

Your Place In the World: Relative Income and Global Inequality

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Other People: Near and Far

Let us suppose that the great empire of China, with all its myriads of inhabitants, was suddenly swallowed up by an earthquake, and let us consider how a man of humanity in Europe [...] would be affected upon receiving intelligence of this dreadful calamity. He would, I imagine, first of all, express very strongly his sorrow for the misfortune of that unhappy people [...]. And when all this fine philosophy was over [...] he would pursue his business or his pleasure, take his repose or his diversion, with the same ease and tranquillity, as if no such accident had happened. If he was to lose his little finger tomorrow, he would not sleep tonight; but, provided he never saw them [...] the destruction of that immense multitude seems plainly an object less interesting to him, than this paltry misfortune of his own.

Adam Smith, *The Theory of Moral Sentiments*

Introduction

- More pronounced inequality in Western democracies has intensified debate around redistribution...
- ... but academic focus has been almost exclusively on national redistribution
- But global inequality is staggering (and awareness thereof is increasing), and many pressing policy issues involve global redistribution:
 - Pandemic response
 - Trade wars
 - Climate change abatement
 - Migration
- Hence important also to understand attitude towards global redistribution and related policies

This Paper

- Why do some individuals support policies aimed at reducing global inequalities whereas others do not?
- To study this, we conducted a 2y incentivized survey experiment in a representative sample of the German population
- We focus on perceived relative income, i.e. the individual's perceived rank in the national *and* global income distributions
- We follow three trains of thought in economics to study how systematic misperceptions may translate into systematic biases in the support for policies addressing global inequality:
 1. "Meltzer & Richard"
 2. "Altruism"
 3. "Stolper & Samuelson"

Data Collection

- Tailor made survey modules in two waves of the GSOEP-IS
- GSOEP (German Socioeconomic Panel) is a representative longitudinal study of private households
 - Very comprehensive
 - Started in 1984
 - 30,000 individuals in 11,000 households sampled yearly
- GSOEP-IS is the Innovation Sample of GSOEP, where experiments can be run
 - Also representative (but smaller) sample
 - (Consider applying to GSOEP-IS with a research idea!)
- Data for our modules collected in the waves of 2017 (N=1,392) and 2018 (N=1,144).
 - No differences in attrition (or in other characteristics) between treatment and control group
- In addition to the answers to our modules, we get respondents' full answers in the rest of the survey, also in previous waves

First Wave

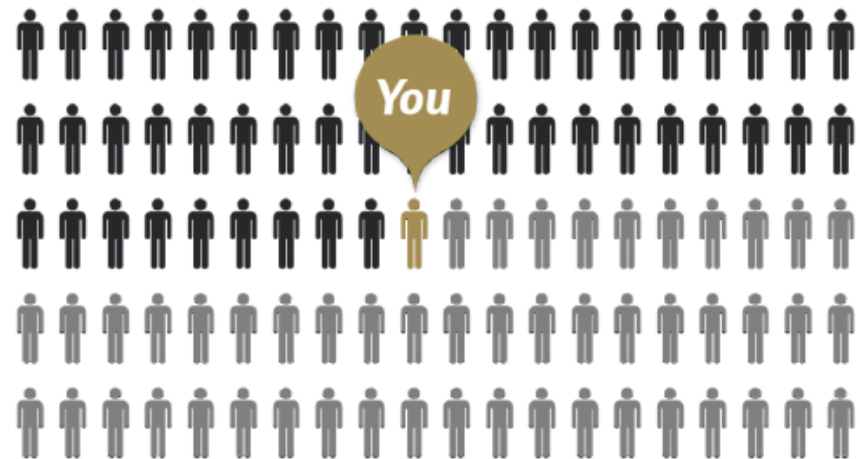
- i. Pre-treatment questions
 - Including beliefs on the importance of luck and effort for economic success at the global and the national level
 - Political party preferences (for heterogeneity analysis)
- ii. Incentivized assessment of perceived relative income rank
 - National and global (order randomized)
 - Asked for perceived rank of pre-tax, per-capita household income
- iii. Randomized treatment with truthful relative rank information to treatment group
 - (Between (iii) and (iv) other GSOEP-IS questions were asked)
- iv. Outcome measures:
 - Preferences for redistribution (global and national) and support for global, redistributive institution
 - Support for globalization, immigration
 - Incentivized altruism measure (global and national)

Treatment

We would now like to give you information about the distribution of per-capita gross household income in Germany and worldwide. This information is based on representative and independently collected data from scientifically well-recognized institutions, such as the Panel Study *“Living in Germany”*, the *World Bank*, and the *Luxembourg Income Study Center*.

