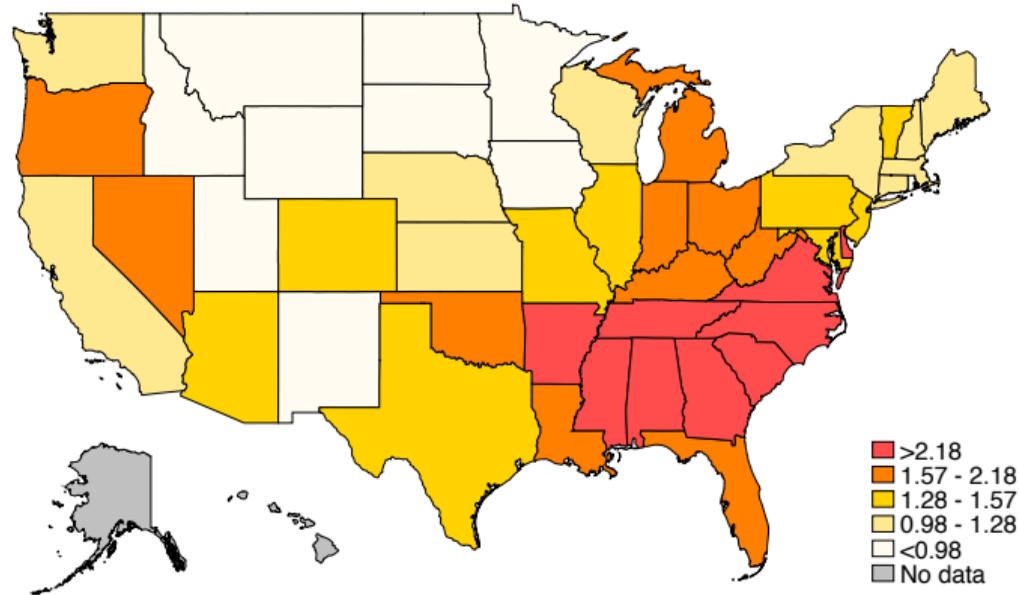
## Perceived probability of moving from bottom to top



# Actual and perceived probability of moving from bottom to top quintile

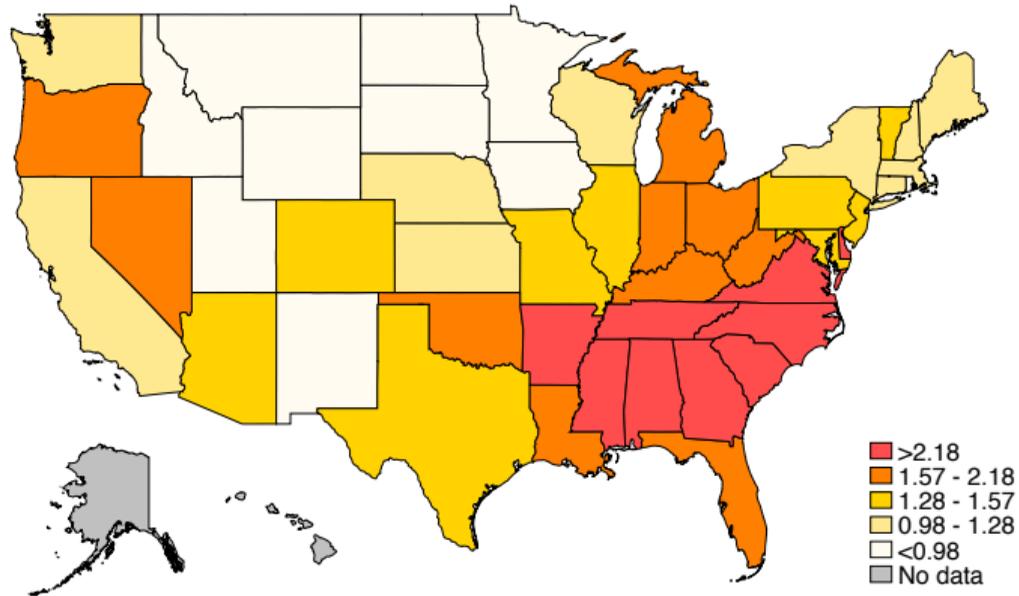


## Ratio of actual local and perceived probability of moving from bottom to top



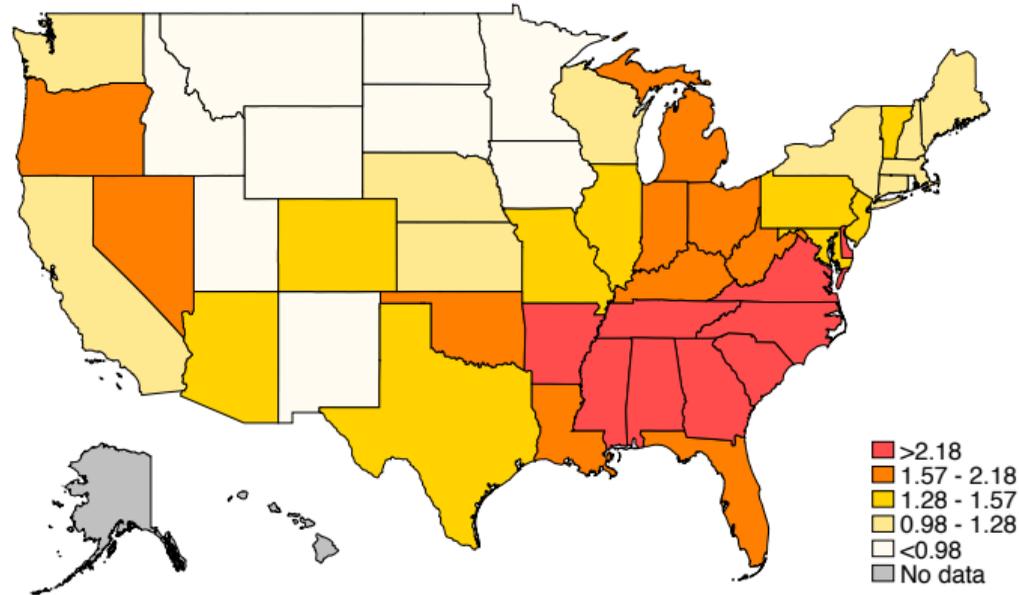
What are local perceptions correlated with, controlling for individual-level characteristics? [▶ National](#)

# Ratio of actual local and perceived probability of moving from bottom to top



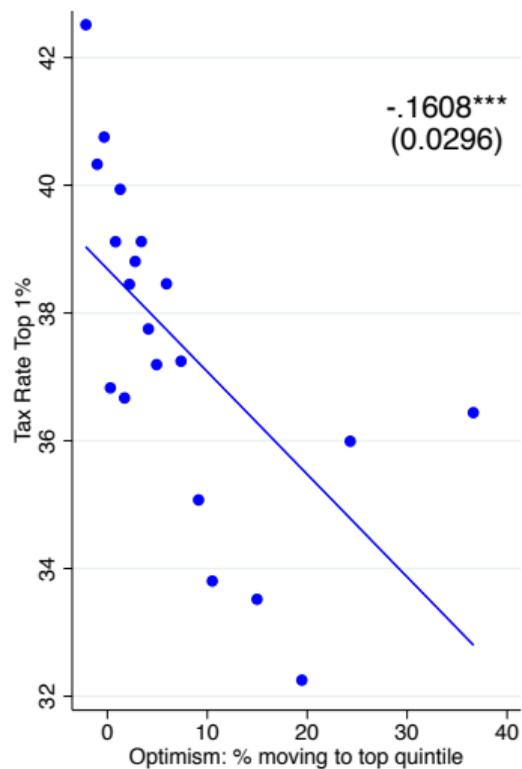
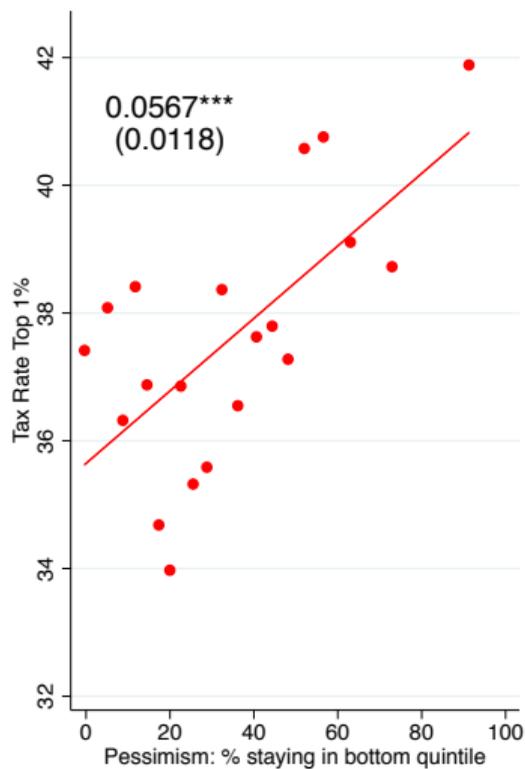
Include: manufacturing share, college grads, income, etc...

## Ratio of actual local and perceived probability of moving from bottom to top

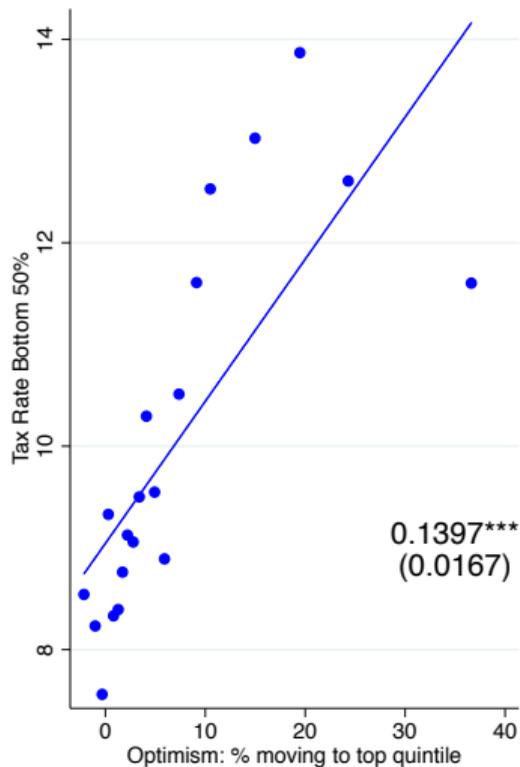
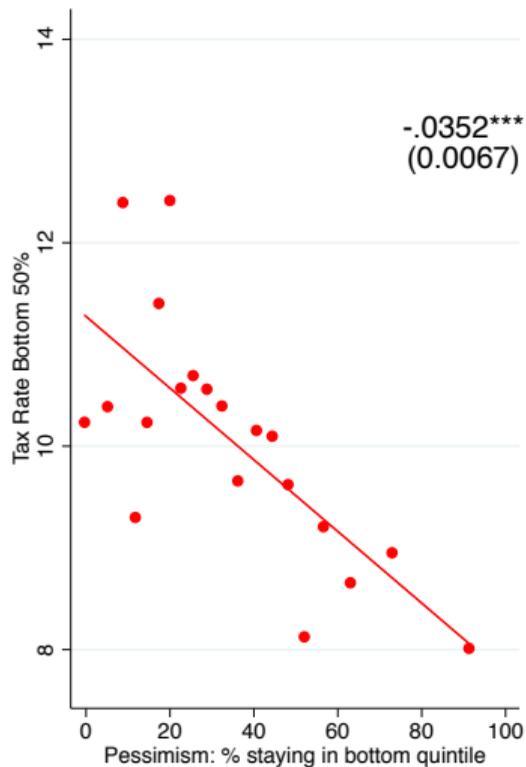


Strongest predictors of optimism: 1) high racial segregation 2) low income segregation (controlling for both at same time).

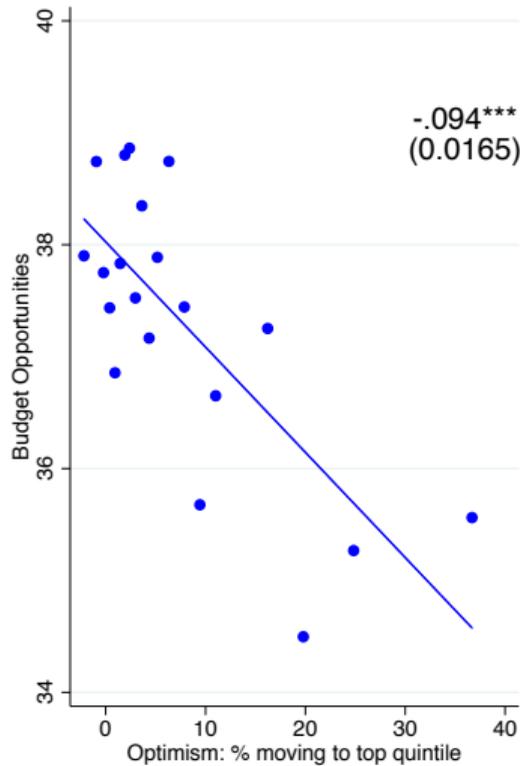
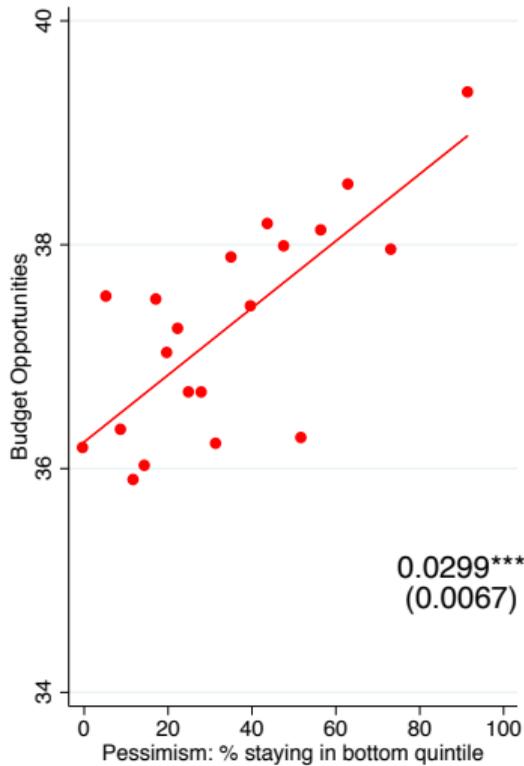
# Pessimism, Optimism, and Top Tax Rate



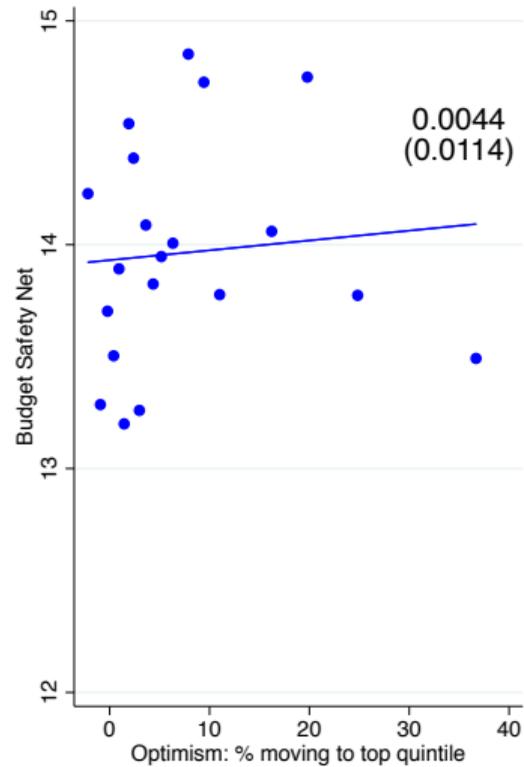
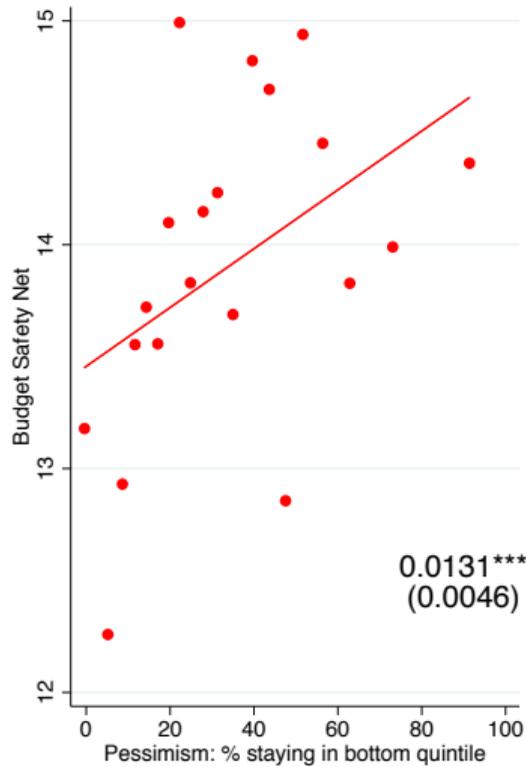
# Pessimism, Optimism, and Bottom Tax Rate



