

Building a Better America – One Wealth Quintile at a Time

Michael I. Norton

Harvard Business School

Dan Ariely

Duke University

Forthcoming in *Perspectives on Psychological Science*

Address correspondence to: Michael I. Norton, Harvard Business School, Soldiers Field Road, Boston, MA 02163, mnorton@hbs.edu; or Dan Ariely, Duke University, One Towerview Road, Durham, NC 27708, dandan@duke.edu. We thank Jordanna Schutz for her many contributions, George Akerlof, Lalin Anik, Ryan Buell, Zoë Chance, Anita Elberse, Ilyana Kuziemko, Jeff Lee, Jolie Martin, Mary Carol Mazza, David Nickerson, John Silva, and Eric Werker for their comments, and surveysampling.com for their assistance administering the survey.

Abstract

Disagreements about the optimal level of wealth inequality underlie policy debates ranging from taxation to welfare. We attempt to insert the desires of “regular” Americans into these debates, by asking a nationally representative online panel to estimate the current distribution of wealth in the United States and to “build a better America” by constructing distributions with their ideal level of inequality. First, respondents dramatically underestimated the current level of wealth inequality. Second, respondents constructed ideal wealth distributions that were far more equitable than even their erroneously low estimates of the actual distribution. Most important from a policy perspective, we observed a surprising level of consensus: All demographic groups – even those not usually associated with wealth redistribution such as Republicans and the wealthy – desired a more equal distribution of wealth than the status quo.

Most scholars agree that wealth inequality in the United States is at historic highs, with some estimates suggesting that the top 1% of Americans hold nearly 50% of the wealth, topping even the levels seen just before the Great Depression in the 1920's (Davies, Sandstrom, Shorrocks, & Wolff, 2009; Keister, 2000; Wolff, 2002). While it is clear that wealth inequality is high, determining the ideal distribution of wealth in a society has proven to be an intractable question, in part because differing beliefs about the ideal distribution of wealth are the source of friction between policymakers who shape that distribution: Proponents of the “estate tax,” for example, argue that the wealth that parents bequeath to their children should be taxed more heavily than those who refer to this policy as a burdensome “death tax.”

We take a different approach to determining the “ideal” level of wealth inequality: Following the philosopher John Rawls (1971), we ask Americans to construct distributions of wealth they deem just. Of course, this approach may simply add to the confusion if Americans disagree about the ideal wealth distribution in the same way that policymakers do. Thus, we have two primary goals. First, we explore whether there is general consensus among Americans about the ideal level of wealth inequality, or whether differences – driven by factors such as political beliefs and income – outweigh any consensus (see McCarty, Poole, & Rosenthal, 2006). Second, assuming sufficient agreement, we hope to insert the preferences of “regular Americans” regarding wealth inequality into policy debates.

A nationally representative online sample of respondents ($N = 5,522$, 51% female, $M_{age} = 44.1$), randomly drawn from a panel of over one million Americans, completed the

survey in December, 2005.¹ Respondents' household income (Median = \$45,000) was similar to that reported in the 2006 United States census (Median = \$48,000), and their voting pattern in the 2004 election (50.6% Bush, 46.0% Kerry) was also similar to the actual outcome (50.8% Bush, 48.3% Kerry). In addition, the sample contained respondents from 47 states.

We ensured that all respondents had the same working definition of wealth by requiring them to read the following before beginning the survey: "Wealth, also known as net worth, is defined as the total value of everything someone owns minus any debt that he or she owes. A person's net worth includes his or her bank account savings plus the value of other things such as property, stocks, bonds, art, collections, etc., minus the value of things like loans and mortgages."

Americans Prefer Sweden

For the first task, we created three unlabeled pie charts of wealth distributions, one of which depicted a perfectly equal distribution of wealth. Unbeknownst to respondents, a second distribution reflected the wealth distribution in the United States; in order to create a distribution with a level of inequality that clearly fell in between these two charts, we constructed a third pie chart from the income distribution of Sweden (Figure 1).² We presented respondents with the three pair-wise combinations of these pie charts (in random order) and asked them to choose which nation they would rather join given a "Rawls constraint" for determining a just society (Rawls, 1971): "In considering

¹ We used the survey organization Survey Sampling International (surveysampling.com) to conduct this survey. As a result, we do not have direct access to panelist response rates.

² We used Sweden's income rather than wealth distribution because it provided a clearer contrast to the equal and United States wealth distributions; while more equal than the United States' wealth distribution, Sweden's wealth distribution is still extremely top heavy.

this question, imagine that if you joined this nation, you would be randomly assigned to a place in the distribution, so you could end up anywhere in this distribution, from the very richest to the very poorest.”