In Germany, 50% of people are poorer than you, which means they have a lower per capita gross household income than you.

← Richer than you



Poorer than you →

Second Wave

- Conducted one year after the first wave
- Respondents asked incentivized questions about relative income rank again
 - Also asked how certain they were about answers
- Reassessment of questions of demand for redistribution, globalization, immigration, etc
- Incentivized eliciting of WTP for relative income information
 - Utilizing list-price version of BDM.

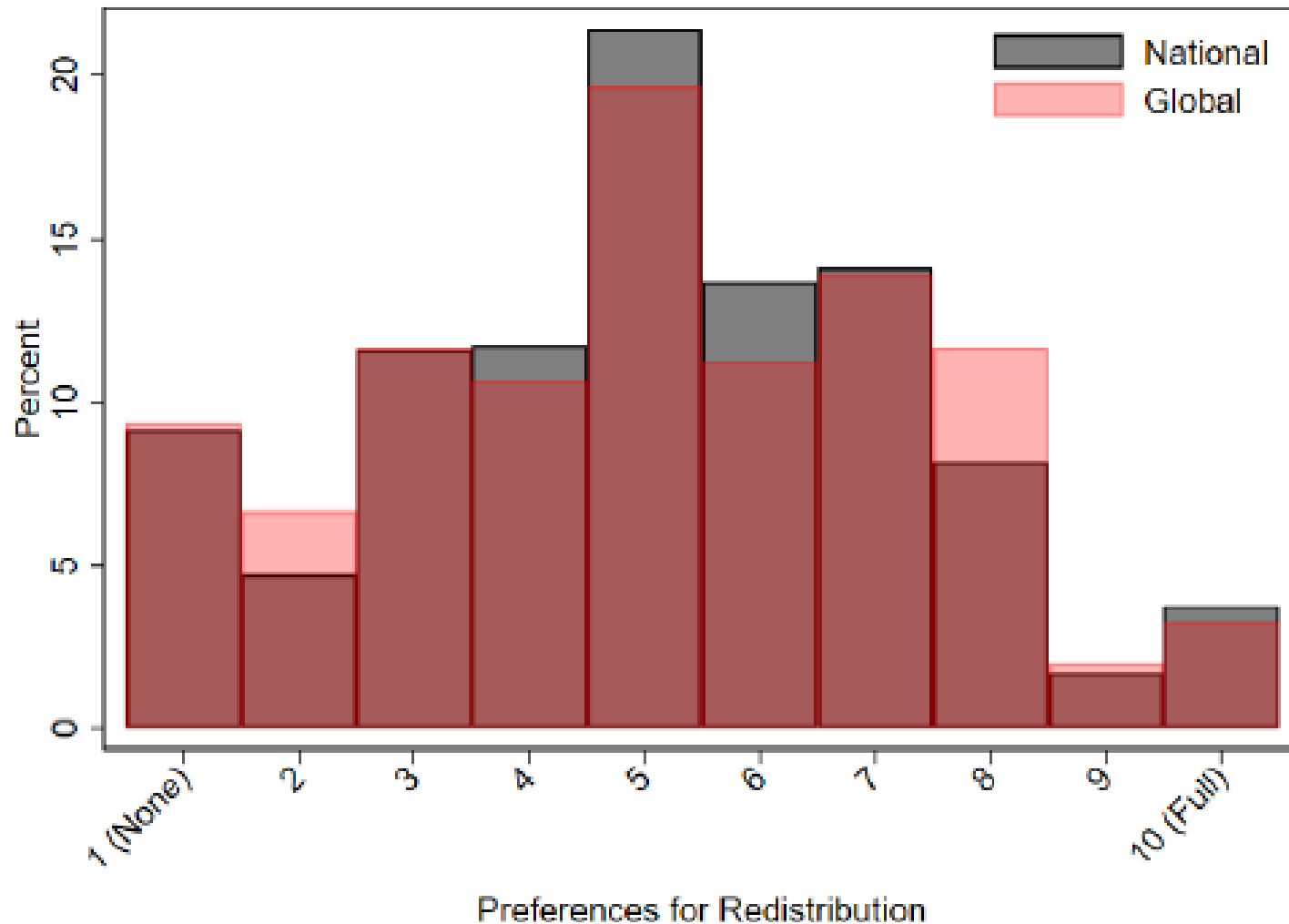
Results: Roadmap

1. Preferences over policies related to global inequality
2. Misperceptions about relative income
3. Relation between policy preferences and perceptions of relative income

Results: Roadmap

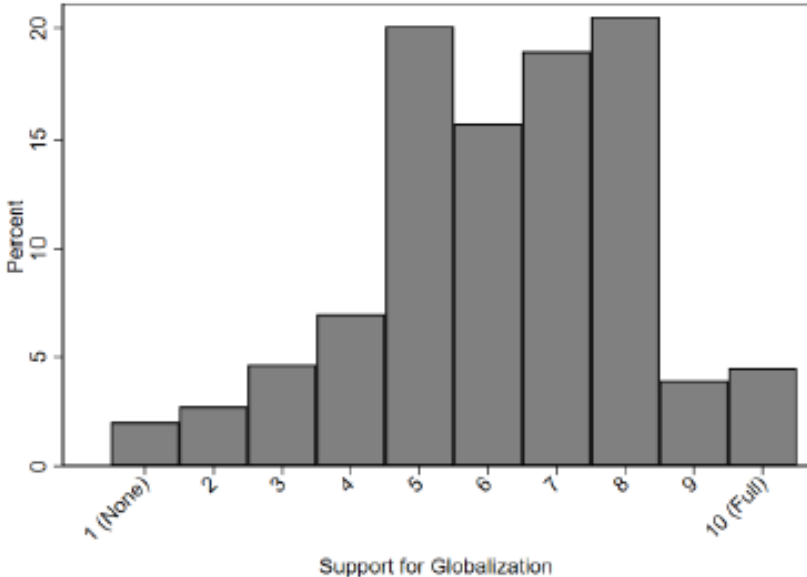
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Demand for Redistribution