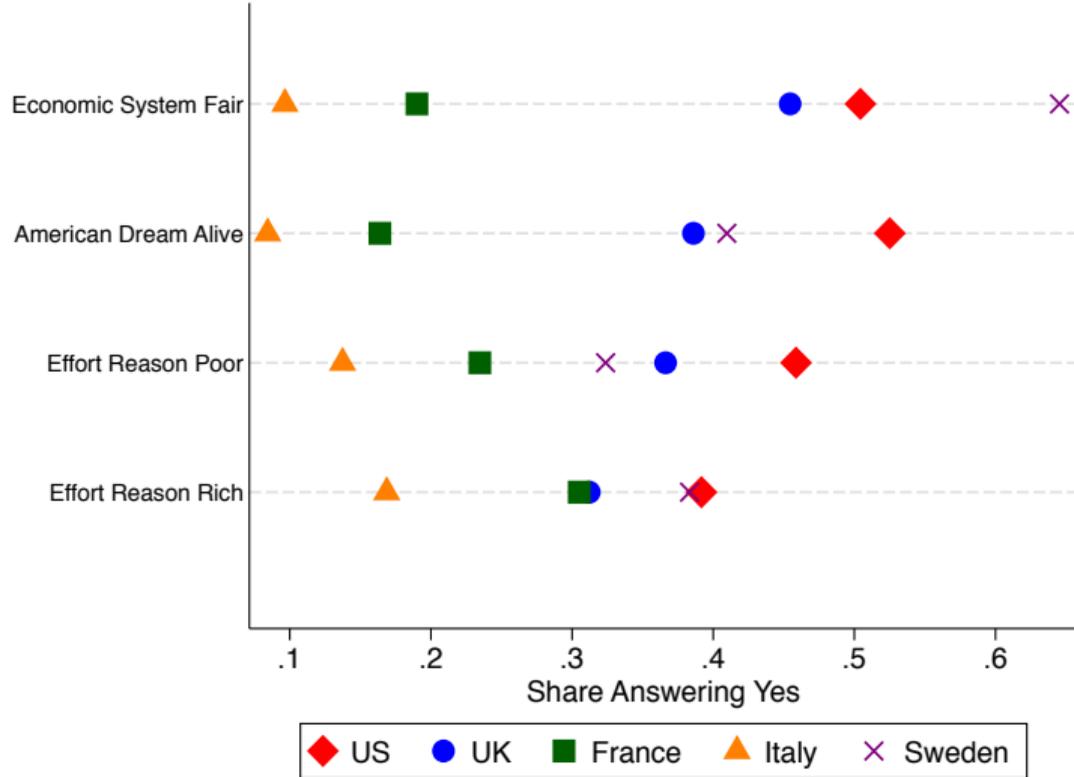
# Strong Correlation with Equality of Opportunity Policies: Education and Health



## Weaker Correlation with Safety Net Policies



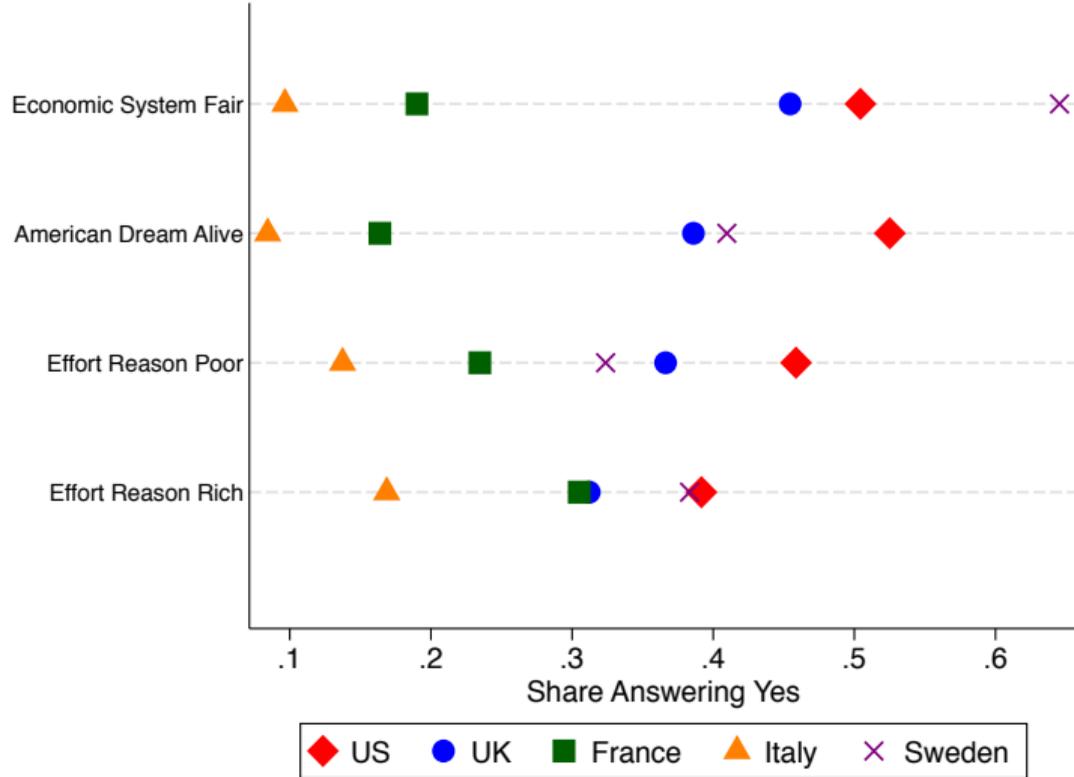
# Fairness Perceptions by Country



Widespread discontent. U.S. and SE more optimistic (market vs. welfare state?).

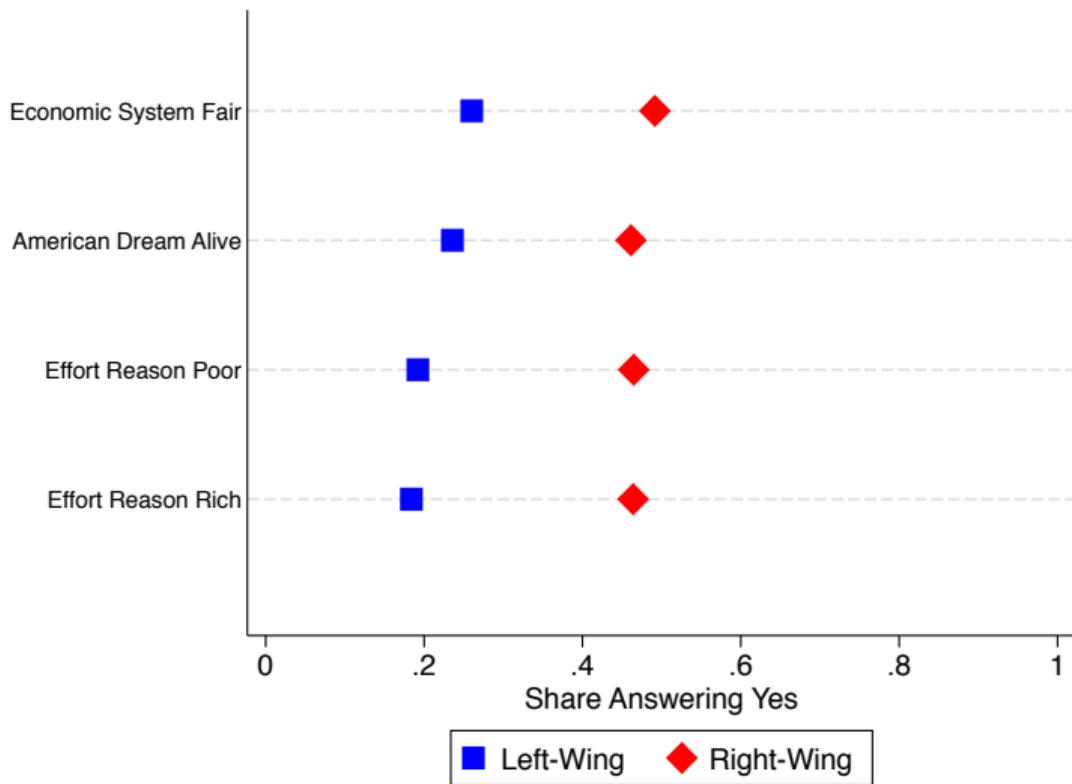
IT and FR terribly pessimistic.

## Fairness Perceptions by Country



U.S. respondents believe more in effort, large variation across countries.

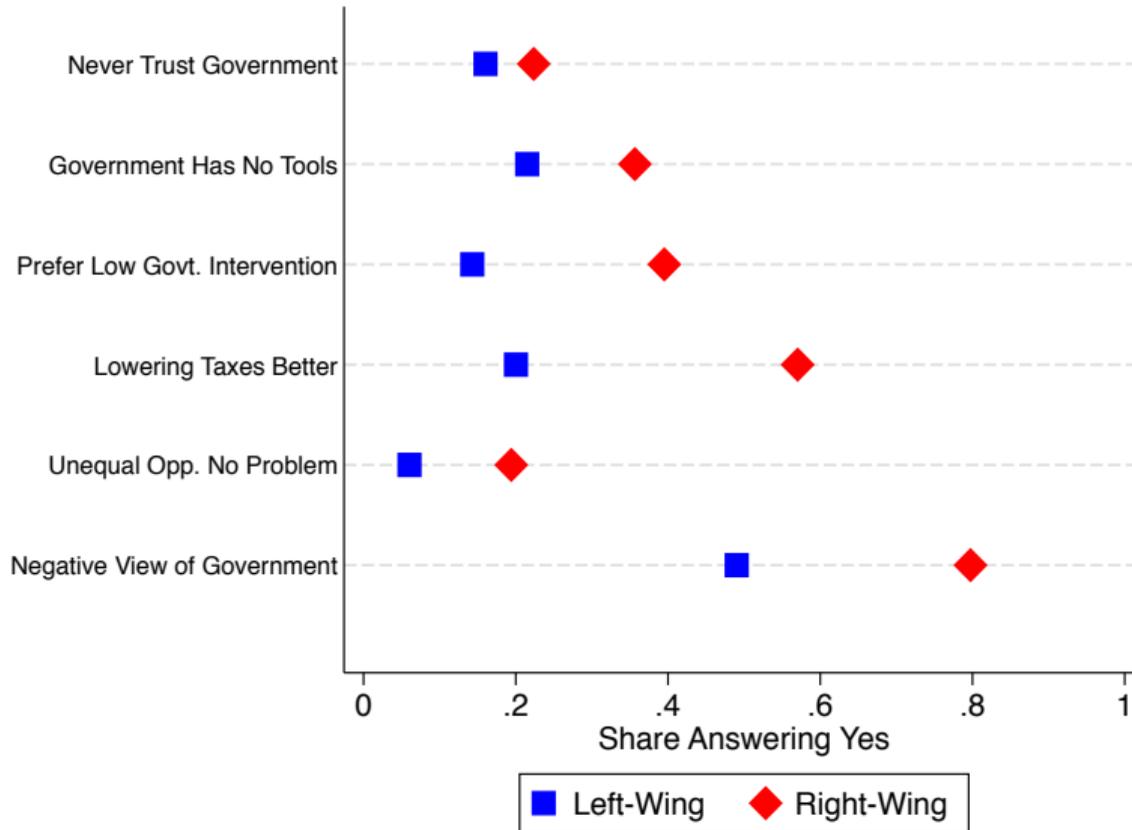
## Fairness Perceptions: Left versus Right



Left-wing more pessimistic than right-wing.

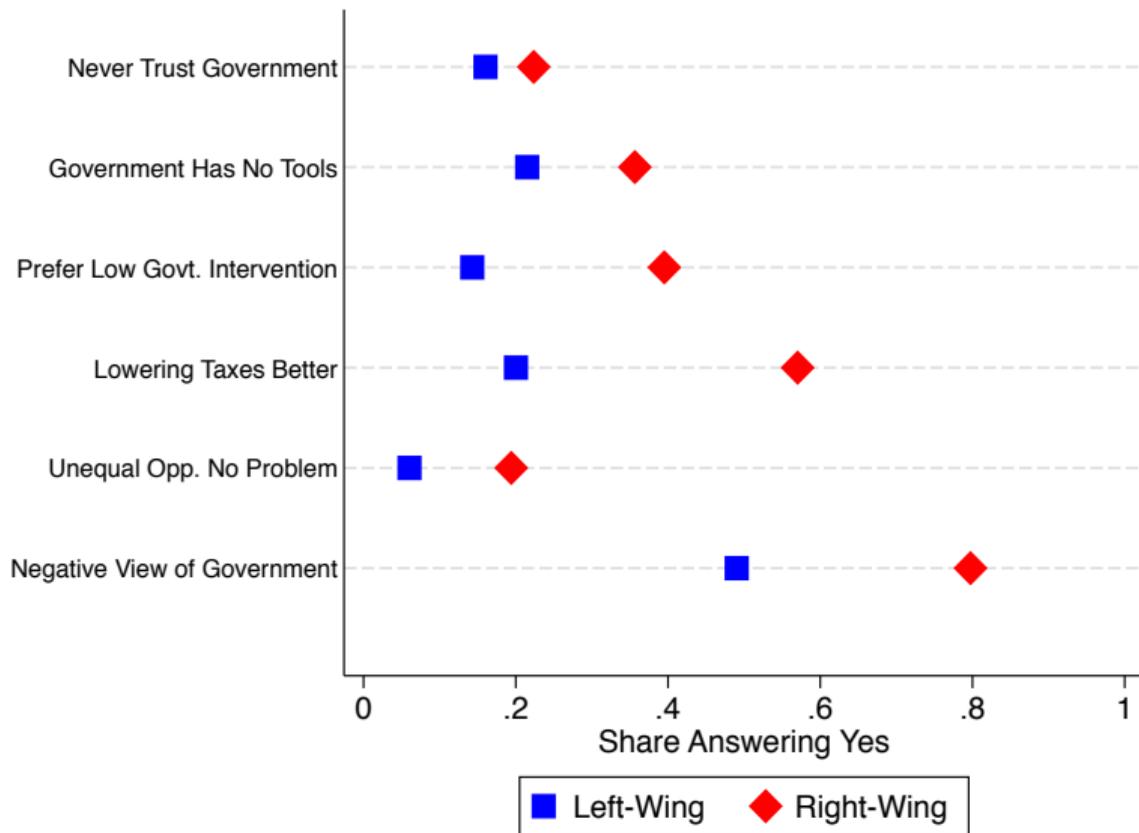
Right-wing respondents believe much more in role of individual effort.

