



Does Inequality Matter?

HOW PEOPLE PERCEIVE ECONOMIC
DISPARITIES AND SOCIAL MOBILITY

OVERVIEW AND KEY FINDINGS



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How People Perceive Economic Disparities and Social Mobility

Executive summary

Through extensive cross-country evidence, previous OECD reports have shown that income inequality has increased in most OECD countries over the last thirty years or so and that social mobility stagnated or worsened in some countries. The present report turns the attention to how people *perceive* inequality and social mobility.

In the recovery after the COVID-19 crisis, gathering public support is key to sustain the momentum for reforms that tackle inequalities and promote equal opportunities. Understanding how people form their perceptions and opinions about inequality can help understand the public support for such reforms. The report finds that there is increasing consensus that inequality is a problem, but there are increasing divisions about its extent and what to do about it.

Do people care about inequality? Most people are concerned about inequality. Four in five people in the OECD feel income disparities are too large in their country. People care about inequality of both outcomes and opportunities, as they perceive high income and earnings disparities as well as low social mobility. The average OECD citizen believes that slightly more than 50% of the national income goes to the 10% richest households and that only 4 out of 10 poor children make it out of poverty once they become adult. Concern over income and earnings disparities has risen in the last three decades, in line with the increase in income inequality measured by conventional statistical indicators: while in the 1980s the median individual believed that top earners earn 5 times as much as bottom earners, this perceived top-to-bottom earnings ratio has increased to 8 today. However, also tolerance for inequality increased: today the median person believes that top earners should earn 4 times as much as the bottom earners, up from 3 times in the late 1980s.

Are perceptions disconnected from reality? Even if most people do not have a full set of information, perceptions do reflect real-life evidence of economic inequality in the society. Indeed, even if there is no full match, perceptions and conventional estimates are correlated across countries: people perceive higher income disparities and lower social mobility where conventional estimates are also higher and lower, respectively. Furthermore, concern over income disparities and conventional estimates of inequality have moved in line over time: in countries where statistical indicators of income inequality grew the most, so did people's concern over inequality. For each point increase in the Gini index – a conventional indicator of income inequality – there is almost a 2 percentage point increase in the share of people who strongly agree that income disparities are too wide. Experimental evidence also shows that people incorporate information about inequality consistently in their beliefs. When confronted with information about the actual extent of economic disparities and social mobility, people become more aware of inequality and more concerned about it.

Does high concern imply widespread support for government intervention? In general, the more people are concerned about inequality, the higher their demand for redistribution, but in some countries support for government intervention falls short of concern. Across the OECD, 80% of people who find income disparities to be too large think that it is the responsibility of the government to reduce them. However, in 1/5 of the countries this fraction is below 60%. Furthermore, over time preferences for income redistribution in OECD countries have, on average, risen less than concerns. Besides perceptions of and concern over inequality, demand for inequality-reducing policies is driven by beliefs around what drives inequality, in particular whether access to opportunities is widespread and hard work brings success: across the OECD, demand for more progressive taxation is lower where people believe that poverty is due mostly to lack of personal effort. Furthermore, people's support for specific policies depends on whether those policies are perceived to be effective in reducing inequality. In fact, people are less likely to demand more redistribution

if they believe that benefits are mistargeted. On the same line, they are less in favour of progressive taxation if they believe that petty corruption is widespread among public officials, prompting the misuse and misallocation of public benefits. Experimental evidence shows that informing people about the redistributive impact of policies and their effectiveness in addressing inequalities helps raise support.

How divided is public opinion within countries? Despite a growing concern about inequality, there are increasing differences about its extent and what to do about it. Within a given country, most people would like to live in a more equal society. However, they disagree on the extent of inequality and social mobility. Within the average OECD country, one person in four thinks that more than 70% of the national income goes to the 10% richest households, contrary to another fourth of individuals who think that less than 30% goes to the richest households. As a consequence, people disagree with each other as to by how much inequality should be reduced, but mostly because they perceive different levels of inequality, rather than because they have different preferred levels. This division of public opinion has grown in the last three decades, showing signs of polarization: in most OECD countries there is an increasing gap between those who believe inequality is high and those who believe it is low. Interestingly, disagreements over the extent of inequality are wide even among people with similar socio-economic characteristics. In fact, the increased level of disagreement over the last three decades is mostly explained by increased disagreement *within* socio-economic groups, rather than between them.

How can people's perceptions of and concern over inequality inform policy? Despite people's concern over inequality, public support in favour of inequality-reducing policies cannot be taken for granted. 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. The report highlights the importance of:

- *Better understanding of public support for reform:* People care about inequality of both outcomes and opportunities, hence reform packages that tackle both aspects are more likely to gain support. Policy makers should nonetheless take into account people's preferences for specific policy mixes, which may be more opportunity enhancing or focusing more on equalising outcomes. They may also focus on specific aspects of inequality more than on others (e.g. disparities at the top versus bottom). Furthermore, as disagreement is strong also between people with similar socio-economic characteristics, policies that are limited to just one main group might fail to reach sufficient consensus even within that target group.
- *Better understanding of the effectiveness of policies:* People's support for specific policies is higher when those policies are perceived to be effective in reducing inequality. This reinforces the need for evaluating the effectiveness of policies in a transparent way, to gain people's confidence. Such evaluation should be coupled with increased effort to facilitate people's understanding of the functioning and, in particular, the impact of the policies.
- *Better information on inequality and equality of opportunities:* Providing high-quality information about inequality can help reduce the widespread dispersion of perceptions that leads to a divided public opinion. It has the potential for providing common ground for public debate even if it would not necessarily reduce the differences in opinion about policies.