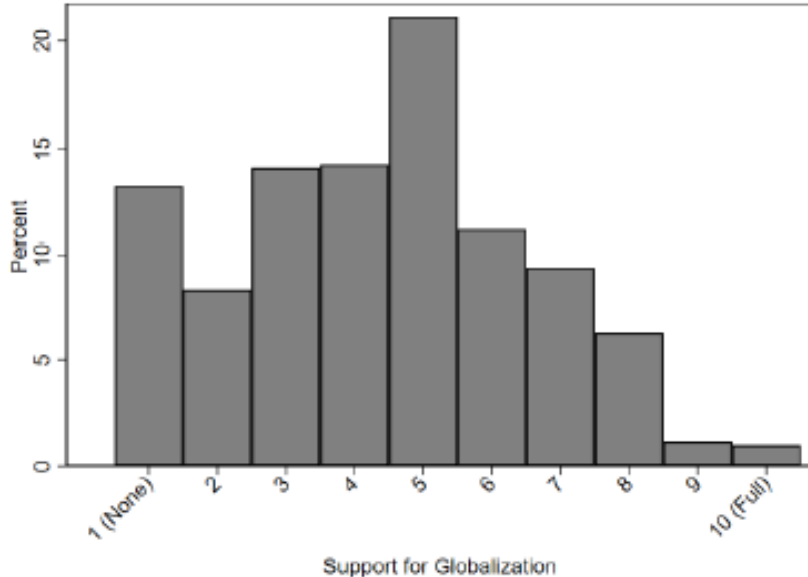


Globalization and Immigration

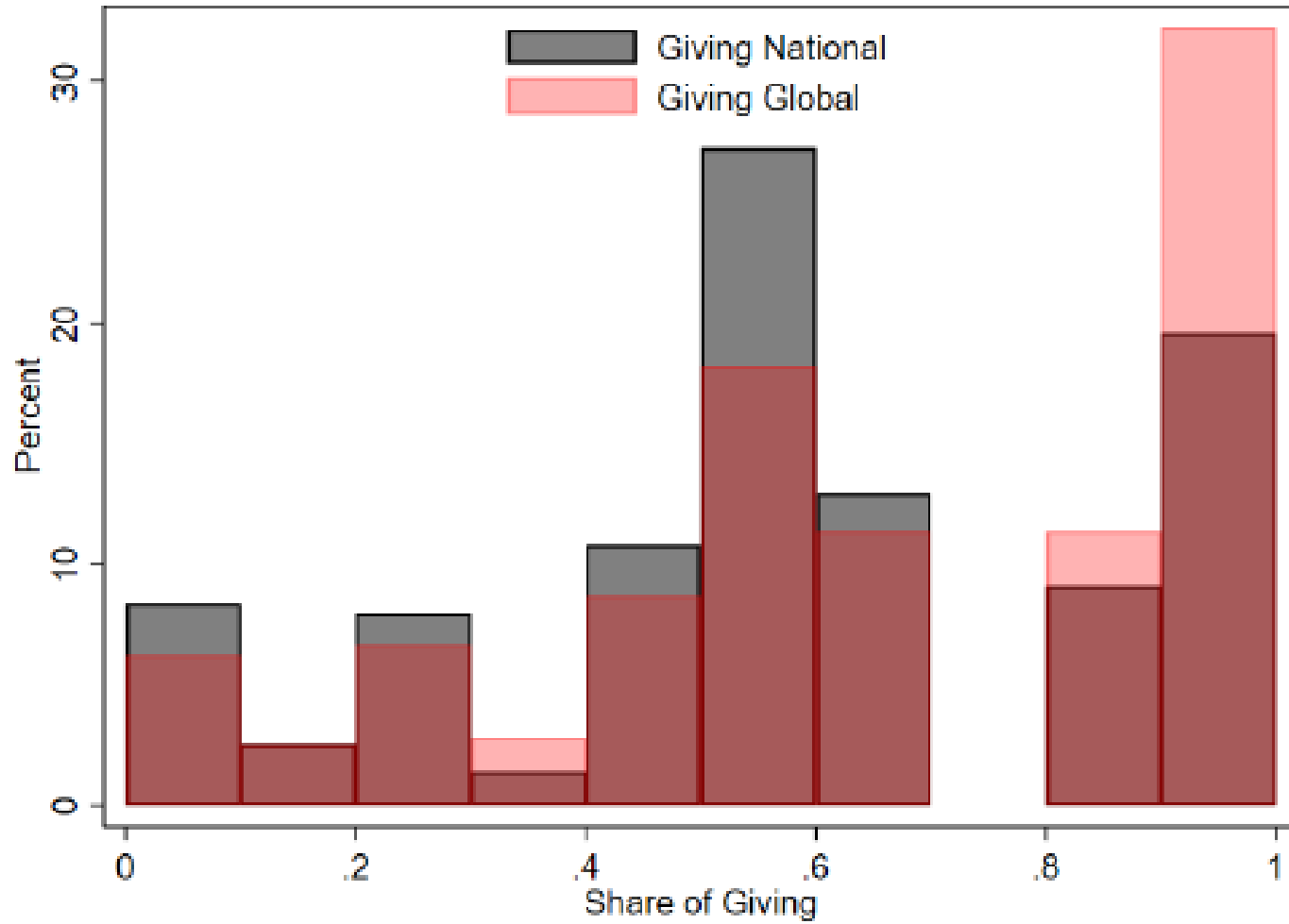
Support Globalization



Support Immigration



Giving



Correlations

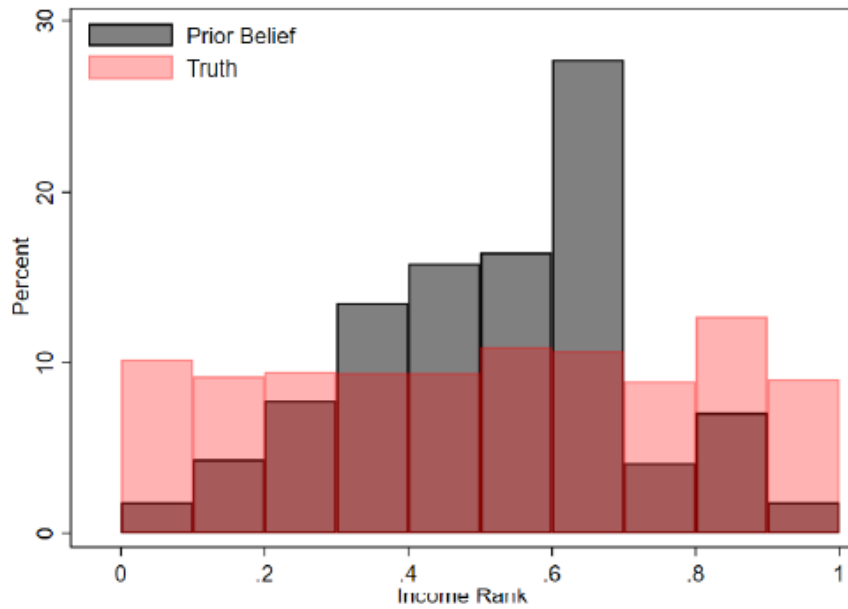
- The outcome variables are significantly correlated
 - That demand for redistribution and giving are correlated confirms altruistic motives (in addition to selfish ones) for redistribution