# Bad Views of Government by Left and Right



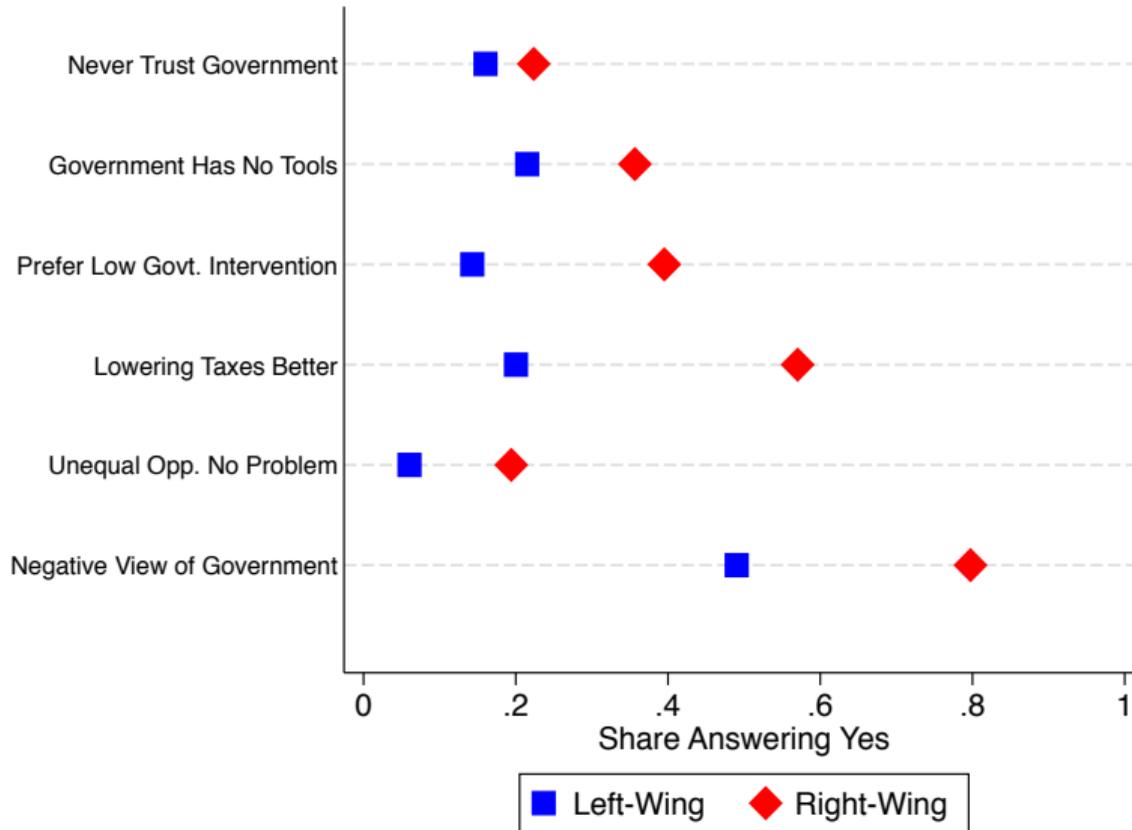
Important to take into account multidimensional perceptions.

# Bad Views of Government by Left and Right



Left and Right distrust government, agree unequal opportunities are a problem

# Bad Views of Government by Left and Right



A composite measure of “against government” shows big contrast.

# Immigration and Redistribution

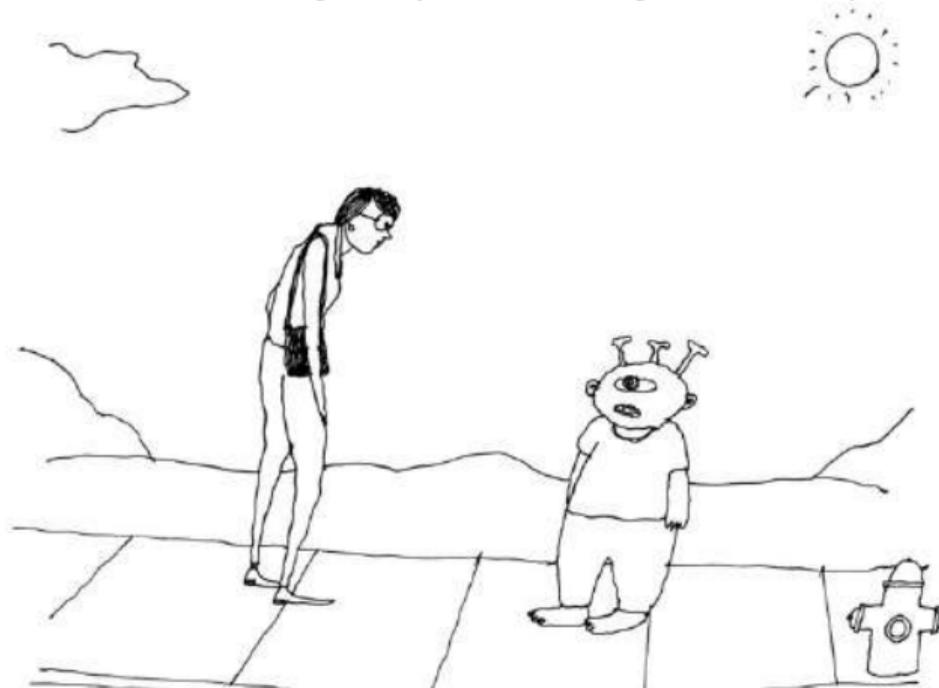
Alberto Alesina, Armando Miano, and Stefanie Stantcheva

[https://scholar.harvard.edu/stantcheva/publications/  
immigration-and-support-redistribution](https://scholar.harvard.edu/stantcheva/publications/immigration-and-support-redistribution)

# Immigration and Redistribution

Alberto Alesina, Armando Miano, and Stefanie Stantcheva

*Well, I live in Atlanta, but I guess you are asking where I am from originally?*





55% DES FRANÇAIS OPPOSÉS  
À L'ACCUEIL DES MIGRANTS



## **We Study Two Broad Questions**

### **How do people (mis)perceive immigration?**

Are perceptions of immigration, about the number, origin, religion, unemployment, education, poverty, correct amongst natives of the host countries?

What are natives' views on immigration policies?

Heterogeneity by political affiliation, work in high immigrant sector, income, education level...

### **What is the link between immigration and redistribution?**

Are perceptions of immigration and views about redistribution correlated? And do perceptions of immigrants "cause" preferences for redistribution?

## Method and Setting

Large-scale surveys in 6 countries: France, Germany, Italy, Sweden, UK, and US, total of  $\approx$  22,500 respondents.

Done through commercial survey companies in Nov 2017-Feb 2018.

Sample sizes: 4,500 in US, 4,000 in FR, DE, IT, and UK, 2,000 in SE.

Additional survey in US in Feb 2019 – 1,650 respondents.

### Survey components:

Background info, perception of immigrants (number, origin, religion, hard work, economic conditions, support), policy preferences (redistribution + immigration).

### Randomized treatments:

**Priming:** “Order” treatment asks about immigration before redistributive policies.

**Information** (Facts) on 1) number, 2) origins of immigrants.

**Anecdote** on “hard-working” immigrant.

## Main Findings: Perceptions of Immigration Substantially and Systematically Wrong

Across countries and respondent characteristics:

- Stark overestimation of the number of immigrants

- Stark overestimation of share of Muslim (underestimate Christians)

- Underestimation of immigrants education, employment, contribution to welfare state

- People wrong about natives as well, but more so about immigrants.

Larger misperceptions for respondents who are: i) in immigrant intensive, low-skill jobs, ii) without college, iii) female, and iv) right-wing.

Perceived composition (not the number) of immigrants that differentiate natives' responses

- Left and right-wing equally misperceive % of immigrants, but right-wing believe immigrants have "less desirable" in their views characteristics.

## Main Findings: Effects of Information, Anecdotes and Priming

Just making people think about immigrants (“order treatment”) generates a strongly negative reaction in terms of redistribution.

Factual information on share and origins has no effect.

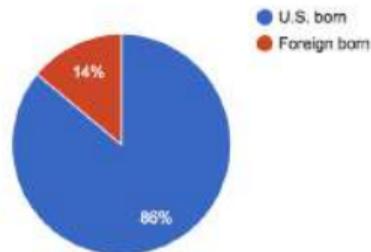
Anecdotes work somewhat: “Hard work” on its own can generate some more support for redistribution.

However, if people are also prompted to think in detail about immigrants’ characteristics (which they are wrong about), priming effect dominates.

# Eliciting Perceptions on Number of Immigrants

The pie chart below represents all the people currently living in the U.S. Out of all these people currently living in the U.S., how many do you think are legal immigrants? Move the slider to indicate how many out of every 100 people you think are legal immigrants.

U.S. population by country of birth

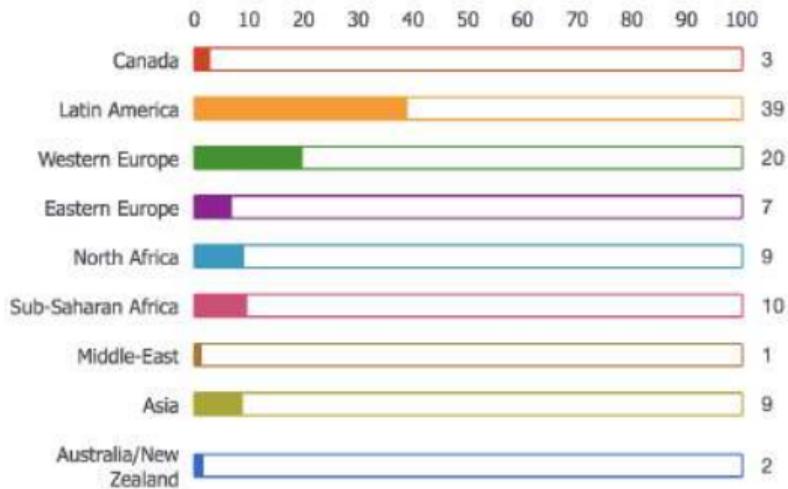
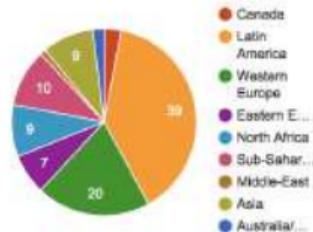


0 10 20 30 40 50 60 70 80 90 100

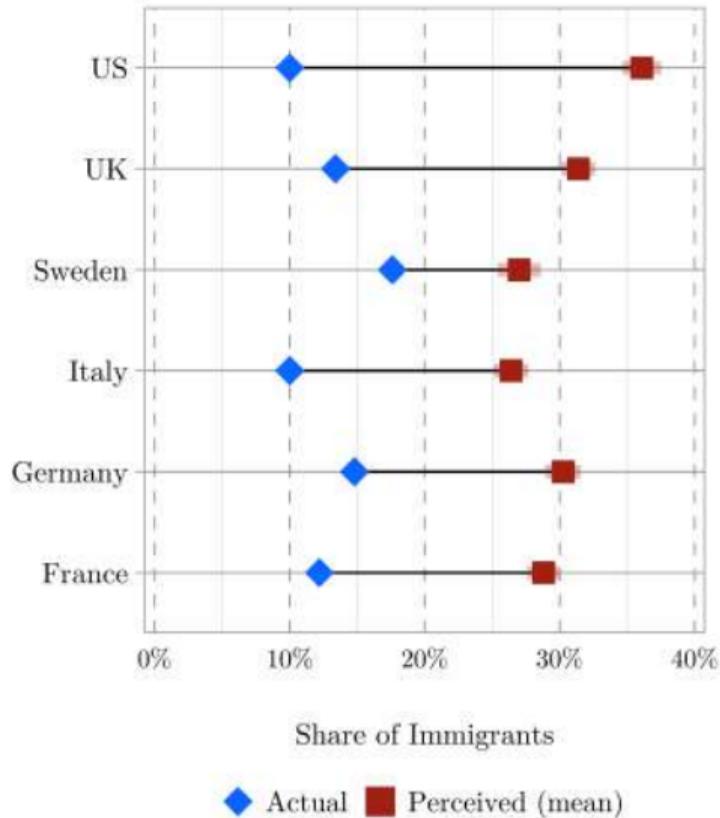


# Eliciting perceptions on Origin of Immigrants

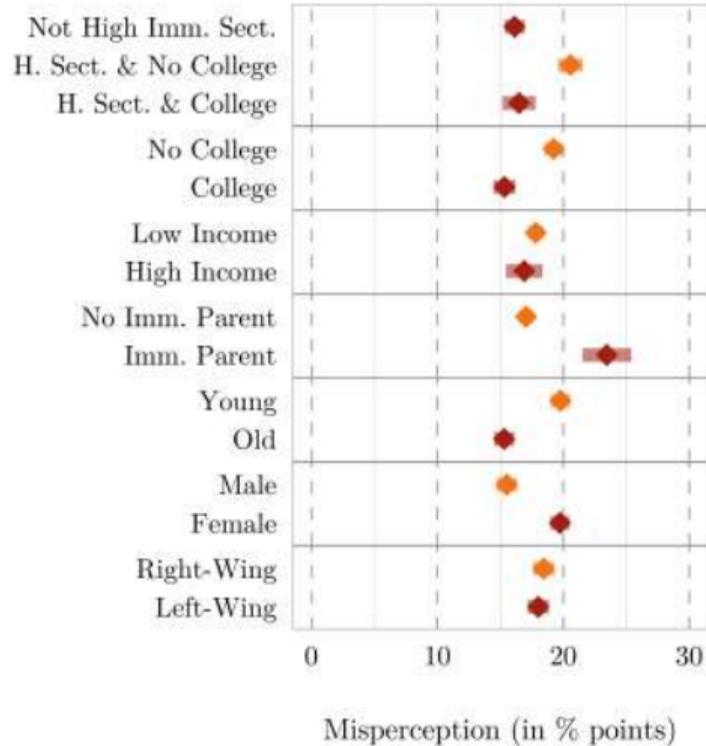
U.S. immigrant population by origin



## Perceived vs. Actual Number of Immigrants (By Country)

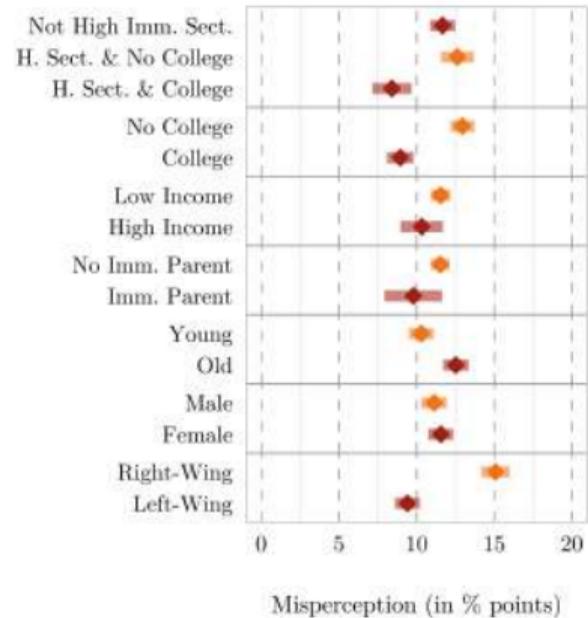
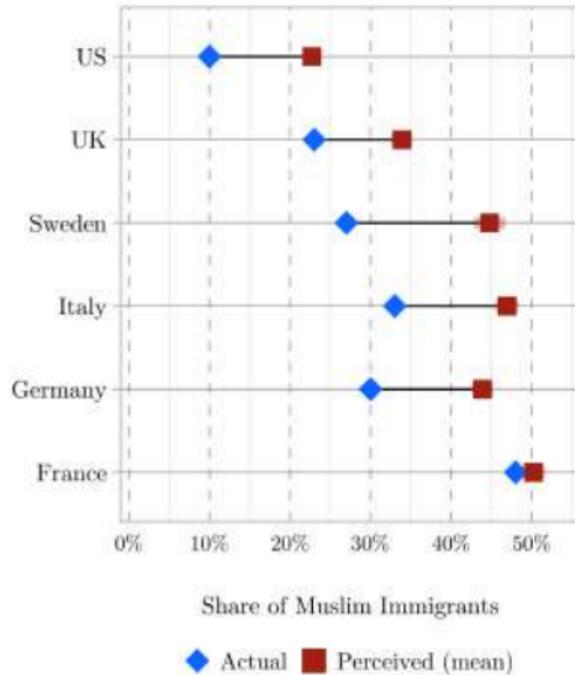