As can be seen in Figure 1, the (unlabeled) United States distribution was far less desirable than both the (unlabeled) Sweden distribution and the equal distribution, with some 92% of Americans preferring the Sweden distribution to the United States. In addition, this overwhelming preference for the Sweden distribution over the United States distribution was robust across gender (Females: 92.7%; Males: 90.6%), preferred candidate in the 2004 election (Bush Voters: 90.2%; Kerry Voters: 93.5%) and income (less than \$50,000: 92.1%; \$50,001-100,000: 91.7%; more than \$100,000: 89.1%). In addition, there was a slight preference for the distribution that resembled Sweden relative to the equal distribution, suggesting that Americans prefer some inequality to perfect equality, but not to the degree currently present in the United States.

Building a Better America

While the choices among the three distributions shed some light into preferences for distributions of wealth in the abstract, we wanted to explore respondents’ specific beliefs about their own society. In the next task, we therefore removed Rawls’ “veil of ignorance” and assessed both respondents’ estimates of the actual distribution of wealth and their preferences for the ideal distribution of wealth in the United States. For their estimates of the actual distribution, we asked respondents to indicate what percent of wealth they thought was owned by each of the five quintiles in the United States, in order starting with the top 20% and ending with the bottom 20%. For their ideal distributions,

we asked them to indicate what percent of wealth they thought each of the quintiles ideally should hold, again starting with the top 20% and ending with the bottom 20%.

To help them with this task, we provided them with the two most extreme examples, instructing them to assign 20% of the wealth to each quintile if they thought that each quintile should have the same level of wealth, or to assign 100% of the wealth to one quintile if they thought that one quintile should hold all of the wealth.

Figure 2 shows the actual wealth distribution in the United States at the time of the survey, respondents' overall estimate of that distribution, and finally respondents' ideal distribution. These results demonstrate two clear messages. First, respondents vastly underestimated the actual level of wealth inequality in the United States, believing that the wealthiest quintile held about 59% of the wealth when the actual number is closer to 84%. More interesting, respondents constructed ideal wealth distributions that were far more equitable than even their erroneously low estimates of the actual distribution, reporting a desire for the top quintile to own just 32% of the wealth. These desires for more equal distributions of wealth took the form of moving money from the top quintile to the bottom three quintiles, while leaving the second quintile unchanged, evidencing a greater concern for the less fortunate than the more fortunate (Charness & Rabin, 2002).

We next explored how demographic characteristics of our respondents affected these estimates. Figure 3 shows these estimates broken down by three levels of income, by whether respondents voted for George W. Bush (Republican) or John Kerry (Democrat) for United States president in 2004, and by gender. Males, Bush voters, and wealthier individuals estimated that the distribution of wealth was relatively more *equal* than did women, Kerry voters, and poorer individuals; for estimates of the ideal

distribution, on the other hand, these same groups (males, Bush voters, and the wealthy) desired relatively more *unequal* distribution than their counterparts.

Despite these (somewhat predictable) differences, what is most striking about Figure 3 is its demonstration of much more consensus than disagreement among these different demographic groups. All groups – even the wealthiest respondents – desired a more equal distribution of wealth than what they estimated the current United States level to be, while all groups also desired some inequality – even the poorest respondents. In addition, all groups agreed that such redistribution should take the form of moving wealth from the top quintile to the bottom three quintiles. In short, while Americans tend to be relatively more favorable toward economic inequality than members of other countries (Osberg & Smeeding, 2006), Americans’ consensus about the ideal distribution of wealth *within* the United States appears to dwarf their disagreements across gender, political orientation, and income.

Overall, these results demonstrate two primary messages. First, a large nationally representative sample of Americans seem to prefer to live in a country more like Sweden than like the United States. Americans also construct ideal distributions that are far more equal than they estimated the United States to be – estimates which themselves were far more equal than the actual level of inequality. Second, across groups from different sides of the political spectrum, there was much more consensus than disagreement about this desire for a more equal distribution of wealth, suggesting that Americans may possess a commonly held “normative” standard for the distribution of wealth despite the many disagreements about policies that affect that distribution, such as taxation and welfare (Kluegel & Smith, 1986). We hasten to add, however, that our use of “normative” is in a

descriptive sense – reflecting the fact that Americans agree on the ideal distribution – but not necessarily in a prescriptive sense. While some evidence suggests that economic inequality is associated with decreased well-being (Napier & Jost, 2008), creating a society with the precise level of inequality that our respondents report as ideal may not be optimal from an economic or public policy perspective (Krueger, 2004).