- The outcome variables share many correlates
 - Confirming most previous findings, e.g. correlation with luck/effort beliefs, income, education, party preferences, etc
 - Fail to replicate some, e.g. correlation with gender

Results: Roadmap

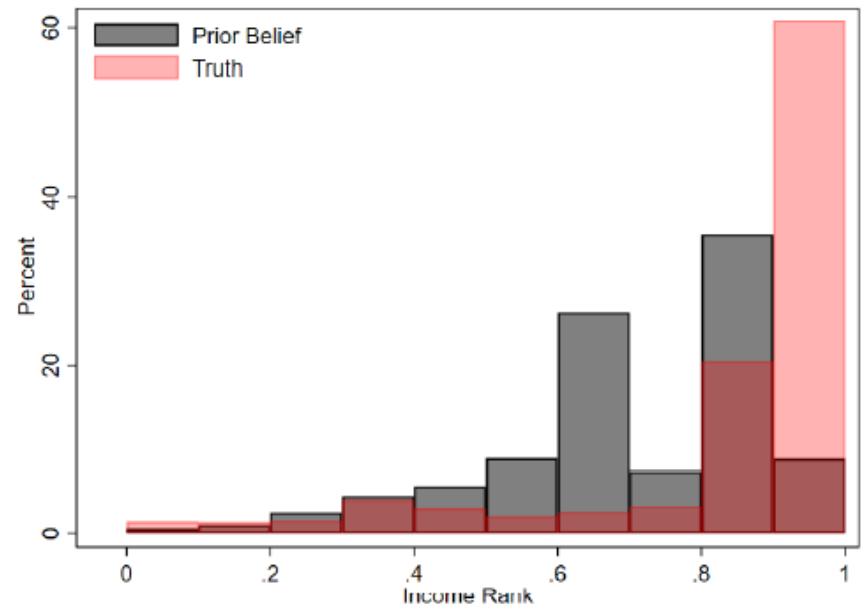
1. Preferences over policies related to global inequality
- 2. Misperceptions about relative income**
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Prior Beliefs vs Truth