# Misperception of Number of Immigrants



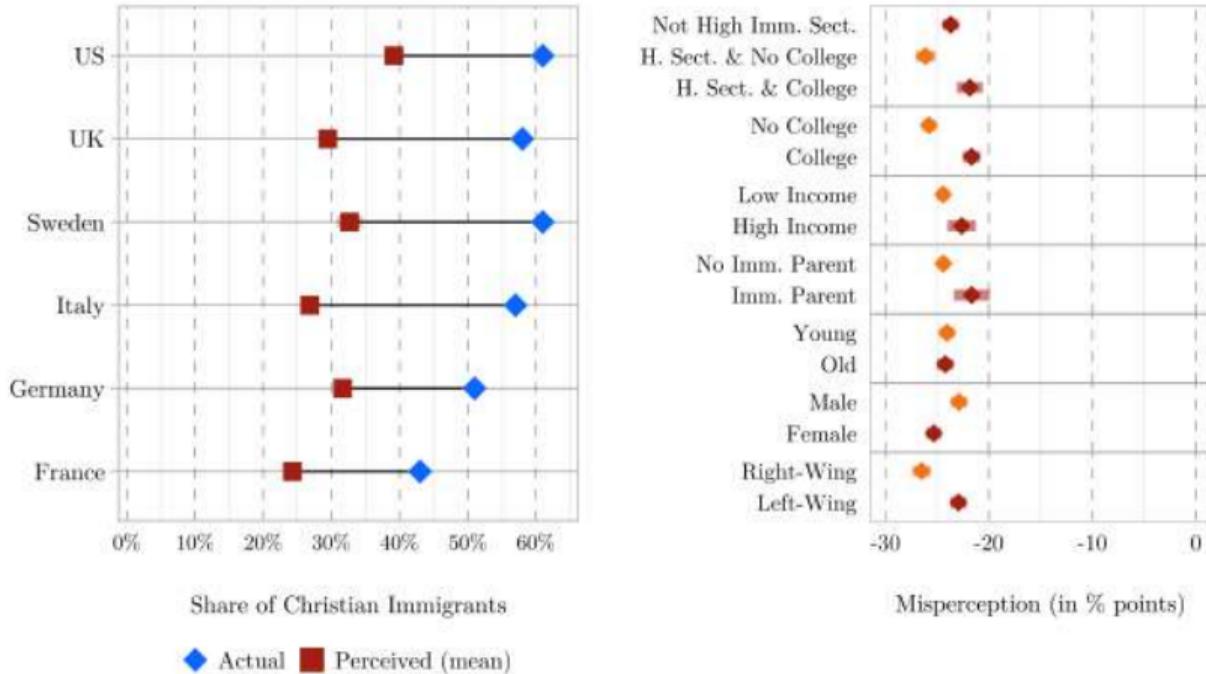
Who misperceives more? Those 1) in high immigration sectors with low education, 2) without college, 3) who are young, 4) who have an immigrant parent, 5) women. [▶ US Sectors](#)

# Perceived vs. Actual Share of Muslim Immigrants



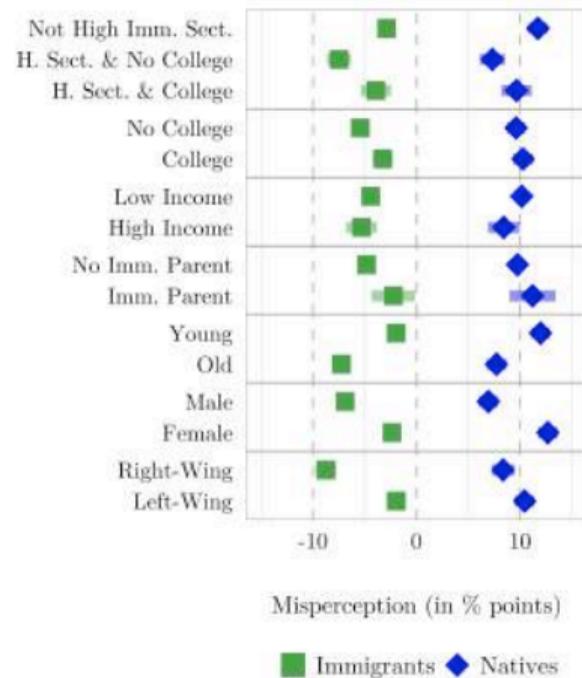
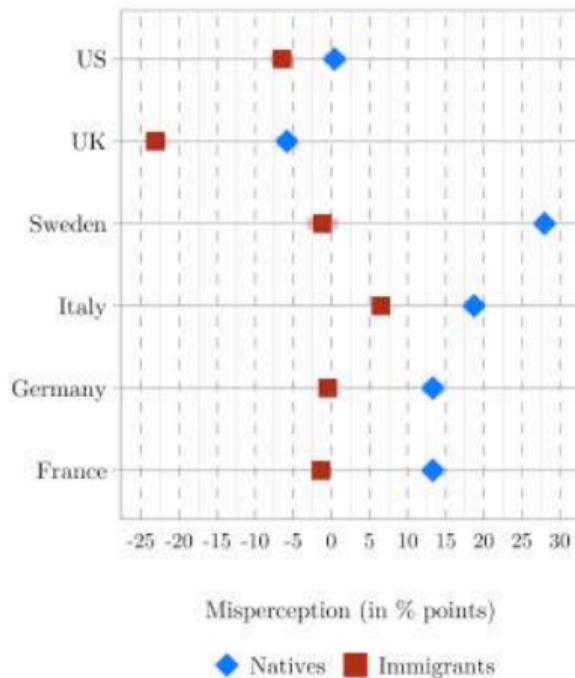
▶ Middle East    ▶ North Africa

# Perceived vs. Actual Share of Christian Immigrants

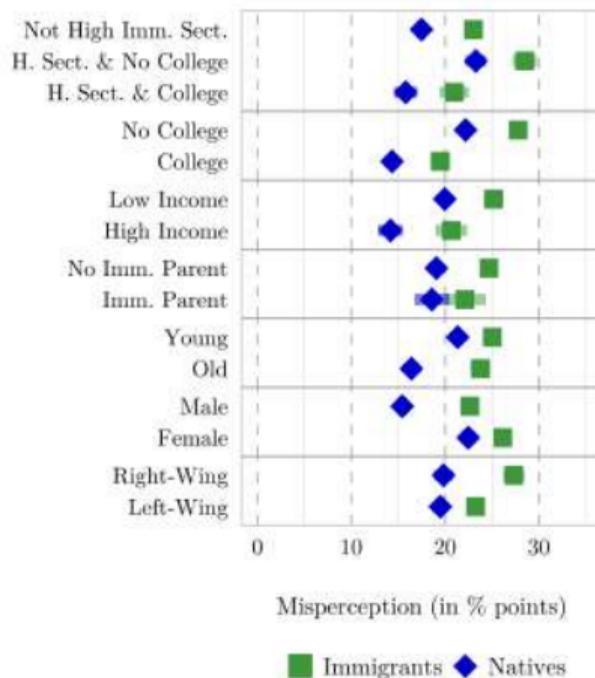
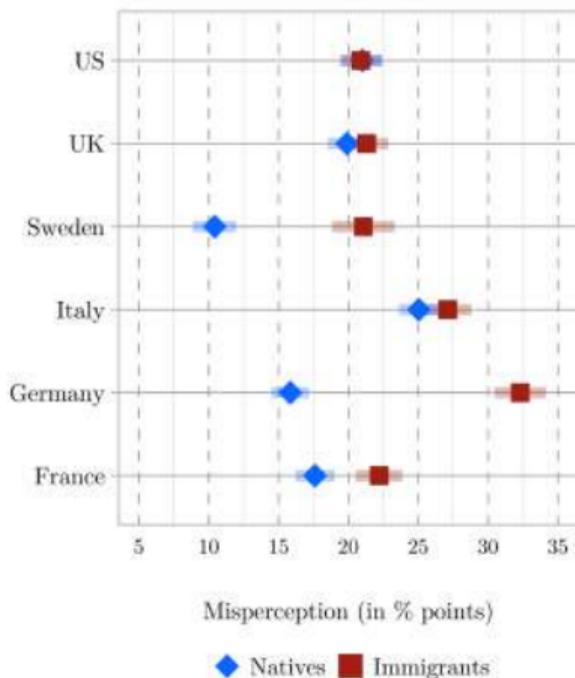


In all countries, respondents vastly underestimate the number of Christian immigrants. Those who have smallest misperception (smallest negative number) are 1) college educated, 2) those with immigrant parent, 3) men, 4) left-wing.

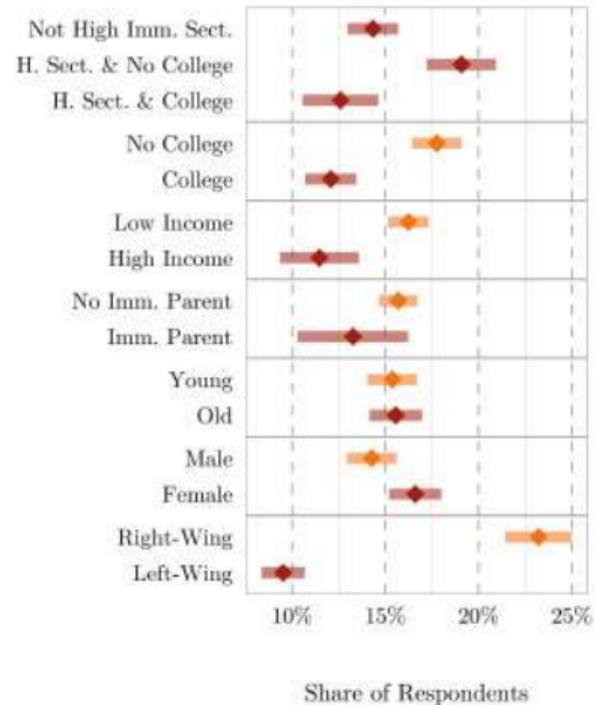
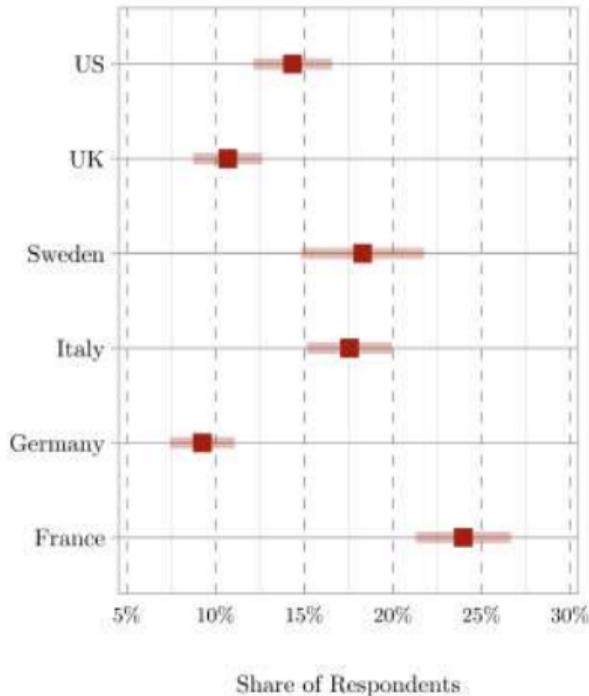
# Misperceptions of Share of High-Educated - Immigrants vs. Natives



# Misperception of Unemployment - Immigrants vs. Natives

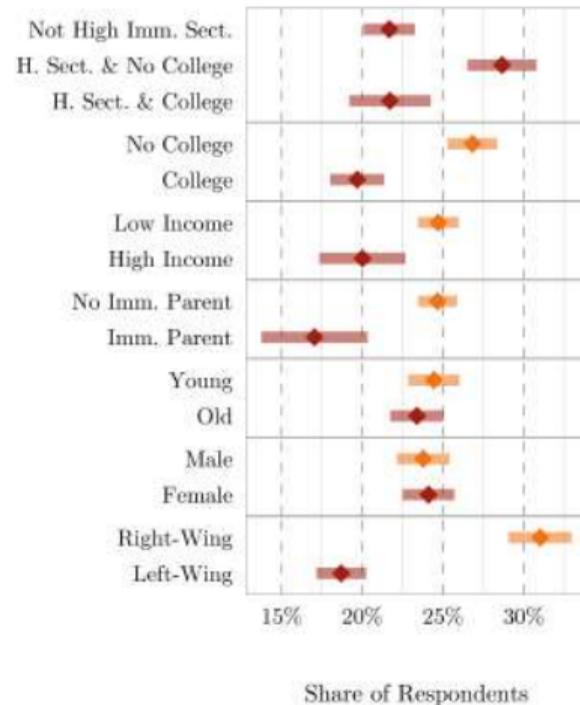
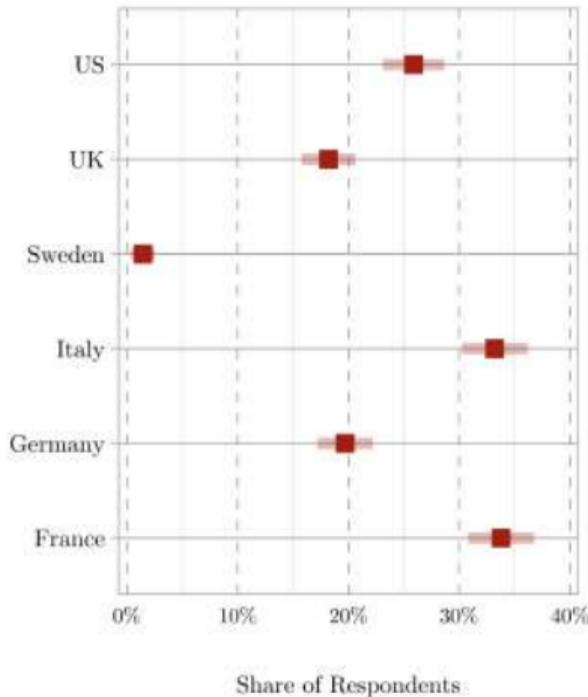


## Share of Respondents who believe average immigrant gets at least twice the amount of transfers of natives



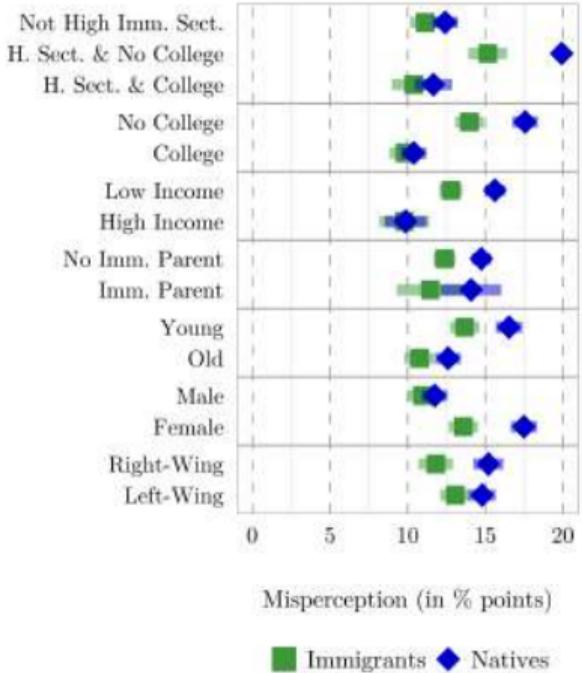
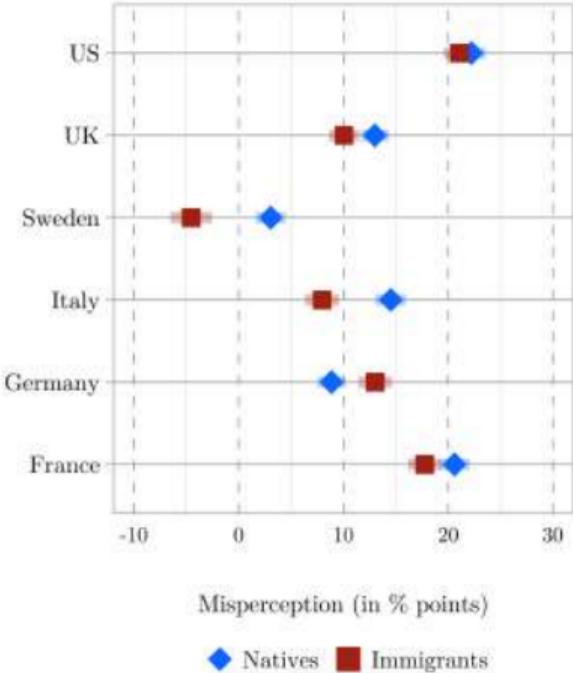
In reality in no country immigrants get more than twice the transfers of natives. Those who think immigrants get many transfers are 1) low educ in high immigration sectors, 2) non college educated, 3) the poor 4) right wing respondents. [▶ Relative Transfers](#)

