



Does Inequality Matter?

HOW PEOPLE PERCEIVE ECONOMIC DISPARITIES AND SOCIAL MOBILITY



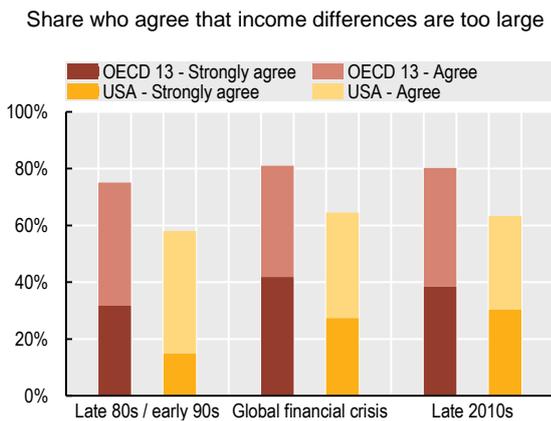
How does the United States compare?

Across the OECD, most people are concerned about inequality. However, such concern varies across countries. It is higher where people perceive wide economic disparities, low intergenerational mobility, and that working hard does not help to get ahead in life. Together with people's views of the effectiveness of policies, these perceptions and beliefs shape people's support for inequality-reducing reforms.

Are people concerned over income disparities?

Concern over income inequality is substantially lower in the United States compared to the OECD average. In 2017, roughly 63% of population agree – and less than half of these strongly agree – that income disparities are too large (Figure 1), while the OECD average is 80%. However, the fraction that strongly agrees had almost doubled between the late 1980s and the Great Recession, and have continued to increase up to now.

Figure 1. Concern over income disparities is low



Source: *Does Inequality Matter?* Chapter 2.

What drives concern?

The level of concern over income disparities is low, although conventional indicators of income

inequality – such as the Gini index for disposable income – are significantly above the OECD average (Figure 2). Indeed, specific country factors influence concerns in the United States:

- Perceptions of inequality: Low concern does not seem due to low levels of perceived inequality: perceived earnings disparities and richest 10%'s income shares are relatively larger than the OECD average.
- Preferences over the level of disparities: The low level of concern is rather due to higher preferred levels of earnings disparities.
- Perceptions of equality of opportunity: The large preferred level of earnings disparities is likely shaped by the highest confidence – among the OECD countries – in the importance of hard work to get ahead in life. There is also a relatively low level of perceived sticky floors: people believe that 52 out of 100 poor children will remain poor once adult (56 on OECD average; year 2020). This is lower than in countries with similar levels of intergenerational persistence according to conventional indicators, e.g. Korea, and also of countries with lower persistence, e.g. Canada. This, however, does not mean that people believe in strict equality of opportunities: in fact, they still believe that having wealthy and educated parents is important to get ahead in life, even in comparison with other countries.

Figure 2. Confidence in the importance of hard work is high

Indicators and opinions about disparities



Note: The OECD averages refer countries available for each indicator. Conventional statistical indicators refer to the latest available year; for perceived richest 10%'s share of income to 2020; all the other data refer to 2009.

Source: OECD Income Distribution Database and OECD (2018); *Does Inequality Matter?* Chapter 2.

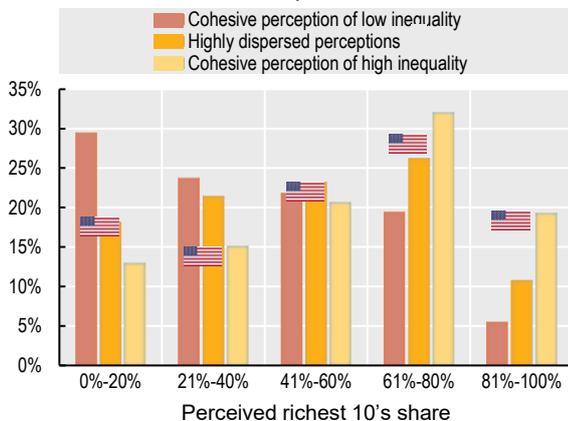
- **Changes of perceptions and preferences:** The preferred top-bottom earnings ratio has increased in the two decades up to the Great Recession. This may be partially explained by an increase in meritocratic beliefs (i.e. the importance of hard work). Yet, the growth in perceived disparities was much larger, causing the increase in concerns.

How divided is the public opinion?

People disagree with each other as to the extent of economic disparities. Perceptions and opinions about economic inequality are largely dispersed in the USA

Figure 3. Perceptions and opinions about economic inequality are largely dispersed

Share of population by perceived richest 10's share of national income, year 2020



Note: The three bars refer to the average across three groups of countries that present similar distributions of perceptions: cohesive perceptions of low or of high inequality, and highly dispersed perceptions.

Source: *Does Inequality Matter?* Chapter 4.

- In the US there is a clear contraposition between a group that perceives the richest 10%'s share of income to be relatively low

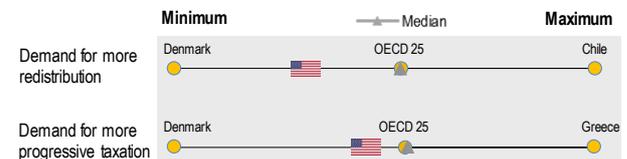
(below 20%) and a group which believes it to be between 60 and 80% (Figure 3).

- People also disagree as to whether it is top earnings that are too high or bottom earnings that are too low. More than 26% is concerned that top earnings are too high but thinks that bottom earnings are fair or could even be lower, while the OECD average is less than 15%. On the opposite, 17% think the issue mostly pertains to bottom earnings being too low (24% in OECD average).

How much support is there for inequality-reducing policies?

Despite low levels of current redistribution but in accordance with the low level of concern, demand for more government redistributive intervention through taxes and benefits is comparatively low (Figure 4). Differently, demand for more progressive taxation – through higher taxes on the rich – is closer to the OECD average. One explanation is that the strong belief in the importance of hard work and in the possibility of escaping poverty lowers the demand for redistribution through benefits. However, the rising distance between top and bottom earners, coupled with the belief that having wealthy and highly educated parents matter for success, leads to a relatively stronger support for increasing taxes on richer people.

Figure 4. Demand for more redistribution is low



Note: Data refer to year 2020.

Source: *Does Inequality Matter?* Chapter 3.

How can people's perceptions of and concern over inequality inform policy?

Getting citizens and governments on the same page when it comes to policies reducing inequality and promote social mobility requires understanding how people form their perceptions and opinion. This includes:

Better understanding of public support for reform: Inequality of both outcomes and opportunities matter to people, hence tackling both aspects helps gain support. Nonetheless, people may favour specific policy mixes, depending on their beliefs and preferences.

Better understanding of the effectiveness of policies: People favour policies that they believe to be effective. It is necessary to evaluate the impact of inequality-reducing policies transparently and facilitate people's understanding of their functioning.

Better information on inequality and equality of opportunities: Providing high-quality information about inequality can help providing common ground for public debate, addressing the division and polarization of public opinion.

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For more information, access the complete report at: <http://oe.cd/does-inequality-matter>