National Income Rank

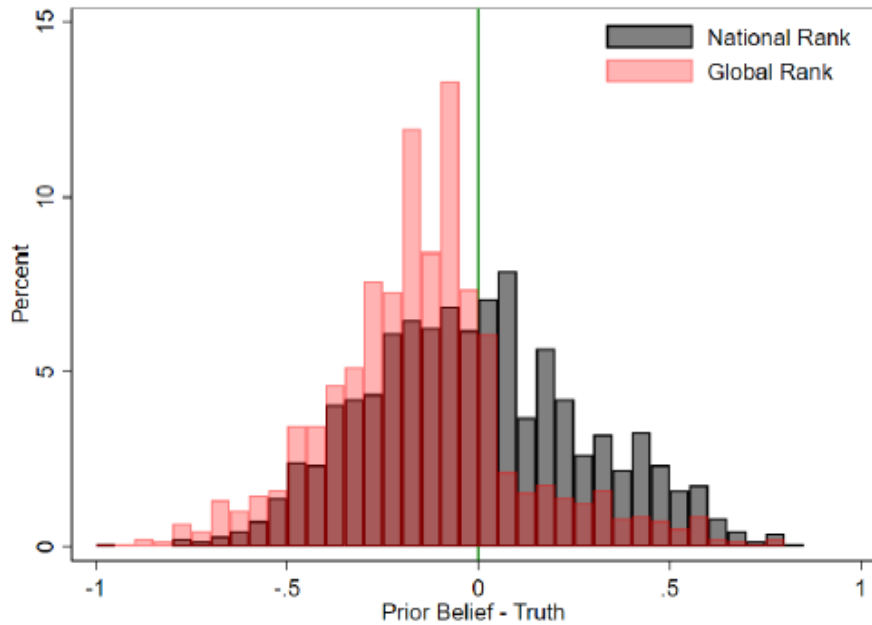


Global Income Rank

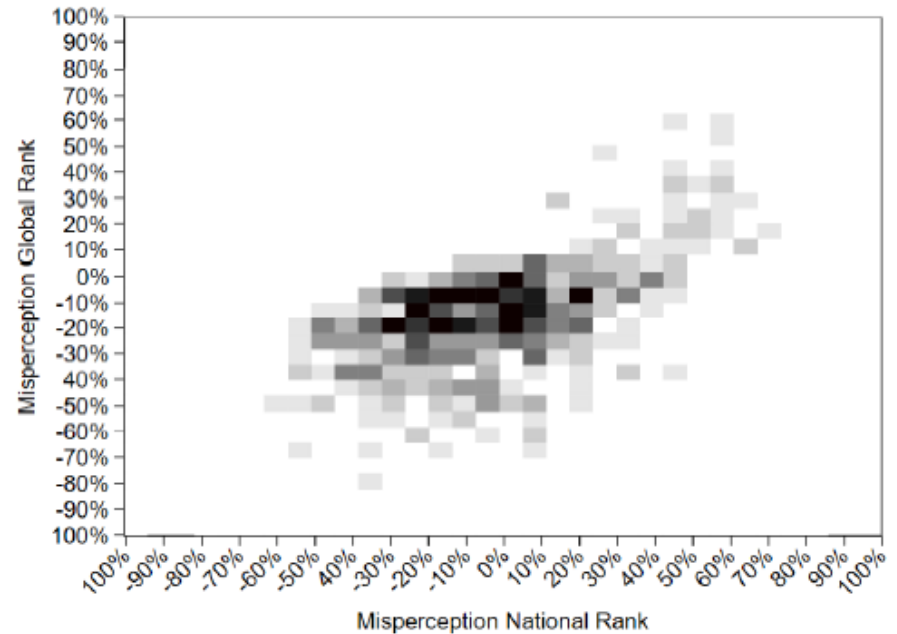


Misperceptions

Distribution of Misperceptions

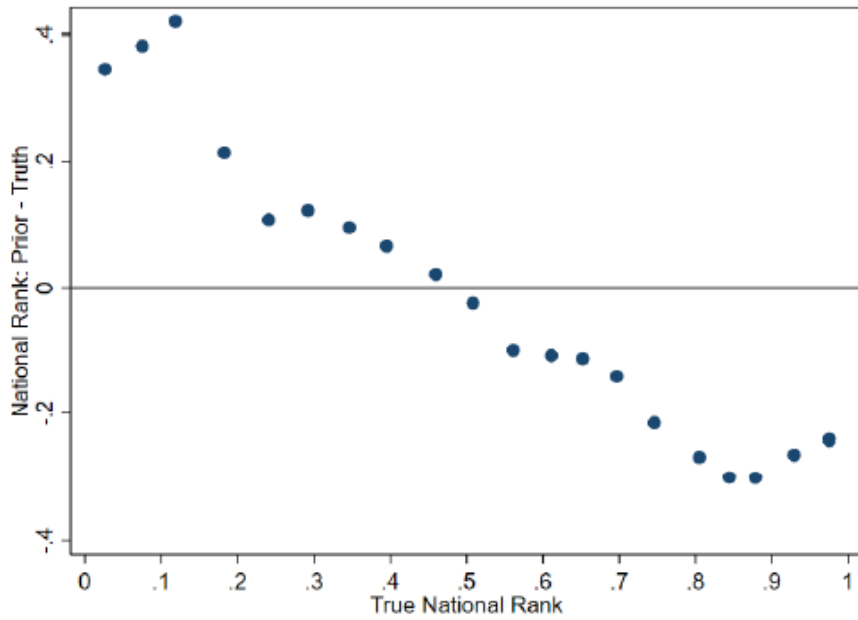


Correlation of Misperceptions

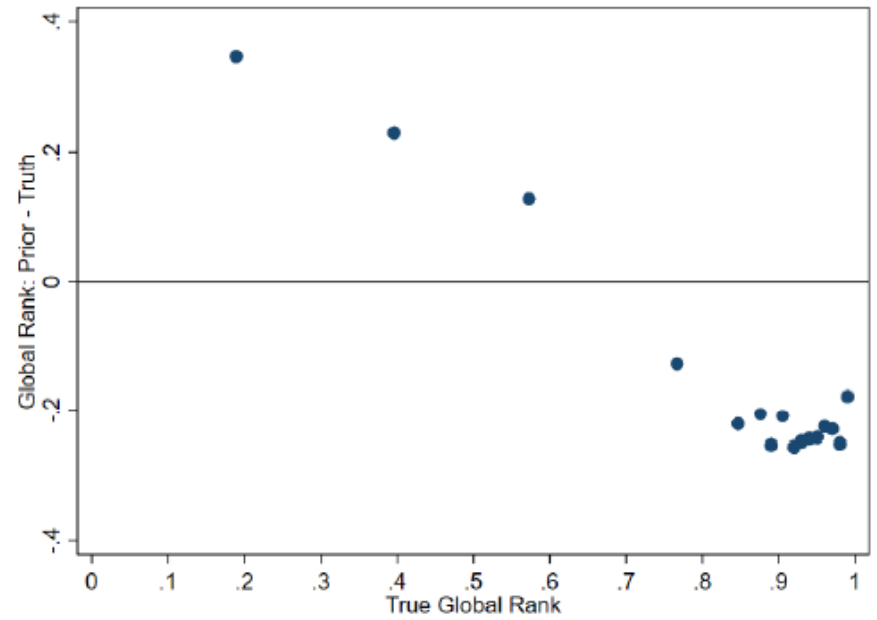


Middle-Class Bias

National Income Rank



Global Income Rank



The Misperceptions are Meaningful

1. Misperceptions exist although we provide significant rewards for correct answers
2. Misperceptions are persistent over time (which they should not be if they were random)...
3. ...and consistent within households
4. Information provided in experiment had persistent effect on beliefs
5. Self-awareness of imperfect knowledge
6. Informing one, but not another, member of a given household leads to persistent effects on beliefs for both (and make both feel more certain of their answer)