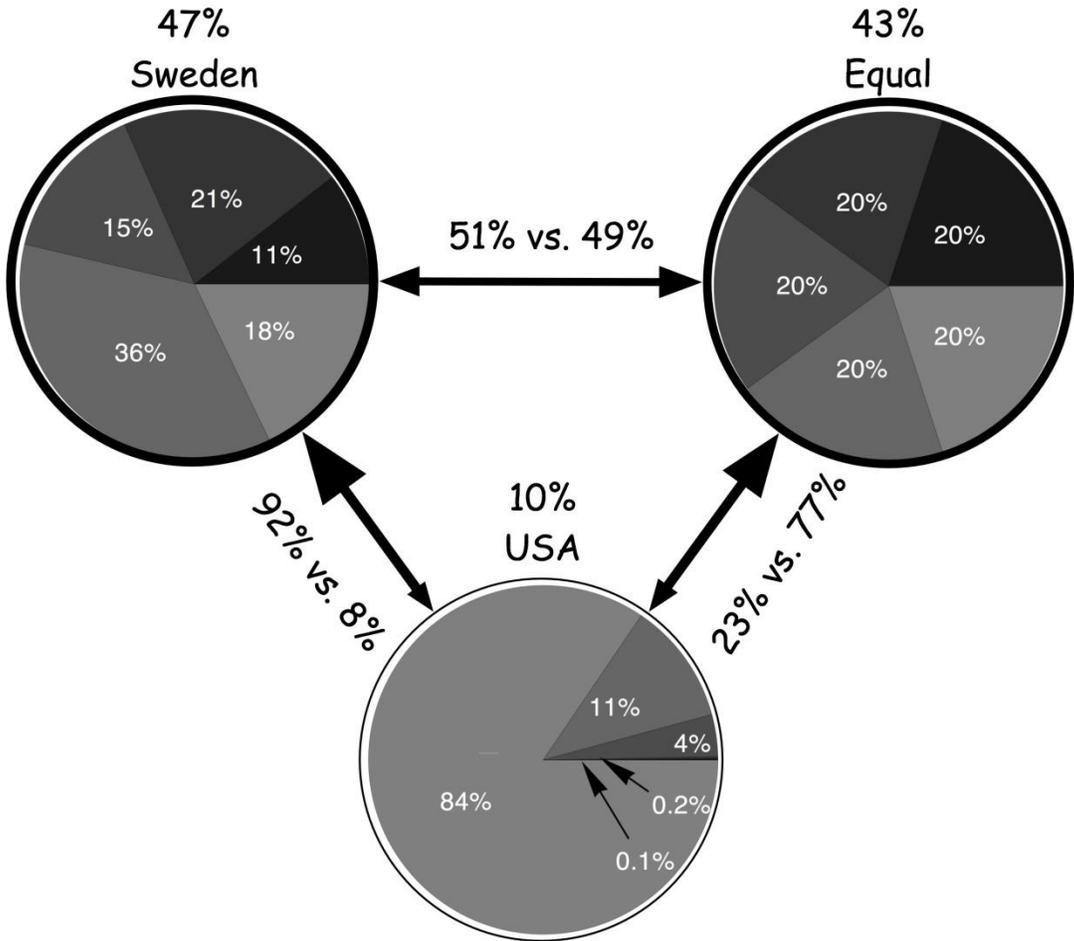
Given the consensus among disparate groups on the gap between an ideal distribution of wealth and the actual level of wealth inequality, why don't more Americans – especially those with low income – advocate for greater redistribution of wealth? First, our results demonstrate that Americans appear to drastically underestimate the current level of wealth inequality, suggesting they may simply be unaware of the gap. Second, just as people have erroneous beliefs about the actual level of wealth inequality, they may also hold overly optimistic beliefs about opportunities for social mobility in the United States (Benabou & Ok, 2001; Charles & Hurst, 2003; Keister, 2005), beliefs which in turn may drive support for unequal distributions of wealth. Third, despite the fact that conservatives and liberals in our sample agree that the current level of inequality far from ideal, public disagreements about the causes of that inequality may drown out this consensus (Alesina & Angeletos, 2005; Piketty, 1995). Finally, and more broadly, Americans exhibit a general disconnect between their attitudes towards economic inequality and their self-interest and public policy preferences (Bartels, 2005; Fong, 2001), suggesting that even given increased awareness of the gap between ideal and actual wealth distributions, Americans may remain unlikely to advocate for policies that would narrow this gap.