1. Overview

Although the post-COVID-19 recovery will afford the opportunity to introduce reforms that address high levels of inequality, implementation will require widespread support from the public. To better understand what factors drive public support, the report conducts a detailed cross-country analysis of people's perceptions of and concern about inequality of outcomes and opportunities. It documents how concern over income disparities have risen in OECD countries over time, mirroring the rise of income inequality measured by conventional indicators like those derived from household statistics. In most countries a large majority of the population now believes that income disparities are too wide and that intergenerational mobility is weak. Yet, sufficient support for inequality-reducing policies may not materialise if people fail to agree on concrete policy options or doubt their effectiveness. Moreover, even when the majority demands more equality, a strongly divided public opinion complicates the introduction of reforms. Indeed, the report highlights how people within the same country are often divided over whether inequality is too great and, if so, what governments should do to address the challenge. This chapter also looks at how the findings from analyses of perceptions and concern can inform policy making.

1.1. The COVID-19 crisis has opened a window of opportunity for addressing inequalities

The COVID-19 crisis has exposed and accentuated inequalities, although the short-term effect on income inequality are mixed thanks to governments' interventions. The shocks it has dealt to the labour-market have caused highly asymmetrical effects across the population (OECD, 2020^[1]; OECD, 2021^[2]). However, governments across the OECD have moved swiftly with measures that eased the impact of the shock on vulnerable workers and households. As a result, inequality in disposable income has not risen by much and may have even declined in some countries (Brewer and Gardiner, 2020^[3]; Chetty et al., 2020^[4]; Almeida et al., 2020^[5]; Clark, D'Ambrosio and Lepinteur, 2020^[6]; European Commission, 2020^[7]; Carta and De Philippis, 2021^[8]).

The pandemic has lent weight to the argument in favour of offsetting unequal shocks in order to prevent social tensions (Baldwin, 2020^[9]). Inequalities were already high before the pandemic, and COVID-related measures did not enough to address them. Almost all OECD countries have experienced rises in income inequality in the last 30 years (OECD, 2015^[10]; OECD, 2011^[11]), social mobility has stalled (OECD, 2018^[12]), and the middle class has been squeezed by rising costs, employment uncertainty and stagnating income (OECD, 2019^[13]). Equality of opportunity has come under pressure with many children of low-earning parents enjoying less opportunities to realize their full potential (OECD, 2018^[12]).

Recovery packages offer a great chance to introduce reforms that address the long-standing disparities and lack of opportunities which affect many in the population (Boone et al., 2020^[14]; OECD, 2020^[1]; OECD, 2020^[15]). The successful implementation of such reforms requires strong buy-in from citizens. Support should be wide enough to sustain the momentum of reform over time and achieve long-term objectives.

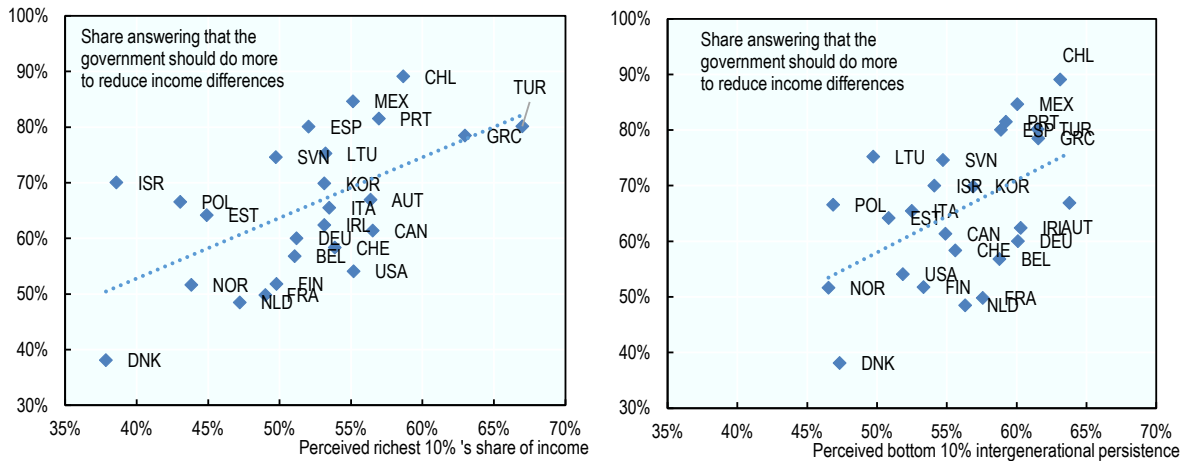
Even prior to the crisis, a large majority of OECD citizens were indeed concerned about economic disparities and demanded more equal distribution of income. Approximately 80% of people living in OECD countries felt that income disparities in their country were too wide, according to 2017 data from the International Social Survey Programme (ISSP) and the Eurobarometer. Seven in ten users of the OECD's Compare Your Income (CYI) web-tool consider that the income share which goes to the richest 10% is five or more percentage points larger than it should be.¹

There are also indications that the ongoing crisis has heightened awareness of inequality. Respondents to the 2020 OECD Risks that Matter survey (OECD, 2021^[16]) who have experienced health-related problems or economic hardship during the pandemic perceive income inequality to be greater and social mobility lower than other respondents. They are also more likely to want more government intervention and more progressive taxation to narrow the differences between rich and poor. Similarly, respondents affected by job loss during the crisis demand higher public spending on social protection (OECD, 2021^[16]).

People from OECD countries are generally in favour of interventions that would reduce current levels of inequality. Most respondents (slightly more than 6 out of 10) to the 2020 OECD Risks that Matter survey believe their government should do more to reduce income differences between rich and poor by collecting taxes and providing social benefits (Figure 1.1). Furthermore, a similar share also believe that, to support the poor, governments should tax the rich more than they currently do. Demand for such redistributive policies is particularly strong in countries where people perceive that income inequality is high and social mobility low.