7. Willingness to pay for information is significant

Results: Roadmap

1. Preferences over policies related to global inequality
2. Misperceptions about relative income
3. **Relation between policy preferences and perceptions of relative income**

Correlations

(a)	All						
	(1) Nat. Redist.	(2) Glob. Redist.	(3) Sup. Int. Org	(4) Giving Nat.	(5) Giving Glob.	(6) Sup. Global.	(7) Sup. Immig.
Prior Belief National Rank	-0.520** (0.240)	-0.142 (0.232)	-0.012 (0.225)	0.942*** (0.222)	0.780*** (0.235)	0.417* (0.246)	0.462** (0.232)
Prior Belief Global Rank	0.117 (0.232)	0.124 (0.230)	0.257 (0.231)	0.161 (0.211)	0.172 (0.227)	-0.110 (0.256)	-0.128 (0.247)
Observations	683	679	667	689	688	680	687
(b)	Left-of-center						
	(1) Nat. Redist.	(2) Glob. Redist.	(3) Sup. Int. Org	(4) Giving Nat.	(5) Giving Glob.	(6) Sup. Global.	(7) Sup. Immig.
Prior Belief National Rank	-0.935*** (0.354)	-0.972*** (0.352)	-0.814** (0.394)	0.532 (0.394)	0.233 (0.399)	-0.248 (0.403)	-0.007 (0.371)
Prior Belief Global Rank	0.591 (0.367)	0.615 (0.385)	1.171*** (0.401)	1.179*** (0.348)	1.526*** (0.408)	0.729* (0.419)	0.445 (0.460)
Observations	235	235	232	238	238	235	234
(c)	Center/Right-of-center						
	(1) Nat. Redist.	(2) Glob. Redist.	(3) Sup. Int. Org	(4) Giving Nat.	(5) Giving Glob.	(6) Sup. Global.	(7) Sup. Immig.
Prior Belief National Rank	-0.497 (0.309)	0.129 (0.299)	0.204 (0.265)	1.033*** (0.265)	0.916*** (0.279)	0.683** (0.303)	0.505* (0.293)
Prior Belief Global Rank	-0.131 (0.276)	-0.111 (0.274)	-0.189 (0.261)	-0.331 (0.252)	-0.480* (0.257)	-0.505* (0.303)	-0.419 (0.285)
Observations	448	444	435	451	450	445	453