References

- Alesina, A. & Angeletos, G.M. (2005). Fairness and redistribution. *American Economic Review*, 95, 960-980.
- Bartels, L.M. (2005). Homer gets a tax cut: Inequality and public policy in the American mind. *Perspectives on Politics*, 3, 15-31.
- Benabou, R. & Ok, E.A. (2001). Social mobility and the demand for redistribution: The POUM hypothesis. *Quarterly Journal of Economics*, 116, 447-487.
- Charles, K.K. & Hurst, E. (2003). The correlation of wealth across generations. *Journal of Political Economy*, 111, 1155-1182.
- Charness, G. & Rabin, M. (2002). Understanding social preferences with simple tests. *Quarterly Journal of Economics*, 117, 817-869.
- Davies, J.B., Sandstrom, S., Shorrocks, A., & Wolff, E.N. (2009). The global pattern of household wealth. *Journal of International Development*, 21, 1111–1124.
- Fong, C. (2001). Social preferences, self-interest, and the demand for redistribution. *Journal of Public Economics*, 82, 225-246.
- Keister, L.A. (2000). *Wealth in America*. Cambridge, UK: Cambridge University Press.
- Keister, L.A. (2005). *Getting Rich: America's New Rich and How They Got That Way*. Cambridge, UK: Cambridge University Press.
- Kluegel, J.R. & Smith, E.R. (1986). *Beliefs about Inequality: Americans' Views of What is and What Ought to Be*. New York: Aldine de Gruyter.
- Krueger, A.B. (2004). Inequality, too much of a good thing. In J.J. Heckman & A.B. Krueger (Eds.), *Inequality in American: What Role for Human Capital Policies* (pp. 1-75). Cambridge, MA: MIT Press.

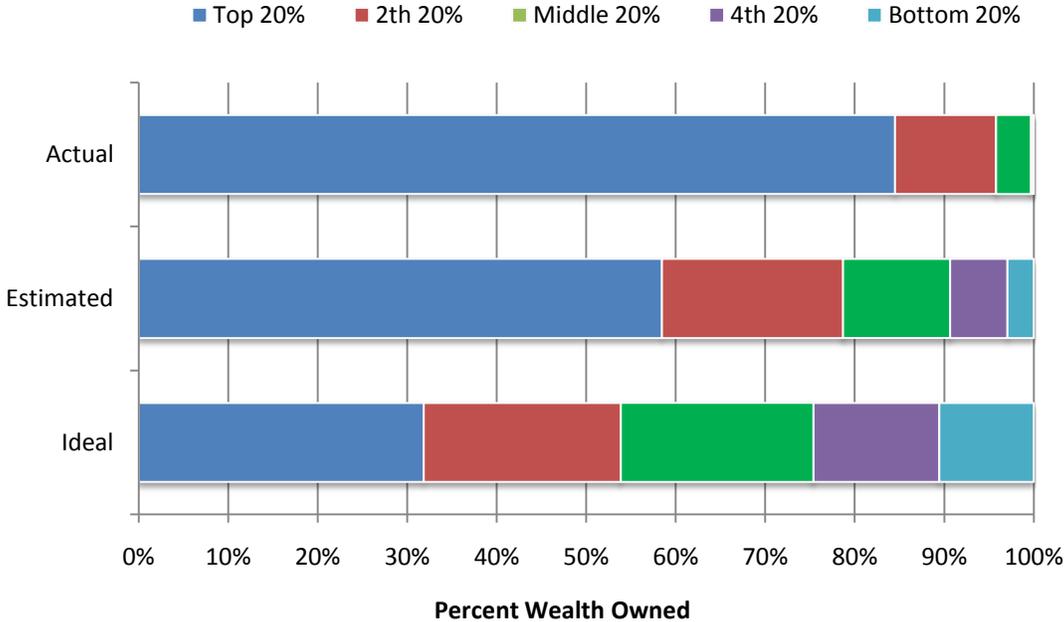
- McCarty, N., Poole, K.T., & Rosenthal, H. (2006). *Polarized America: The dance of ideology and unequal riches*. Cambridge, MA: MIT Press.
- Napier, J.L. & Jost, J.T. (2008). Why are conservatives happier than liberals? *Psychological Science*, 19, 565-572.
- Osberg, L. & Smeeding, T. (2006). 'Fair' inequality? Attitudes to pay differentials: The United States in comparative perspective. *American Sociological Review*, 71, 450-473.
- Piketty, T. (1995). Social mobility and redistributive politics. *Quarterly Journal of Economics*, 110, 551-584.
- Rawls, J. (1971). *A Theory of Justice*. Cambridge, MA: Harvard University Press.
- Wolff, E.N. (2002). *Top Heavy: The Increasing Inequality of Wealth in American and What Can Be Done about It*. New York, NY: The New Press.