# “Bias”: Does Mohammad Get More Transfers and Pay Less Taxes all Else Equal?

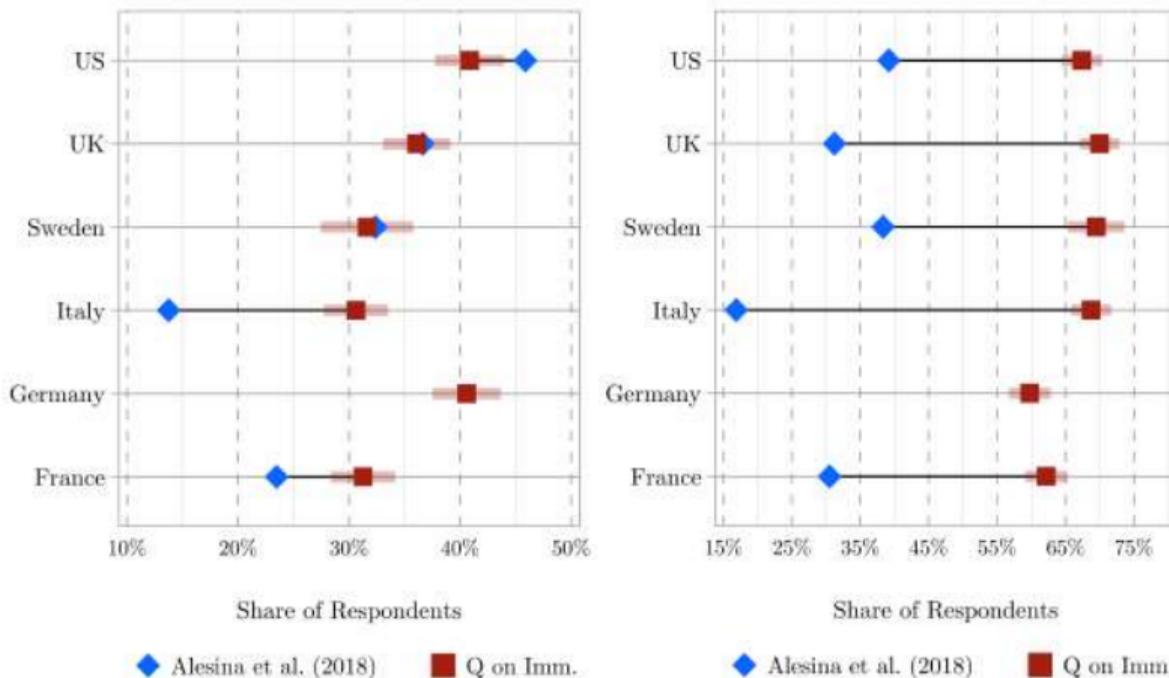


Across all countries, and respondent characteristics, a non trivial share think all else equal Mohammad gets more transfers and pays less taxes. France and Italy are most “biased.” Low educated in high immigrant sectors, non college educated, the poor, and right wing are most biased.

# Misperception of Poverty - Immigrants vs. Natives



## % of Respondents who Think Poor Immigrants Don't Put in Effort and that Rich Immigrants Worked Hard



Countries vary on whether they think poor immigrants or poor natives are most likely to be lazy. U.S. is an outlier (also thinks poor are lazy in general). All countries agree that IF an immigrant got rich, they must have worked hard.

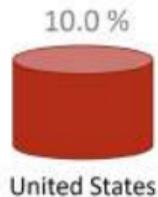
## Information Treatment: Number of Immigrants

Today, what share of the population of the United States are legal immigrants?

Link to video: <https://youtu.be/2bVzfv0a-fE>

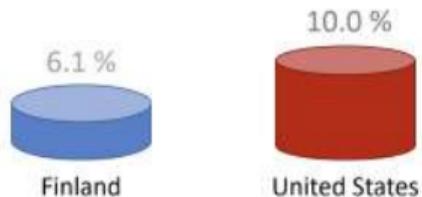
## Information Treatment: Number of Immigrants

Today, legal immigrants make up 10.0 % of all people in the United States.



## Information Treatment: Number of Immigrants

For comparison, among rich countries, the lowest share of legal immigrants is 6.1 %.



## Information Treatment: Number of Immigrants

For comparison, among rich countries, the lowest share of legal immigrants is 6.1 %. The largest share of legal immigrants is 29.1 %.



# Information Treatment: Origin of Immigrants



Think about all the immigrants legally residing in the U.S. today



Link to video: [https://youtu.be/-603kdm\\_GkA](https://youtu.be/-603kdm_GkA)

# Information Treatment: Origin of Immigrants



Think about all the immigrants legally  
residing in the U.S. today

Where do they come from?



# Information Treatment: Origin of Immigrants



# Information Treatment: Origin of Immigrants



The number of little stick men is proportional to the true number of immigrants coming from each region

Latin America



# Information Treatment: Origin of Immigrants





## “Anecdote” Treatment: Hard Work of Immigrants

Emma legally came to the U.S. at age 25.

She lives with her husband - a construction worker - and two small children in a one-bedroom apartment.

For the past 5 years, she has been working in a retail store.

Link to video: [https://youtu.be/\\_1SoLYX80yE](https://youtu.be/_1SoLYX80yE)

## “Anecdote” Treatment: Hard Work of Immigrants



She starts work at 5 am every day of the week, earning the minimum wage for such tasks as restocking the shelves, helping customers, mopping the floor and cleaning the bathrooms.

## “Anecdote” Treatment: Hard Work of Immigrants



When her day shift at the store ends at 3 pm, Emma starts her second job as a cleaning lady.

She takes two buses to get to her clients.

## “Anecdote” Treatment: Hard Work of Immigrants



She finishes around 7 pm and gets home by 8 pm.

## “Anecdote” Treatment: Hard Work of Immigrants



She then makes dinner for her family and sometimes helps the children with their homework before they go to bed.

## “Anecdote” Treatment: Hard Work of Immigrants



Emma takes online courses.  
She stays up until midnight to  
work on her courses.

She cannot take out a loan to  
go to a full-time college.

## “Anecdote” Treatment: Hard Work of Immigrants

Emma and her husband have no free time, no weekends, and haven't taken any holidays since arriving in the U.S..

Despite working two jobs and barely making ends meet, Emma is very happy to be in the U.S..

She hopes that thanks to her hard work she will one day be able to start her own small business.

# How Elastic Are Preferences for Redistribution: Evidence from Randomized Survey Experiments

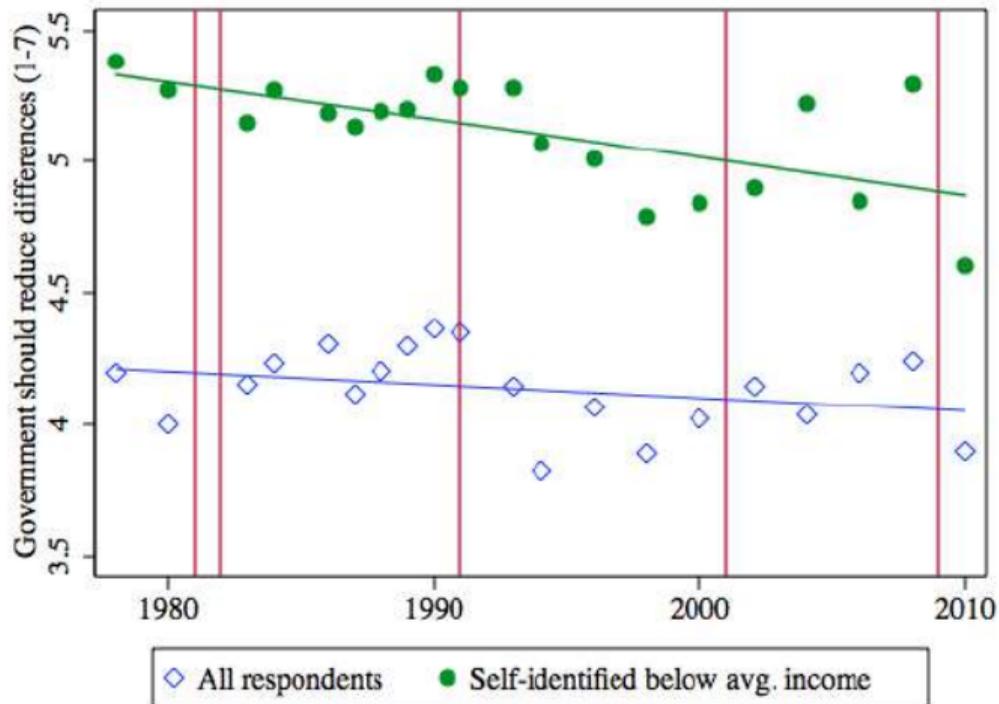
Ilyana Kuziemko, Michael I. Norton, Emmanuel Saez, and Stefanie Stantcheva

<https://www.dropbox.com/s/q01khis47tedxbh/InequalitySurvey.pdf?dl=0>

## Motivation: Rising inequality, no Demand for Redistribution

- Focus in media on growing income share of “one percent” (23% in 2012).
- More recent focus on *wealth* inequality increase (top 1% has 35% of wealth).
- Classic Richard-Meltzer model: demand for redistribution is increasing in inequality.
  - ▶ But: top income and inheritance taxes in US have fallen during period.
  - ▶ Voter demand for redistribution has been flat or falling during this period.
- Do Americans simply not care about inequality?
  - ▶ Newsweek (2001): *“If Americans couldn’t abide rising inequality, we’d now be demonstrating in the streets.”*

## Motivation: Lack of Support for Redistribution



The government should reduce income differences (scale from 1–7, GSS)

## Our project explores what drives redistributive preferences

- Use online experiments ( $\geq 10,000$  obs) to examine how info affects redistributive demand.
  - ▶ Income tax rates, transfer policies, and inheritance taxes.
  - ▶ General structure: treatment group sees info, control doesn't.
  - ▶ Info highly salient and customized (upper bound?)
- Main “omnibus” experiment documents effects of comprehensive info (ineq & taxes).
- Then, series of experiments teasing out mechanisms.

## Summary of Main Results

- Main omnibus treatment ( $N = 4,000$ ):
  - ▶ Large “first stage” effects on perceptions of inequality.
  - ▶ Very small effects on policies: min wage, food stamps, EITC support.
  - ▶ Big exception: increases support for estate tax a lot.
  - ▶ Decreases trust in government.
- Follow-up with subset of respondents 1 month later: many treatment effects persist– estate tax effect remains very large.
- Real responses: treatment increases likelihood of sending petitions to raise estate tax to respondents’ Senator.
- Preferences about tax and transfer policies “stubborn” to info, preferences about estate tax “malleable” and persistent.
- Could be due to lack of trust in government and lack of connection to policies.

# Structure of the Omnibus Experiment

- Common structure of all our surveys:
  - ① background socio-economic questions
  - ② randomized info treatment
  - ③ questions on views on inequality, tax and transfer policies, government.
  
- Treatment, comprehensive customized:
  - ▶ Interactive info on current income distribution with sliders [▶ Ineq1](#)
  - ▶ Counterfactual income distribution if growth equally spread. [▶ Ineq2](#)
  - ▶ Redistributive policies: income taxes and econ growth. [▶ Taxes](#)
  - ▶ Estate tax: only top 0.1% of estates pay it. [▶ Estate](#)

# Where are you in the income distribution?

Please enter your annual household income\* in the box below:

\$

**39%** of US households earn less than your household



We now encourage you to move the blue slider above (by clicking on the line) to explore the US income distribution on your own and to answer the questions below.

**79%** of households earn less than **\$73,000**.

[https://hbs.qualtrics.com/SE/?SID=SV\\_77fSvTy12ZSBihn](https://hbs.qualtrics.com/SE/?SID=SV_77fSvTy12ZSBihn)

▶ Back to Main

# Where would you have been in the income distribution?

**Income inequality has increased dramatically in the United States since 1980.**  
Incomes of poorer and middle-income families have grown very little while top incomes have grown a lot.

**How would YOU be doing if inequality had not increased?**

The slider below shows how much each group would make if incomes had grown by the same percentage since 1980 for all groups: the poor, the middle class, and the rich. Use the slider to answer the questions below.



A household making **\$25,800** today would instead be making **\$35,200** if inequality had not changed since 1980.  
In other words, if growth had been evenly shared, this household would have earned **37% more**.

[https://hbs.qualtrics.com/SE/?SID=SV\\_77fSvTy12ZSBihn](https://hbs.qualtrics.com/SE/?SID=SV_77fSvTy12ZSBihn)

# Correlation Taxes and Growth

Increasing the federal income tax rate and the estate tax rate on very high incomes can raise tax revenue without hurting economic growth.

The following slides describe both income and estate taxes on high incomes and economic growth over three historical periods: (1) Before the New Deal of 1933, (2) Between 1933 and 1980, (3) Since 1980.

Economic growth is measured as the growth in the average family market income.



[https://hbs.qualtrics.com/SE/?SID=SV\\_77fSvTy12ZSBihh](https://hbs.qualtrics.com/SE/?SID=SV_77fSvTy12ZSBihh)

# Estate Taxes

Besides the income tax, the government can also level the playing field with the **federal estate tax**.

The **Federal Estate Tax** (also known as the **Death Tax**) applies when a deceased person leaves **more than \$5 million** in wealth to his or her heirs. Wealth left to a spouse or charitable organizations is exempt from estate tax.



**Only 1 person out of 1000 is wealthy enough to face the estate tax.**

Average Americans do not have anything close to \$5 million in wealth, so the estate tax does not affect them and they can pass on their property to their children tax-free.

**Eliminating** the estate tax would allow the very richest families to pass down all of their wealth to their children tax-free. Hence, children of rich people would also start off very rich themselves.

**Increasing** the estate tax is a way to level the playing field between the children of wealthy parents and children of middle-class parents.

[https://hbs.qualtrics.com/SE/?SID=SV\\_77fSvTy12ZSBihh](https://hbs.qualtrics.com/SE/?SID=SV_77fSvTy12ZSBihh)

## Explaining the Very Robust Estate Tax Result

- Breaking off estate tax part from inequality info leaves effects unchanged.
- Stripped down “Neutral” version: mentions only tax incidence, no moralistic framing, but still has very large effect. ▶ Neutral ▶ Emotional.
- Effects persist almost unchanged one month later.
- Is widespread misinformation the source of strong effects?
  - ▶ Documented previously as well.
  - ▶ Only 12% of control group answered correctly (random guessing yields 14% correct).
  - ▶ 16% of liberals versus 6% of conservatives answered correctly.
- Potentially important policy implications given recent emphasis on wealth taxation (Piketty 2014).

## Negative Treatment to Directly Decrease Trust in Govt

- Negative trust treatment consisting of several multiple choice questions making respondents reflect on negative aspects of government:
  - ▶ Is govt “effective in limiting fraud, waste and abuse” in its programs? (88% disagree).
  - ▶ Do you agree that “Politicians in Washington work to enrich themselves and their largest contributors, instead of working for the benefit of the majority of citizens.”? (90% do).
  - ▶ Aso: Foreign Aid, Wall Street bailout, Citizens United campaign financing.
- Show results from ranking of OECD countries in terms of government transparency (U.S. is in bottom quartile). ▶ Treatment

## Will emotional appeals produce larger changes?

- Omnibus treatment extensive, interactive and personalized, but:
  - ▶ factual and numeric info.
  - ▶ focus on relative inequality, not absolute poverty.
- New treatment to create empathy between respondent and low-income families:
  - ▶ *Think about a family of X1 with X2 parent(s) working full time at low pay and X3 kids... What would be the minimal monthly expenses that such a family would have to make to afford living where you live? (Rent, food, utilities, transportation, child expenses).*
  - ▶ X1, X2, X3 are customized to respondent's own family situation (without him knowing it).
  - ▶ Program computes surplus or deficit relative to poverty line.

## Draw Very Explicit Link between Low-Income and Policies

- Ask respondents to estimate budget of family earning min wage for basic needs such as rent, food, utilities, transportation, child care.
- Family composition customized to fit the respondent's own situation.
- Program shows surplus or deficit relative to budget of a min wage earning family.
- Respondents are also told that *"The Food stamps program helps many low income families, such as those earning only minimum wage. It provides \$150/month per person to help with food expenses."*
- Highly explicit prime in favor of these poverty reduction policies.

# Understanding Tax Policy: How Do People Reason?

Stefanie Stantcheva

[https://scholar.harvard.edu/files/stantcheva/files/w27699\\_1.pdf](https://scholar.harvard.edu/files/stantcheva/files/w27699_1.pdf)

# How Do People Understand and Reason about Economic Policies?

What are the **mental models** people use to think about tax policy?

What do they **know**? How do they **reason**?