Figure 1.1. People are supportive of interventions to reduce income differences, particularly where they perceive high inequality and low social mobility

Demand for more government intervention to reduce income differences versus perceptions of income inequality and social mobility



Note: Blue lines are linear fit. The shares on the y axis refer to answers to the question “Governments can reduce income differences between the rich and the poor by collecting taxes and providing social benefits. In your country. Do you think the government should do more or less to reduce income differences?” The shares are calculated excluding respondents who answer “can’t choose”.

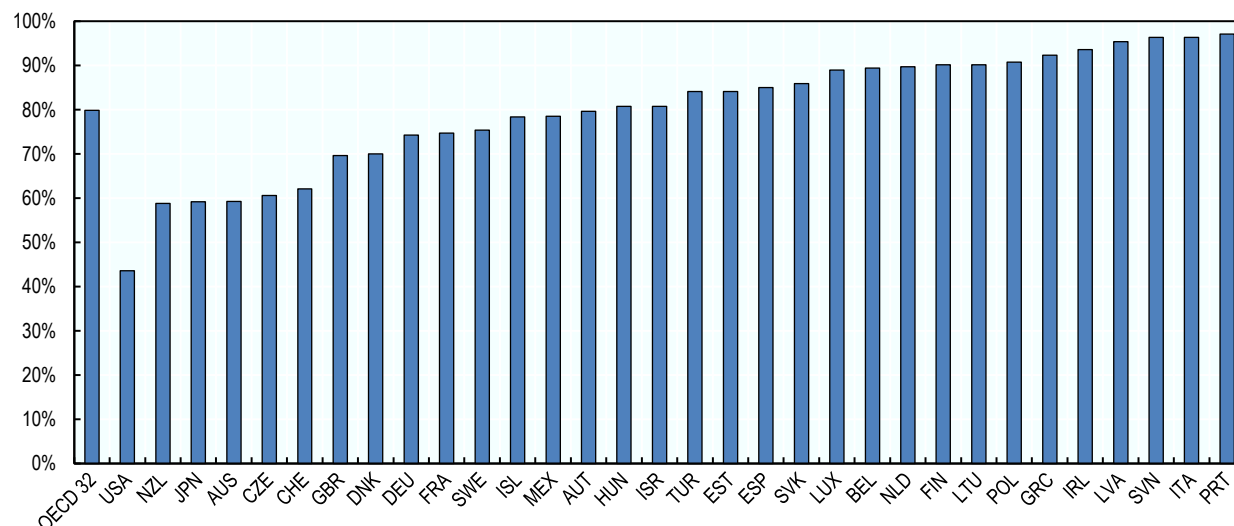
Source: OECD calculations from the 2020 Risks that Matter Survey (Section 3.1).

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Yet public support in favour of inequality-reducing policies cannot be taken for granted. Does the widespread demand for more equality imply demand for any government intervention? Which concrete policies are people more likely to support? How people’s concern about inequality and demand for redistribution have evolved over the last three decades offers important insights into those questions. Since the late 1980s, concern over income disparities has generally risen across the OECD, mirroring the rise in income inequality recorded by conventional, or “objective”, statistical indicators.² However, support for redistributive government interventions has not risen to the same extent. In fact, in several countries, a sizeable share of people is concerned about income disparities, but does not think that it is the state’s responsibility to tackle them (Figure 1.2).


Figure 1.2. People’s demand for redistribution is less than their concern for income disparities

Fraction of people who believe it is the responsibility of the government to reduce income differences, among those who think that such disparities are too large, 2017



Note: Respondents are asked their opinion about the statements “Differences in income in [country] are too large” and “It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low income”. In Eurobarometer the statements are slightly different: “Nowadays in [our country] differences in people’s incomes are too great” and “The government in [our country] should take measures to reduce differences in income levels”, but the response scale is identical. For consistency, this figure uses data from ISSP where available.

Source: OECD calculations from ISSP 2017, apart from Belgium, Estonia, Greece, Ireland, Italy, Luxembourg, Latvia, Netherlands, Poland, Portugal, Slovenia whose data are from Eurobarometer 471/2017.

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Analysing concern over inequality and demand for redistribution may help design widely supported reforms that tackle long-standing disparities. To do so, it is important to underpin concern and demand to act. National support for inequality-reducing reforms stems from both people’s concern over inequality and their preferences as to the extent and forms of such reforms (Box 1.1).

On the one hand, concern depends on both perceived and preferred levels of inequality.³ On the other hand, people’s support for redistributive policies depends on their view of the role governments should play in reducing economic disparities. Such views differ extensively across countries. Furthermore, different combinations of perceptions of income or earnings inequality and intergenerational mobility might prompt support for different policy mixes. Perceptions of greater income or earnings inequality could give more weight to policies that directly affect outcomes, such as unemployment benefit, while perceived intergenerational persistence might boost support for pro-opportunity action such as educational policies.

Furthermore, people within the same country often hold different views on what to do about inequality. Even if emergency welfare measures in the wake of the pandemic currently enjoy a rather broad consensus, recent years have seen polarisation in opinions of redistributive and welfare policies (Alesina, Miano and Stantcheva, 2020_[17]), with different groups in society expressing views that are hard to conciliate. And even when most people evince concern over inequality, country averages mask wide differences in perceived and preferred levels of inequality among citizens. Analysing the distribution of perceptions and how it evolves over time helps shed light on the polarisation of public debate.

Box 1.1. What shapes demand for inequality-reducing policies?