Experimental Results

(a)	All						
	(1) Nat. Redist.	(2) Glob. Redist.	(3) Sup. Int. Org.	(4) Giving Nat.	(5) Giving Glob.	(6) Sup. Global.	(7) Sup. Immig.
National Rank: Treat*(Feedback - Prior)	-0.189 (0.251)	-0.220 (0.245)	-0.294 (0.245)	0.323 (0.234)	0.214 (0.246)	0.022 (0.266)	-0.121 (0.243)
Global Rank: Treat*(Feedback - Prior)	0.016 (0.262)	0.117 (0.246)	0.171 (0.240)	0.038 (0.240)	-0.011 (0.247)	-0.246 (0.258)	0.092 (0.241)
Observations	1350	1341	1325	1357	1357	1345	1358
(b)	Left-of-center						
	(1) Nat. Redist.	(2) Glob. Redist.	(3) Sup. Int. Org.	(4) Giving Nat.	(5) Giving Glob.	(6) Sup. Global.	(7) Sup. Immig.
National Rank: Treat*(Feedback - Prior)	-0.774* (0.457)	-0.932** (0.392)	-1.047** (0.459)	-0.065 (0.451)	-0.268 (0.457)	-0.487 (0.470)	-0.430 (0.411)
Global Rank: Treat*(Feedback - Prior)	0.152 (0.492)	0.125 (0.443)	0.552 (0.468)	0.541 (0.450)	0.411 (0.467)	-0.071 (0.512)	0.669 (0.459)
Observations	454	452	447	458	457	454	454
(c)	Center/Right-of-center						
	(1) Nat. Redist.	(2) Glob. Redist.	(3) Sup. Int. Org.	(4) Giving Nat.	(5) Giving Glob.	(6) Sup. Global.	(7) Sup. Immig.
National Rank: Treat*(Feedback - Prior)	0.088 (0.295)	0.117 (0.302)	0.101 (0.288)	0.501* (0.279)	0.459 (0.299)	0.274 (0.314)	-0.007 (0.291)
Global Rank: Treat*(Feedback - Prior)	0.013 (0.299)	0.172 (0.287)	0.057 (0.277)	-0.139 (0.278)	-0.170 (0.287)	-0.330 (0.281)	-0.026 (0.267)
Observations	896	889	878	899	900	891	904

Returning to the Three Trains of Thought

- “Meltzer & Richard”: Has explanatory power at the national but not at the global level (especially for those left of center)
- “Altruism”: Suggestive evidence that this matters more for the right of center (at the national level)
- “Stolper & Samuelson”: Seems to not hold much explanatory power

Summing up

- This paper studies preferences for global redistribution, and related policies, in a representative sample of Germans
- We focus on perceived relative income, and document substantial misperceptions of both national and global relative rank, and additionally provide unique evidence that the misperceptions are meaningful and robust
- Consistent with previous work, we find that perceived rank in the national income distribution is a significant negative determinant of demand for national redistribution, at least among left-wing respondents
- On the contrary, we find no evidence that perceived rank in the global income distribution affects support for global redistribution, donations to the global poor, globalization or immigration
- If anything, when thinking about these policy preferences, it seems to matter more how one compares to other people nationally than to others around the globe