Desired tax policy =

$f(\text{perceived efficiency effects, perceived distributional impacts, fairness considerations, } X_1, X_2, \dots)$

Why is understanding reasoning important?

Advantages of a more structural approach to policy views, over reduced-form approach.

Heterogeneity (even if same overall policy view). Where does disagreement lie?

Identifying (correctable) gaps in knowledge or inconsistent reasoning.

Where is intervention needed versus not (e.g.: misperception of distributional impacts vs. fairness concerns)?

Can we improve the policy debate with better understanding of economic policies?

## Main Findings

Key factor driving support (or lack thereof): **Fairness & the benefits of redistribution**, followed by **views on the government**.

Efficiency concerns play a more minor role in people's minds.

Causal effect confirmed with experiment.

**But Fairness is in the eye of the beholder!**

**Partisan divergences are large:** in policy views, but also in reasoning about underlying mechanisms.

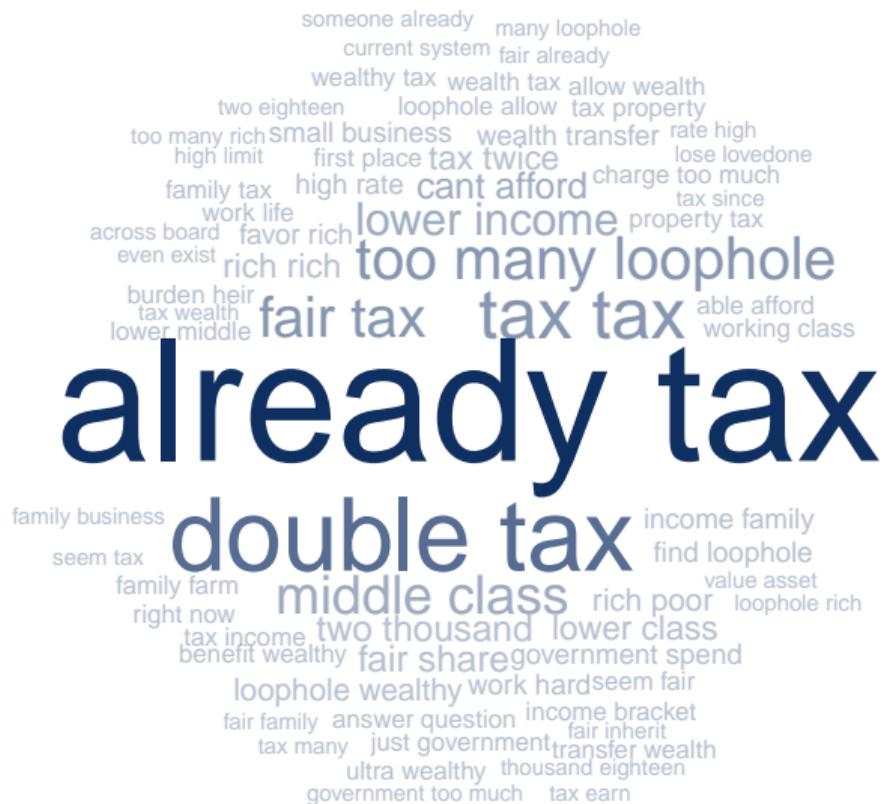
Democrats: more likely to believe that taxes have less economic costs, that tax cuts almost never “pay for themselves” & that people will not starkly change behaviors in response to tax increases...

that “trickle-down” doesn't happen, that distributions of income, wealth & inheritances are unfair & that taxing away parts of them is fair.

“Polarization of Reality” even in tax knowledge/perceptions (facts).

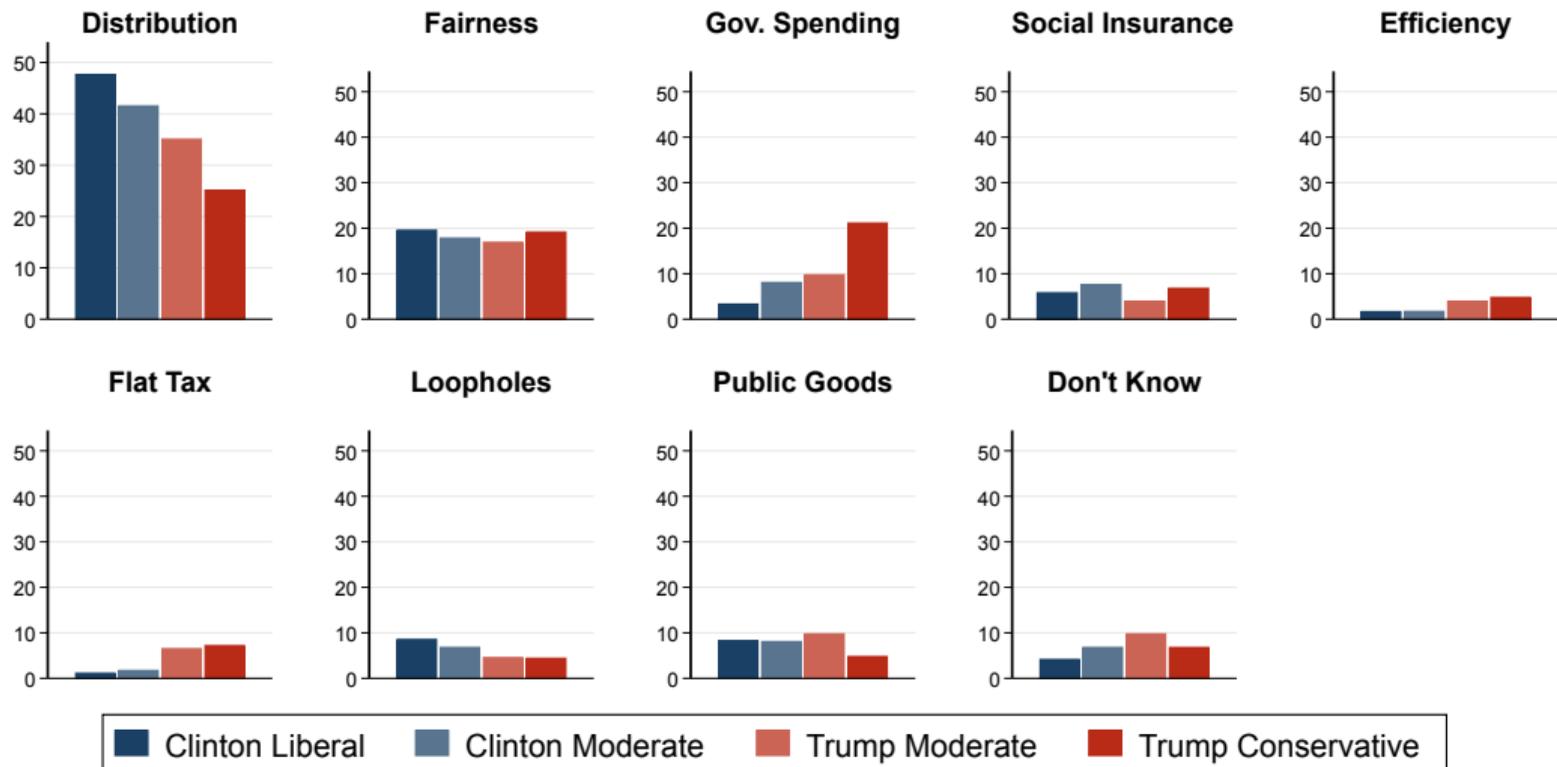


# What are the Shortcomings of the U.S. Federal Estate Tax?



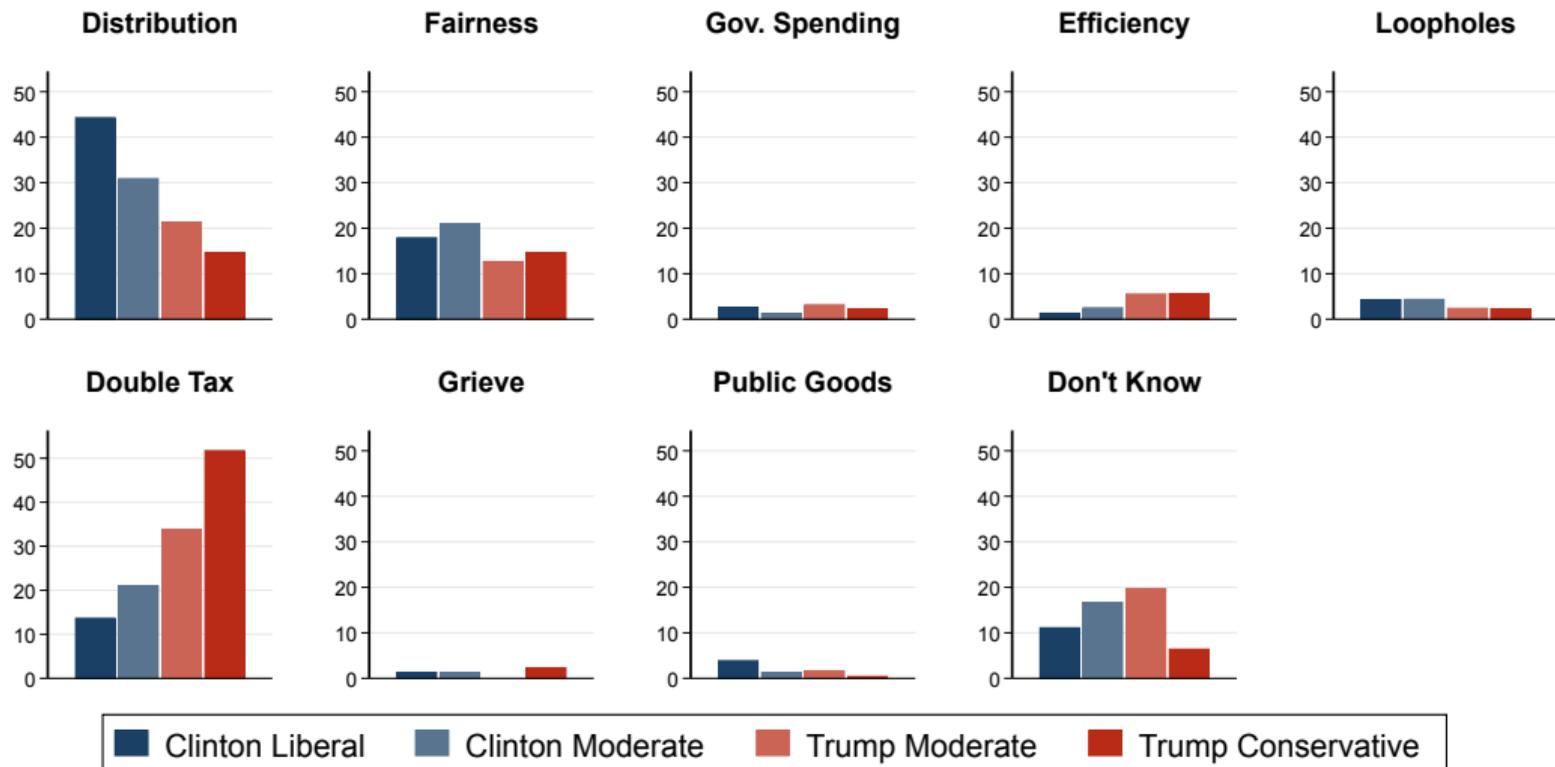
# What are your Main Considerations about the Income Tax?

## Relative Frequency of Topics by Political Views



# What are Your Main Considerations About the Estate Tax?

## Relative Frequency of Topics by Political Views



## Who Knows More?

Republicans tend to view taxes as higher and more progressive than Democrats (the “Polarization of Reality”).

Higher-income respondents more aware of what’s going on at the top.

Those with more self-reported knowledge: more accurate, and also more willing to pay for information.

## Efficiency and Distributional Effects of Income & Estate Taxes

Republicans believe both middle class and high earners will respond more to taxes than Democrats do: will work less, move states, stop working, have spouse stop working, be less entrepreneurial (exception: tax evasion!)

If taxes cut for high incomes: Republicans believe more than Democrats that lower-incomes will also gain.

If overall taxes are raised, Republicans believe more than Democrats that everyone will lose.

Republicans perceive their own gains and losses from tax cuts (income or estate tax) as more similar to those of high incomes than Democrats do.

Consistent with Republicans perceiving their own social class as higher, even conditional on income.

## Fairness Concerns for Income and Estate Taxes

Fundamental disagreement on whether income inequality is a serious issue (25% of Republicans; 75% of Democrats) or whether high-incomes entitled to keep large share of their income (8% of Democrats; 55% of Republicans), whether wealth inequality is a serious issue (18% of Republicans; 65% of Democrats).

Estate tax poses very thorny fairness issues depending on whether take children or parents' perspective.

If take point of view of children: Many agree unfair children have access to better amenities if born in rich families and, to a lesser extent, that unfair children born in wealthier families inherit more.

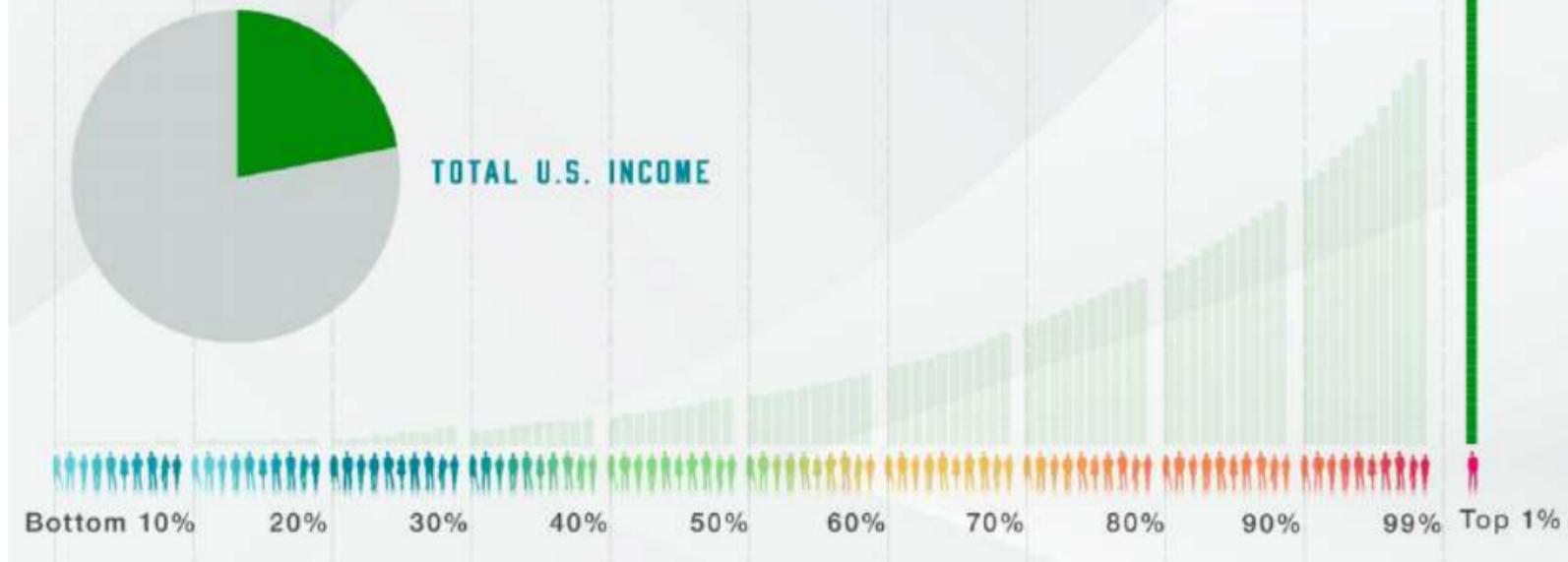
Still, partisan gap is large.

But if we focus on trade-off between parents being entitled to pass on their wealth versus children being entitled to start with equal opportunities, views quite split even within political views.

50% of Democrats think fair to allow parents to pass on wealth; 70% of Republicans.