People’s demand for redistribution depends on their concern about current levels of inequality and on their views about the role of government and its policies. These two factors – concern over inequality and opinions of the state – determine not only people’s preferences for more or less redistribution, but also the type of state intervention they would support. Apart from redistribution through tax and benefit systems, people might support policies aimed at fostering equal opportunities, such as educational programmes for disadvantaged students, or action to directly limit market disparities, such as introducing the minimum wage. In fact, people in a country may not share the same views on what policies are best suited to tackling economic disparities. Such disagreements affect how people’s concern over income disparities translate into different demands for redistribution.

People’s concern about inequality depends on the level they perceive (what they *think* it is) and the level they prefer, i.e. what they think it *should be* (for a more detailed discussion see Annex 1.A). Cross-country differences in the average level of concern may not therefore match those measured by conventional inequality indicators. On the one hand, people might perceive a different level of inequality than what those statistical indicators record. On the other hand, the preferred level of inequality also differs across countries, and therefore two societies with similar levels of inequality might differ in the level of concern because they have different tolerance of disparities. It should be noted that “conventional” statistical indicators of inequality reflect a specific evaluation, which might not correspond to the individuals’ evaluation.¹ In the report, “conventional indicators” refer to statistical indicators of inequality derived from household income data (such as the Gini index of disposable income inequality from the *OECD Income Distribution Database*). Such measures are based on a set of conventions specifying the way income is defined, the components it includes, how it is adjusted for household size, etc.² The term “conventional”, albeit imprecise, denotes such indicators as opposed to people’s perceptions, which are subjective estimates.

Policy preferences depend also on whether individuals believe they would personally gain or lose from redistributive policies. Such gains and costs hinge on whether they perceive to be in the top of the income distribution – so that they would likely incur in personal costs (e.g. through higher top income taxes) – or in the bottom – so that they would likely gain. However, people’s perceived relative income position is not always consistent with their actual position.

The impact of an increase in inequality on people’s concern depends on how their perceptions, views and preferences interact. When inequality grows, perceptions might shift accordingly, causing an increase in concern (Figure 1.3). Concern may also diminish because people become more tolerant of inequality – if, for example, they adjust their preferred level thereof in response to their current experience.

Perceptions of inequality are multi-faceted (Table 1.1).³ People form views about inequality through information they have on various outcomes, like earnings or household incomes, but also on the extent of social mobility. Equally, they may come to believe that inequality is attributable to individual effort or circumstances beyond an individual’s control. **These perceptions and beliefs shape their concern over inequality and are strongly interconnected.** One example is the relation between the perceived richest 10’s share of income and the perceived chances that children born into poor families will be in the same income bracket as their parents when they grow up. These perceptions are in line with the so-called “Great Gatsby Curve” (OECD, 2018_[12]), i.e. the stylised fact that higher income inequality goes hand in hand with weak upward social mobility.

Figure 1.3. How preferences for redistribution are shaped by people's concern over inequality and their views of government and policies

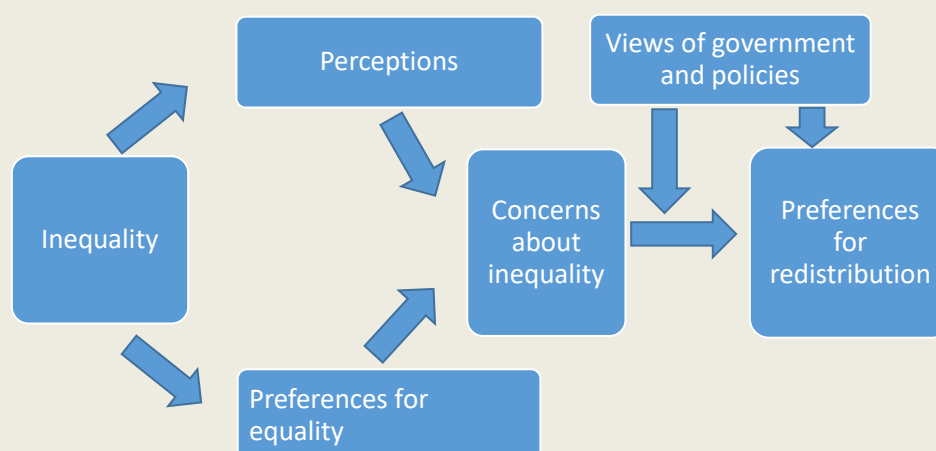


Table 1.1. Glossary of key concepts

List of the main concepts used in the report (section of first use in parentheses)

Type of subjective factors	Domain	
	Inequality of outcomes	Inequality of opportunities
Perceptions	Perceived richest 10%'s share of income (Section 2.2). Perceived top-bottom earnings ratio: what people believe that top and bottom earners earn – what the top 10% earn compared to what the bottom 10% earn (Section 2.2). Perceived personal position in the income distribution (Section 3.3).	Importance of coming from a wealthy family / having educated parents / hard work to get ahead in life (Sections 2.1 and 2.2) Perceived intergenerational persistence: see qualitative index (Section 2.2). Perceived intergenerational income persistence among the bottom 10%: perceived share of children from the poorest 10% of households who remain in the poorest 10% once adults (Section 2.2).
Preferences	Preferred richest 10%'s share of income: the share of national income that people believe should go to the top 10% richest households (Section 2.3) Preferred top-bottom earnings ratio: what people think that top and bottom earners should earn (Section 2.3).	
Concern	Concern over income disparities: agreement or strong agreement with the statement that income disparities are too great (Section 2.1). Concern over earnings disparities: estimated gap between perceived and preferred top-bottom earnings ratio (Section 2.3). Concern over income disparities (alternative measure): gap estimated between perceived and preferred top income shares of the 10% (Section 2.3).	