Figure 1: Relative preference among all respondents for three distributions: Sweden (upper left), an equal distribution (upper right), and the United States (bottom).



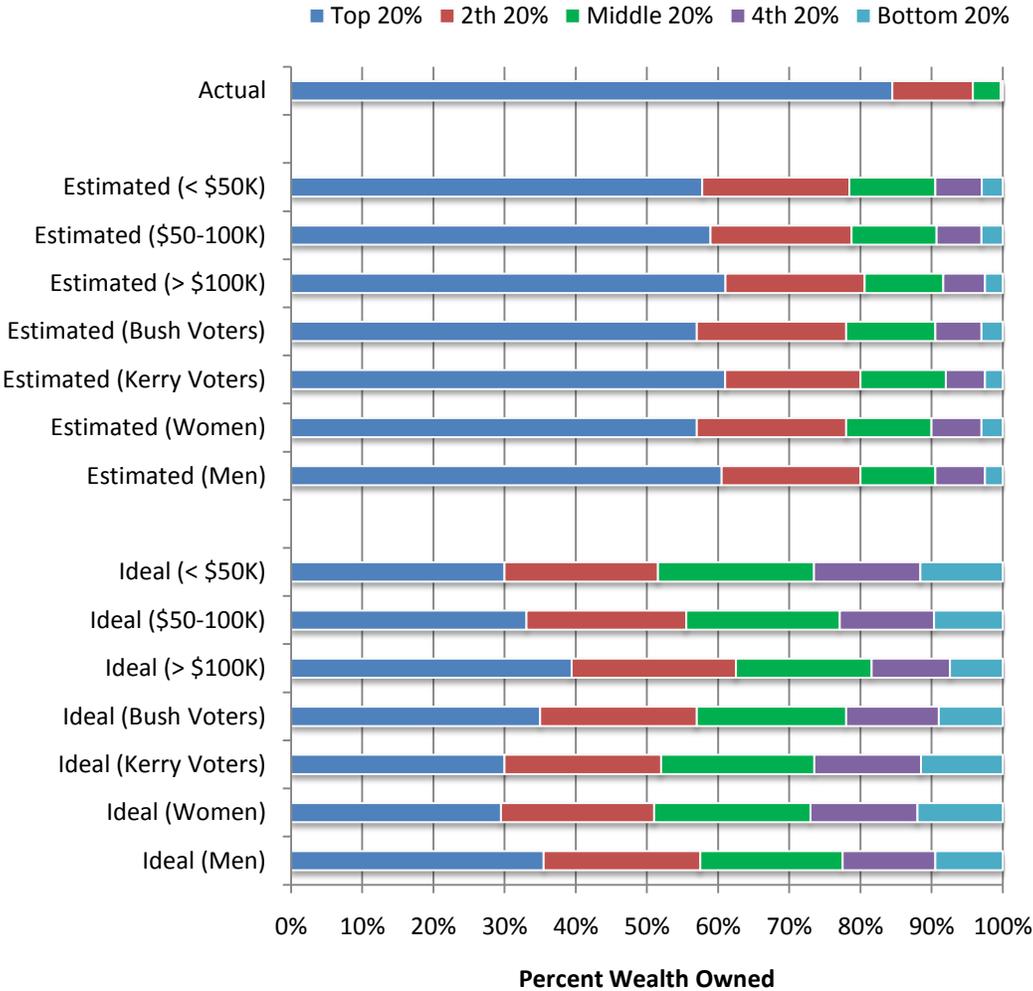
Note. Pie charts depict the percentage of wealth possessed by each quintile; for instance, in the United States, the top wealth quintile owns 84% of the total wealth, the second highest 11%, and so on.

Figure 2. The actual United States wealth distribution plotted against the estimated and ideal distributions across all respondents.



Note: Because of their small percentage share of total wealth, both the “4th 20%” value (0.2%) and the “Bottom 20%” value (0.1%) are not visible in the “Actual” distribution.

Figure 3. The actual United States wealth distribution plotted against the estimated and ideal distributions of respondents of different income levels, political affiliations, and genders.



Note: Because of their small percentage share of total wealth, both the “4th 20%” value (0.2%) and the “Bottom 20%” value (0.1%) are not visible in the Actual distribution.