## Income Tax: Redistribution Treatment (I)

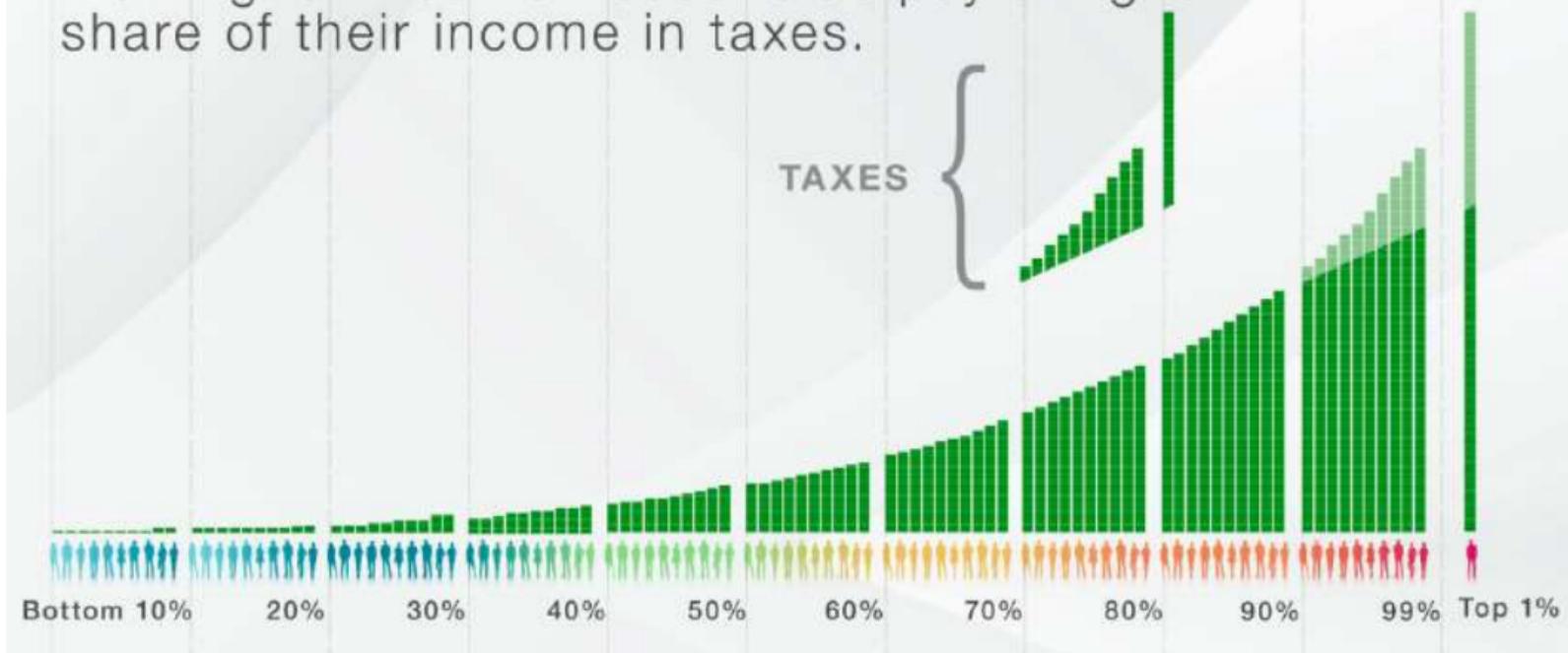
The top 1% richest agents, just one person in 100, earn around 22% or almost one quarter of all income in the U.S.



[Link to the video here](#)

## Income Tax: Redistribution Treatment (II)

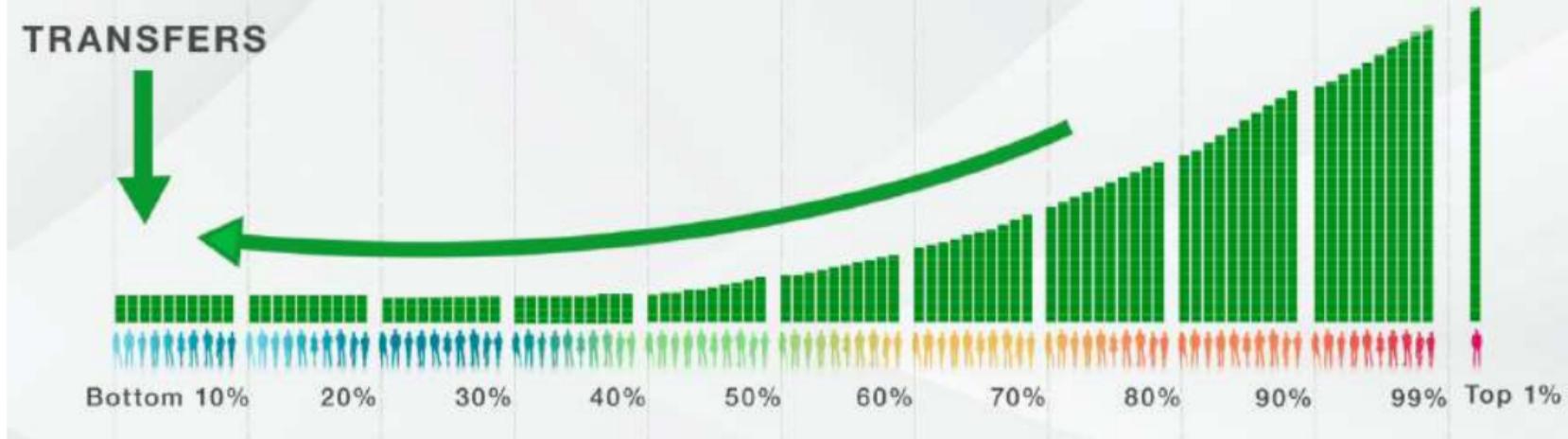
A progressive income tax system means that higher income households pay a higher share of their income in taxes.



## Income Tax: Redistribution Treatment (III)

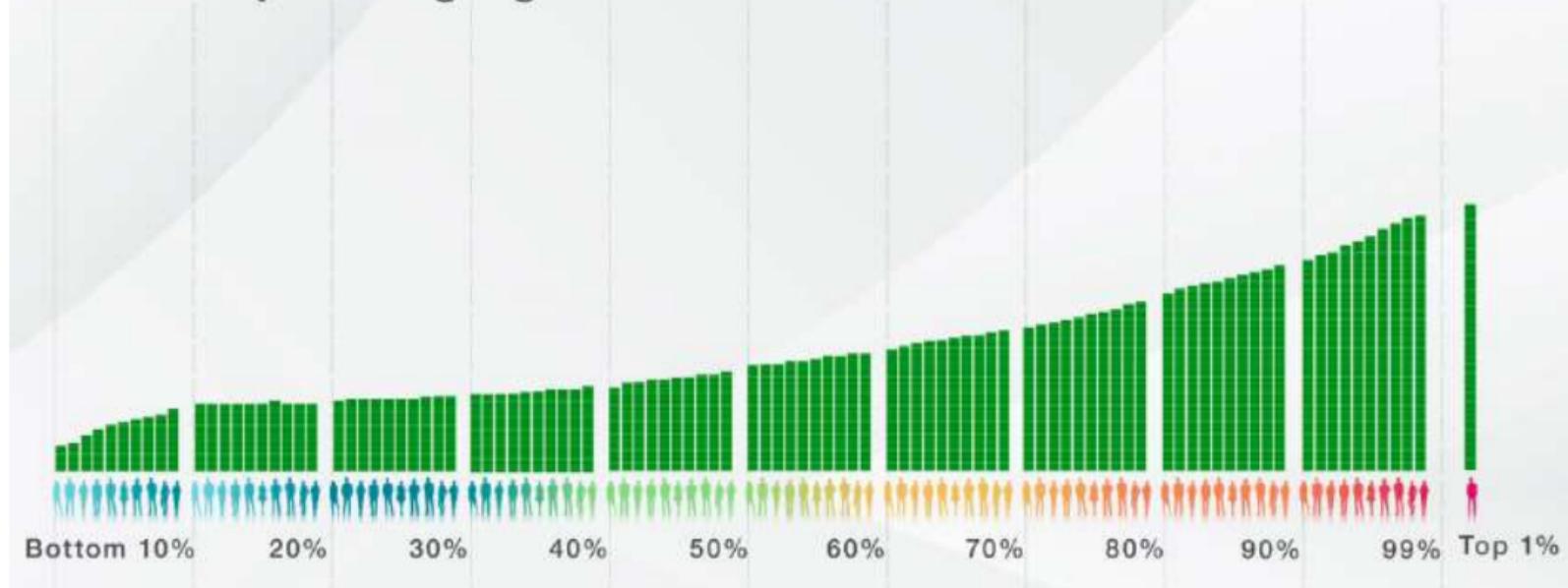
Revenues from the income tax go to fund tax cuts or transfers for lower income families.

**TRANSFERS**



## Income Tax: Efficiency Treatment (I)

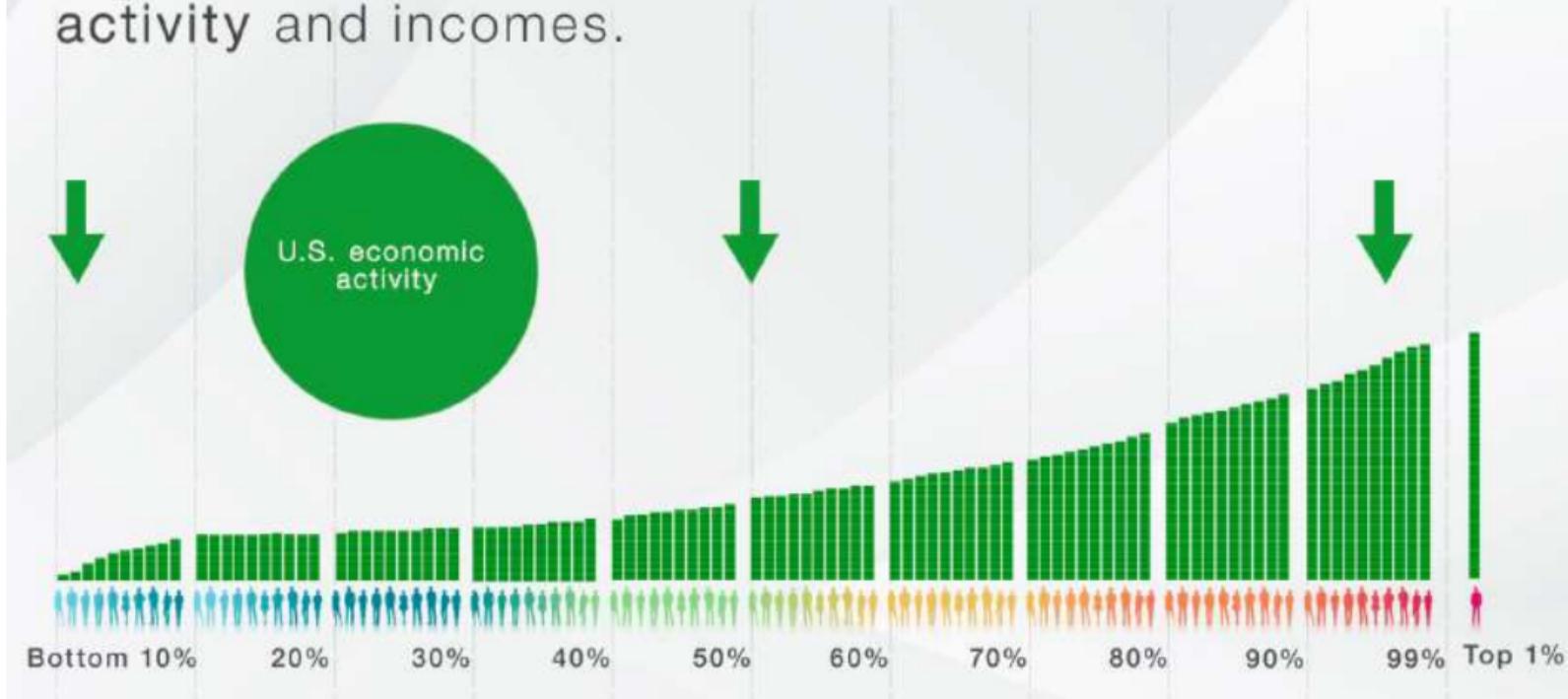
However, raising taxes has some economic costs. These costs arise from **people reacting to higher taxes** by changing their behaviors.



[Link to the video here](#)

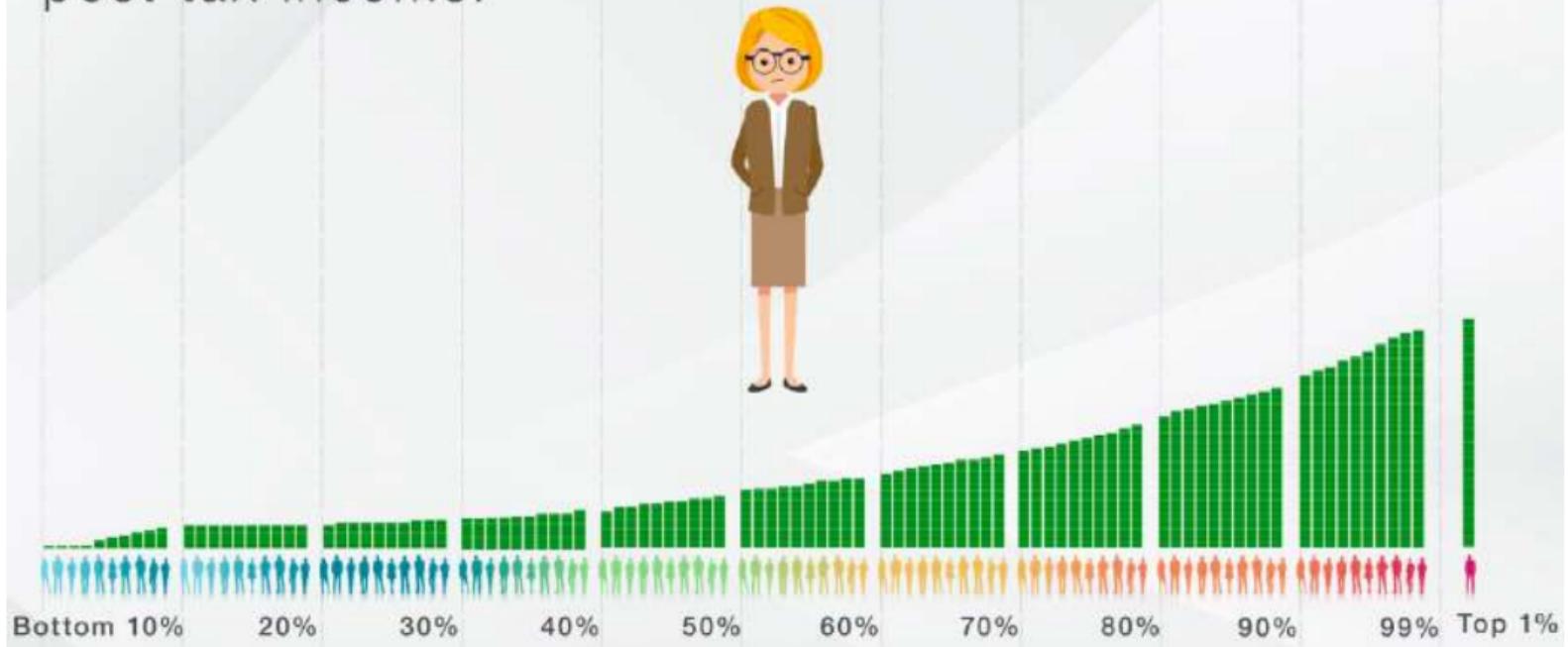
## Income Tax: Efficiency Treatment (II)

Higher taxes could thus reduce overall economic activity and incomes.



## Income Tax: Efficiency Treatment (III)

When the tax rate rises, Martha may decide to not look for a job anymore, since the cost of searching and working may no longer be worth the lower post-tax income.



## Income Tax: Economist Treatment (I)

All taxes have an **economic cost** and too high taxes can discourage economic activity.

But there are also **benefits**. Progressive taxes make the income distribution **more equal and fair** by redistributing some income from richer to poorer people. The ideal income tax system will be the one that balances these costs and benefits.