Notes

- As put by Kolm (1976, p. 416^[18]): "I can take (...) any two countries and prove that inequality is higher in the one or in the other, by choosing different inequality measures." To take this into account, the Atkinson index explicitly incorporates a parameter that captures aversion towards inequality, and therefore its value changes with the level of aversion.
- Alternatively, these measures could be described as "objective" measures, as opposed to the "subjective" estimates of people's perceptions. The term "objective", however, would neglect the fact that each single inequality indicator, such as the Gini index, is based on a set of conventions and has a normative interpretation.

3. This report analyses these indicators separately, although it highlights how they strongly interrelate. Bavetta, Li Donni and Marino (2017^[19]) suggest an alternative multidimensional approach, based on latent variables, to combine different indicators relating to multiple dimensions. Such method requires observing all the indicators within the same survey.

1.2. People’s average perceptions of inequality tend to mirror conventional statistical indicators, although with some differences

Average perceptions of inequality correlate with conventional estimates of income disparities and intergenerational persistence

Across countries, where indicators from the OECD and other sources show higher income inequality and less social mobility, people also generally perceive greater inequality and lower mobility (Table 1.2 and Chapter 2). The finding suggests that perceptions, despite being based on incomplete information, do reflect real evidence of economic inequality in the society.

Nevertheless, perceptions and conventional indicators may differ widely in some countries. Some countries rank lower in terms of perceptions than conventional indicators – i.e. people perceive to live in a more equal society than they actually are – either with regards to income inequality (Israel, Lithuania and the Netherlands), intergenerational persistence (Canada, Switzerland and the United States), or both (France and Italy). In other countries the ranking in terms of perceptions outstrips the one in conventional indicators – i.e. people perceive to be in a less equal society than they actually are – either for income inequality (Austria, Belgium, Canada and Finland), intergenerational persistence (Turkey and Spain), or both (Greece).


Table 1.2. Most countries rank similar in perceived and conventionally measured levels of income inequality of intergenerational persistence, but for some there are important differences

	Income inequality		Intergenerational persistence	
	Income share that goes to the 10% richest, measured by conventional indicators	Perceived income share that goes to the top 10% richest	Intergenerational earnings persistence, measured by conventional indicators	Perceived intergenerational income persistence in the bottom 10% poorest
Slovenia	Low	Low	-	-
Belgium	Low	Medium	Medium	Medium
Norway	Low	Low	Low	Low
Estonia	Low	Low	-	-
Denmark	Low	Low	Low	Low
Poland	Low	Low	-	-
Austria	Low	High	High	High
Finland	Low	Medium	Low	Low
Netherlands	Medium	Low	Medium	Medium
Canada	Medium	High	Medium	Low
Germany	Medium	Medium	High	High
Greece	Medium	High	Low	High
Ireland	Medium	Medium	Medium	High
Switzerland	Medium	Medium	High	Medium
Spain	Medium	Medium	Low	Medium
France	Medium	Low	High	Medium
Korea	Medium	Medium	Medium	Medium
Portugal	High	High	Medium	Medium
Italy	High	Medium	High	Low
Israel	High	Low	-	-

	Income inequality		Intergenerational persistence	
	High	Medium	Low	High
Lithuania	High	Medium	-	-
United States	High	High	Medium	Low
Turkey	High	High	Low	High
Mexico	High	High	-	-
Chile	High	High	High	High

Note: Countries are ranked low/medium/high depending on the distribution of the indicator among the countries observed; for example, “High” for estimated top 10% income share refers to the eight countries with the highest values. The estimated intergenerational earnings persistence refers to the elasticity between the earnings of sons observed late 2000s and the earnings of their fathers when they were approximately of the same age. The ranking for intergenerational persistence is calculated only for those countries for which the intergenerational earnings elasticity is available in OECD (2018_[12]), *A Broken Social Elevator? How to Promote Social Mobility*.

Source: OECD calculations from the 2020 Risks that Matter Survey; OECD Income Distribution Database (<https://stats.oecd.org/Index.aspx?DataSetCode=IDD>) for top income shares, OECD (2018_[12]), *A Broken Social Elevator? How to Promote Social Mobility*, for intergenerational earnings persistence (Section 2.2).

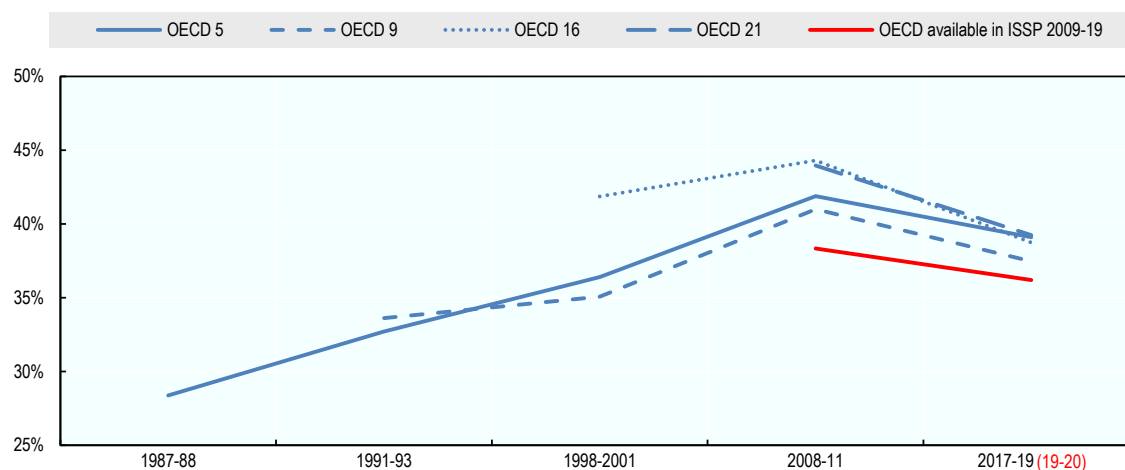
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In recent decades, as income inequality has risen in many OECD countries, so has people’s concern over income disparities

Concern over income disparities and conventional estimates of inequality have moved consistently over time. The share of people who strongly agree that income disparities are too wide has risen at least since the late 1980s (Figure 1.4), in line with the increase in income inequality measured by conventional statistical indicators (OECD, 2011_[11]). In countries where conventional estimates of income inequality grew the most, so did people’s concern over inequality. The trend suggests that people have generally incorporated into their perceptions the factual information about trends in income disparities.

Figure 1.4. Concern over income disparities has increased in recent decades

Share of people who strongly agree that income differences in their country are too large, OECD averages



Note: Unweighted average across countries.

OECD 5: Austria, Australia, United Kingdom, Hungary, United States; OECD 9: plus Germany, New Zealand, Slovenia, Sweden; OECD 16: plus Czech Republic, Denmark, Spain, France, Israel, Japan, Slovakia; OECD 21: plus Switzerland, Finland, Iceland, Lithuania, Turkey. OECD available in ISSP 2009-19 refers to the countries present in both ISSP 2009 and 2019, for which trends are more fully comparable. They include Australia, Switzerland, Chile, Czech Republic, Germany, Denmark, Finland, United Kingdom, Italy, Japan, New Zealand, Norway, Slovenia.

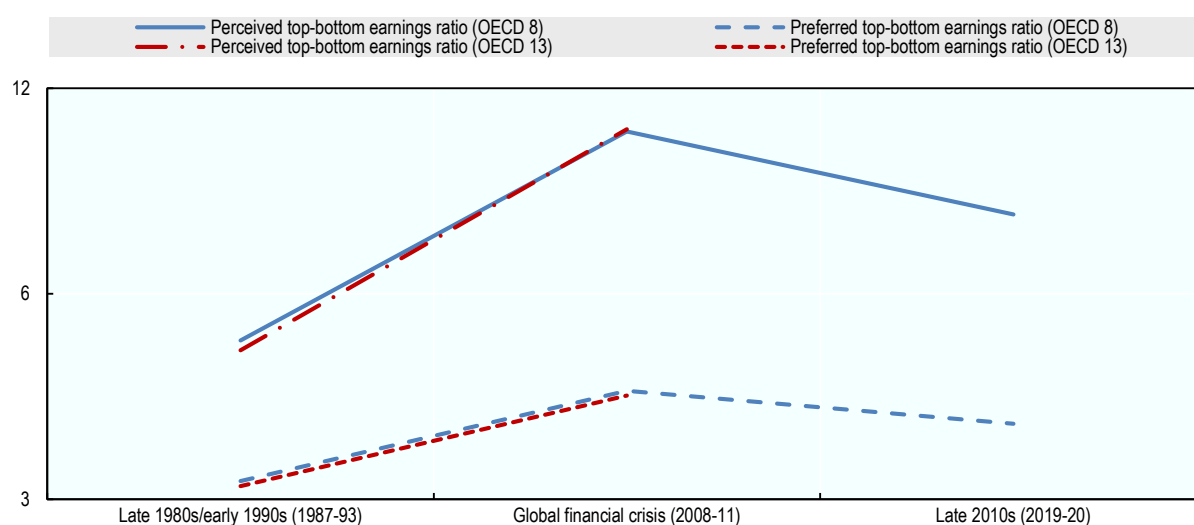
Source: OECD calculations from ISSP 1987, 1992, 1999, 2009, 2017 and 2019; Australian Survey of Social Attitudes 2019; Norwegian part of ISSP 2019; British Social Attitudes 2019 (Section 2.1).

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The rise in concern has been driven by the rise in perceived disparities. Perceived top-bottom earnings disparities – for which data are available on a long period of time – have widened substantially in recent decades in the countries studied. In 2019-20, people perceived top earners – doctors and CEOs of large national corporations – as earning an average of eight times more than bottom earners, i.e. unskilled workers in a factory (Figure 1.5). This perceived earnings ratio was a steep increase over the late 1980s and early 1990s, when it was around 5/1, before reaching its peak during the global financial crisis.

Figure 1.5. Perceived earnings disparities have increased substantially over time

Perceived and preferred top-bottom earnings ratios, averaged across eight OECD countries



Note: The values are the average of the median values in logarithmic scale (base 2). OECD 13 includes Austria, Australia, Germany, Hungary, Italy, New Zealand, Norway, Poland, Slovenia, Sweden, Switzerland, United Kingdom and the United States. OECD 8 misses Austria, Hungary, Poland, Sweden, United States (for these countries, data is only available up to the global financial crisis).

Source: OECD calculations from ISSP 1987, 1992, 2009, 2019; Australian Survey of Social Attitudes 2019; Norwegian part of ISSP 2019; British Social Attitudes 2019 (Section 2.3).

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Tolerance of earnings inequality increased slightly, as people adapted to higher levels of earnings inequality over time. Preferred levels of inequality are considerably lower than perceived levels in all OECD countries. However, preferences evolved over time: between the late 1980s and the global financial crisis preferred earnings disparities rose in all the countries studied, more steeply in those where perceived disparities grew the most. Preferred disparities then declined in the most recent decade, 2010-19, though they nevertheless remained wider than in the late 1980s and early 1990s.