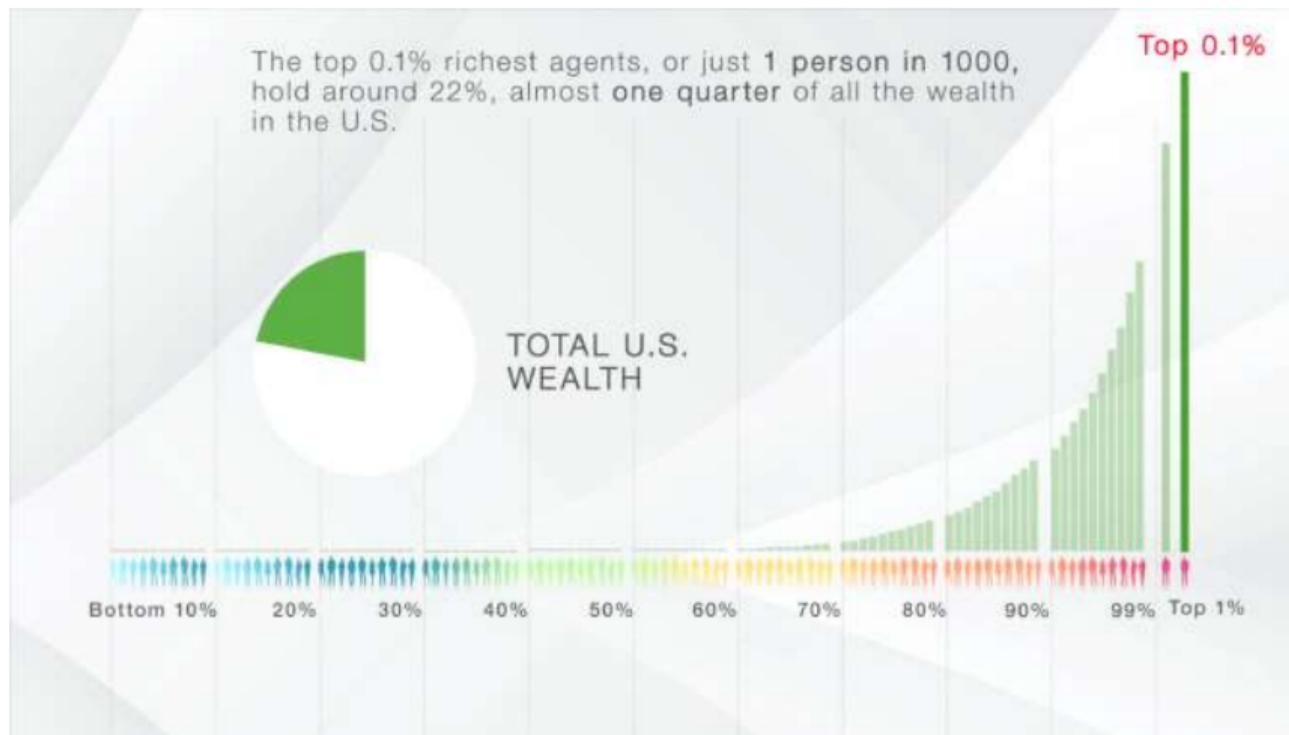
RAISE TAXES



LOWER TAXES

[Link to the video here](#)

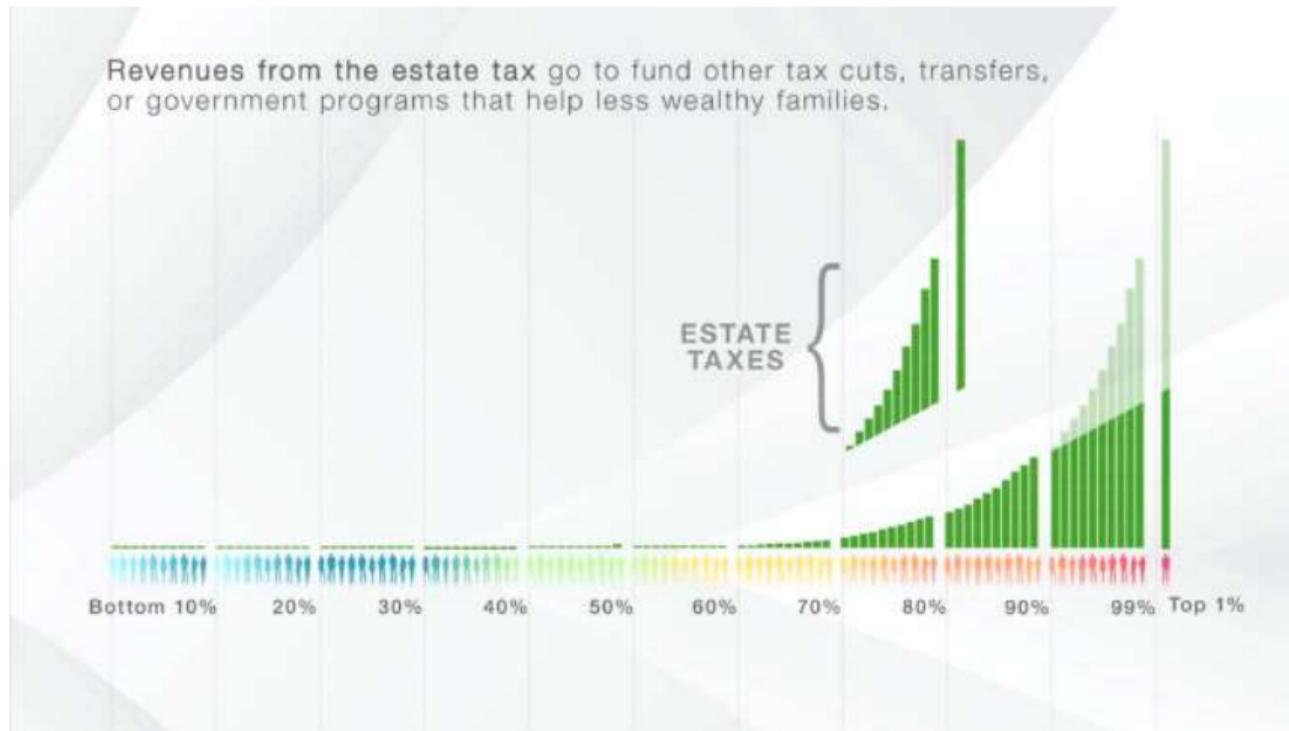
## Estate Tax: Redistribution Treatment (I)



[Link to the video here](#)

## Estate Tax: Redistribution Treatment (II)

Revenues from the estate tax go to fund other tax cuts, transfers, or government programs that help less wealthy families.



## Estate Tax: Redistribution Treatment (III)

Leveling the playing field through the estate tax is even more important since children from wealthy families already start with many more advantages in life, such as:



better schools



better health

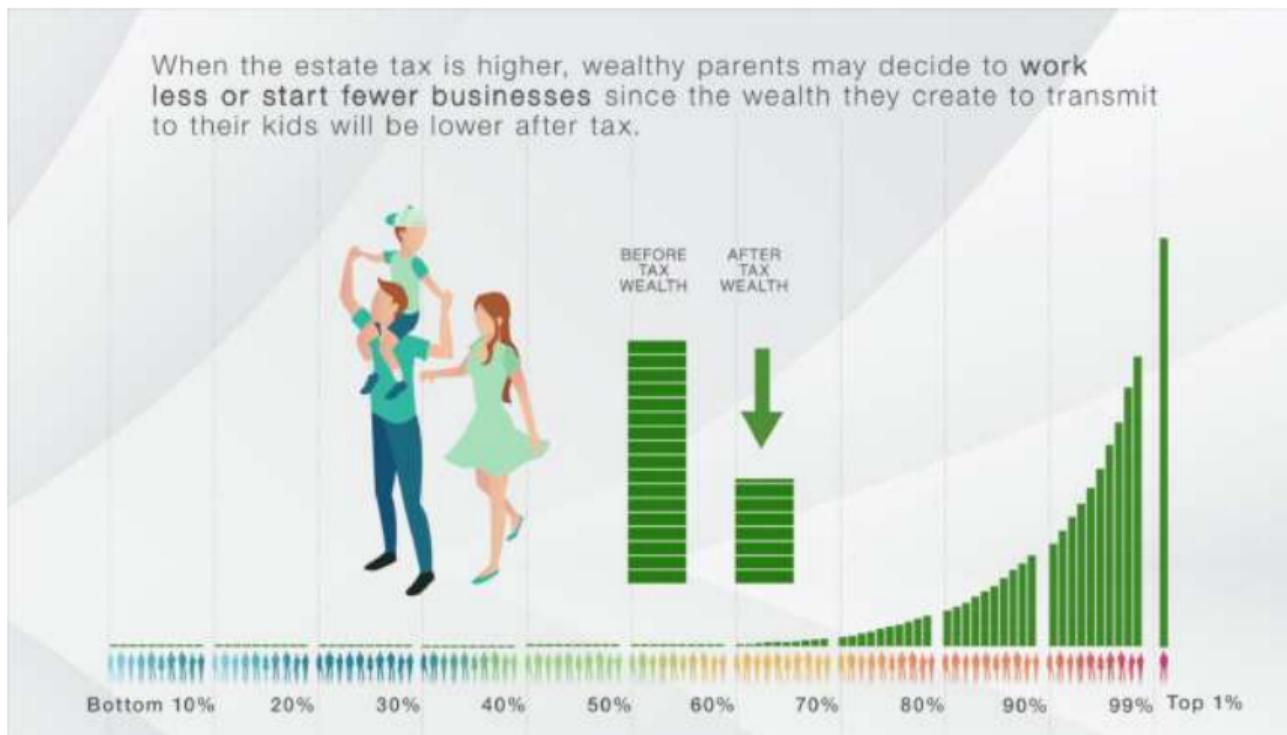


better neighborhoods



better social and professional networks

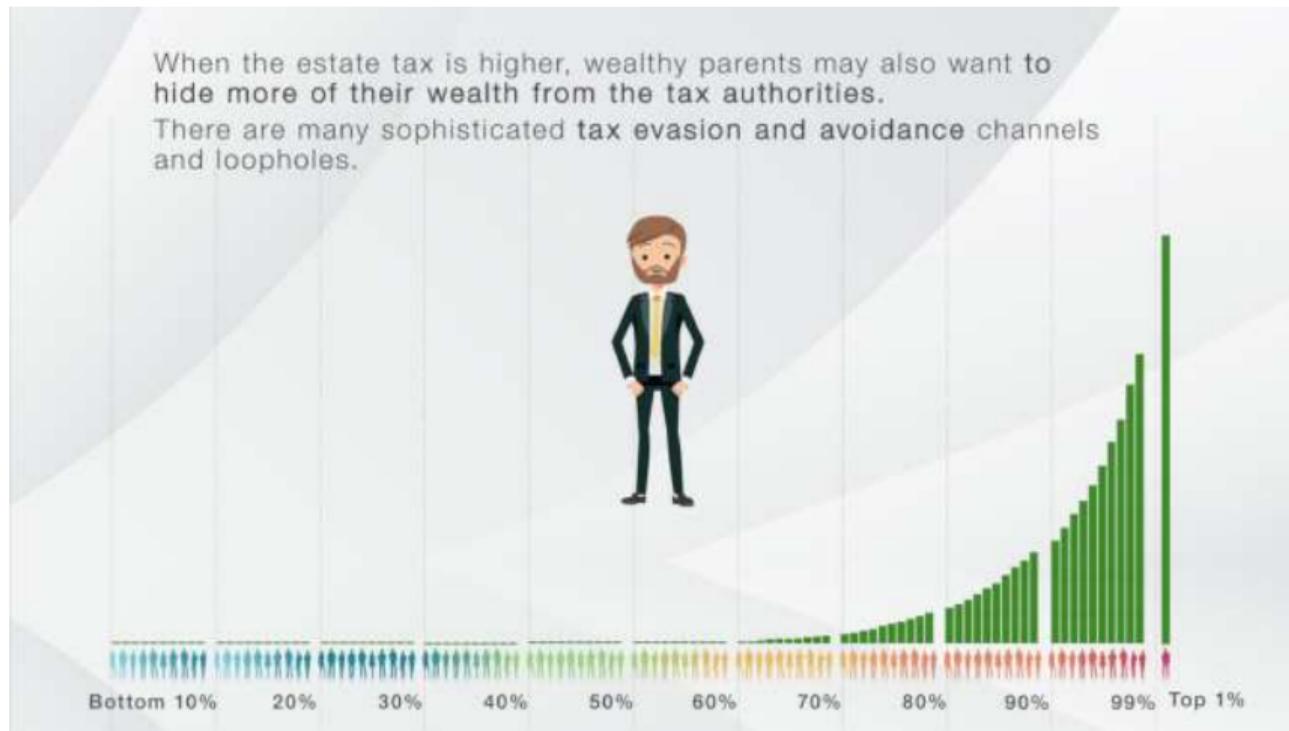
## Estate Tax: Efficiency Treatment (I)



[Link to the video here](#)

## Estate Tax: Efficiency Treatment (II)

When the estate tax is higher, wealthy parents may also want to hide more of their wealth from the tax authorities.  
There are many sophisticated tax evasion and avoidance channels and loopholes.



## Estate Tax: Efficiency Treatment (III)

But there are also economic benefits from a higher estate tax:  
When wealthy children receive less after-tax wealth handed down from their parents, they will work more on their own.

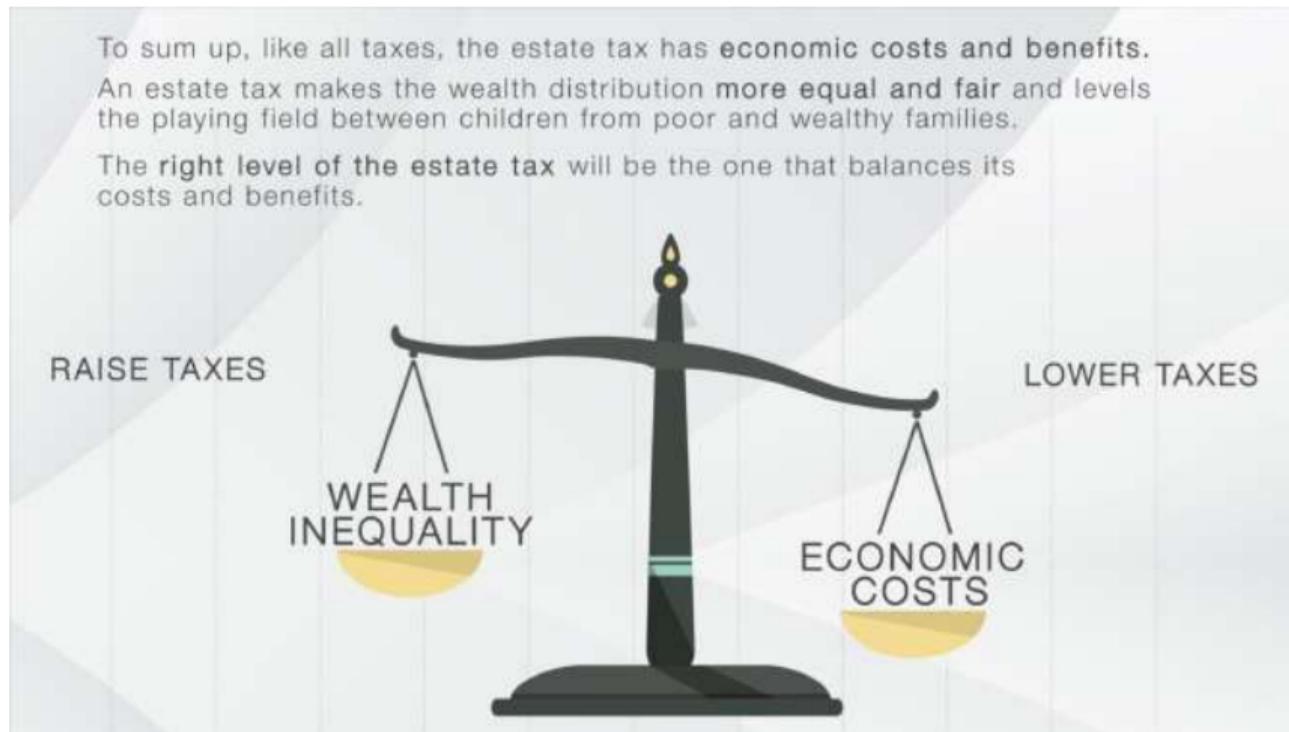


## Estate Tax: Economist Treatment (I)

To sum up, like all taxes, the estate tax has economic costs and benefits.

An estate tax makes the wealth distribution more equal and fair and levels the playing field between children from poor and wealthy families.

The **right level of the estate tax** will be the one that balances its costs and benefits.



[Link to the video here.](#)

To be continued..

Comments very welcome!

THANK YOU!

[socialeconomicslab.org](http://socialeconomicslab.org)

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