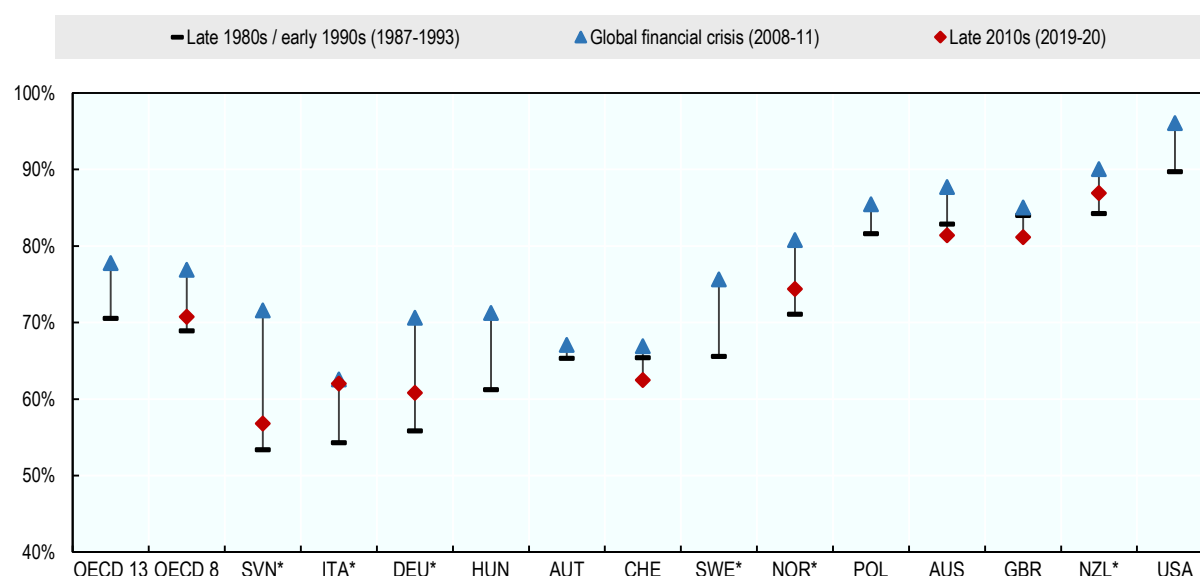
On average, the increase in preferred earnings disparities offset the sharp growth in perceived disparities by almost one-half. As a consequence, rising perceived inequality in earnings did not fully translate into greater concern over inequality. Yet, despite the growing preference for wider earnings inequality, demand for greater earnings equality has also grown in recent years.

A rise in the perceived importance of hard work for getting ahead in life between the early 1990s and the global financial crisis may partly explain people's increased tolerance of inequality (Figure 1.6). People who believe that hard work matters more than luck or other circumstances beyond an individual's control for getting ahead in life are more accepting of income inequality, because they believe that high earning disparities are the reward for differences in individual effort. However, among the countries observed up to 2019, the perceived importance of hard work fell between the early and late


2010s. The trend suggests that people are becoming more unsure that differences in income and earnings are due to differences in individual effort.

Figure 1.6. The belief in hard work for getting ahead in life grew in the two decades up to the global financial crisis, but seems to be receding

Share of respondents who believe that hard work is very important or essential for getting ahead in life



Source: OECD calculations from ISSP 1987, 1992, 2009 and 2019.

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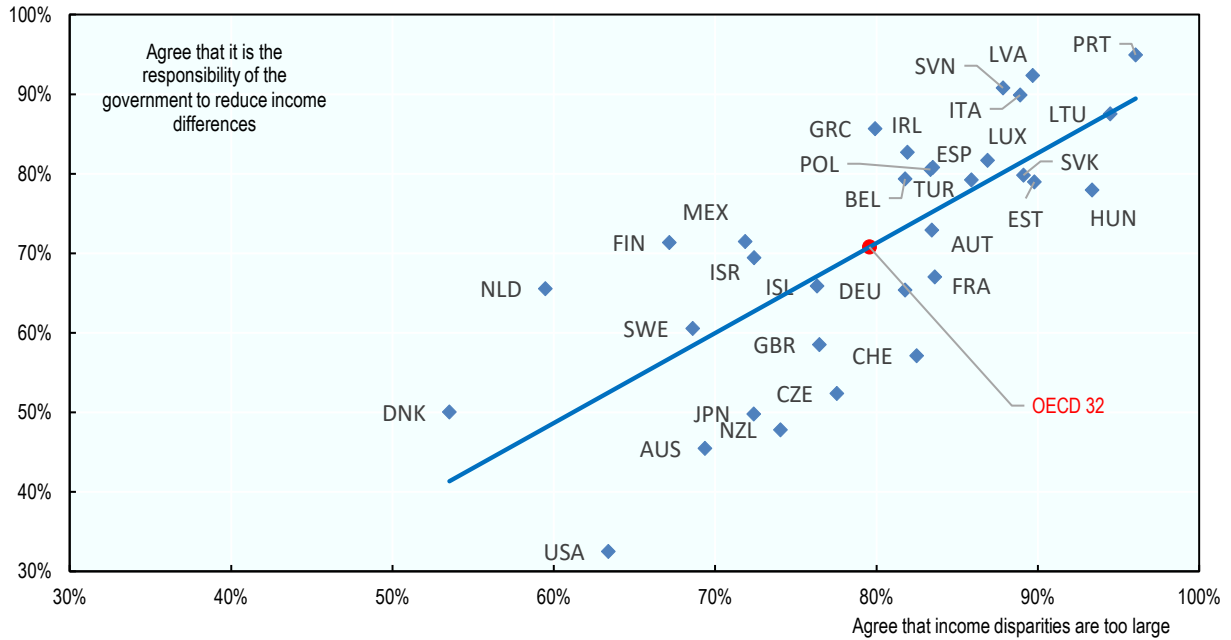
1.3. Growing concern over inequality increases demand for redistribution, but do not necessarily spell widespread support for all policies

People's perceptions and concern determine their preferences for income redistribution

Perceptions of and concern over inequality are important drivers of demand for redistribution. Concern over income disparities in all countries correlates closely with the share of the population who agree that it is the state's responsibility to narrow income differences (Figure 1.7). Increases in inequality – as measured by conventional statistical indicators – are associated with greater demand for redistribution only insofar as people's concern about inequality rises accordingly (see Chapter 3).

Figure 1.7. Concern over income disparities correlates closely with demand for government redistribution

Shares of respondents who agree with either that is the government’s responsibility to redistribute or that income disparities are too large



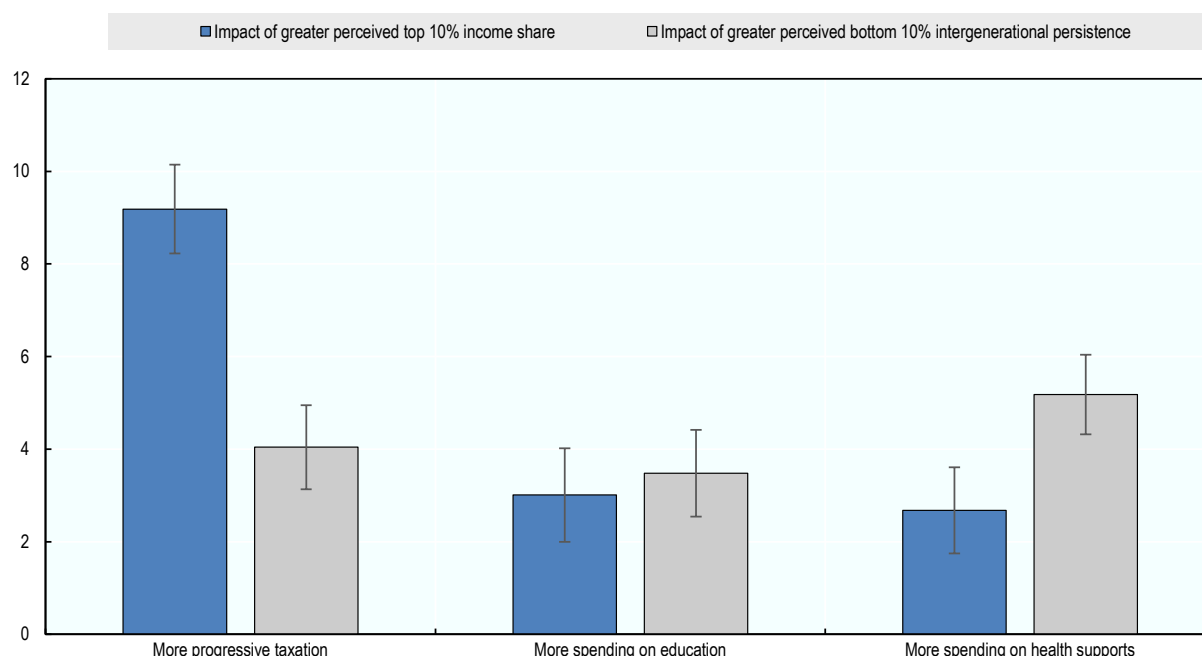
Source: OECD calculations from ISSP 2017 and Eurobarometer 471/2017 (Section 3.1).

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Both perceived inequality of outcomes and of opportunities drive preferences for inequality-reducing policies. Even when people believe that social mobility is high, greater perceived income inequality is associated with stronger demand for redistribution. However, perceptions of income inequality and social mobility can be associated with different policy preferences. Greater perceived income inequality, for example, is more closely associated with demand for more progressive taxation, as one would expect. On the other hand, perceived income inequality and intergenerational mobility influence to almost equal degrees demand for greater public expenditure on education system and healthcare (Figure 1.8).

Figure 1.8. The preferred type of inequality-reducing policies depends on combinations of perceptions over inequality and lack of equal opportunity

Impact of stronger perceptions on shares of respondents (percentage points) who support different policy interventions



Note: “Stronger”, or “higher” perceptions refer to an increase in either perception by 40 percentage points (approximately a shift from the 25th to the 75th percentile). The question on progressive taxation is “Should the government tax the rich more than they currently do in order to support the poor?” For the other categories, it follows the question “Thinking about the taxes you might have to pay and the benefits you and your family might receive, would you like to see the government spend less, spend the same, or spend more in each of the following areas?” Respondents answering “don’t know” are not considered.

Source: OECD calculations from the 2020 Risks that Matter Survey (Section 3.4).

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People’s demand for inequality-reducing policies falls as own income rises: higher-income individuals prefer wider disparities, even if they perceive similar levels of inequality of outcomes and opportunities. Differences in preferences for inequality reflect “pocketbook considerations” – redistribution costs for the rich, but benefits the poor. The higher demand for redistribution among low-income individuals points to the fact that, when inequality rises, people who become poorer than the average increase their support for redistributive policies.

However, the link between own income and demand for inequality-reducing policies depends on people’s perception of where they belong in the income distribution. Across OECD countries, a disproportionately high share of people believe they are part of the middle class. The experimental evidence suggests that giving people the facts increases demand for redistribution among those who discover that they are poorer than they thought, while it reduces it among those who find out that they are better-off (Ciani, Fréget and Manfredi, forthcoming^[20]).

Yet, demand for redistribution also depends on people’s social preferences and beliefs about the drivers of inequality. At the individual level, perceptions of the overall level of inequality and intergenerational mobility matter as much as own income for explaining preferences for redistribution. Furthermore, a climb in inequality also increases demand for redistribution among the rich: as inequality grows, their social preferences for narrower disparities outweigh their personal gains and losses from

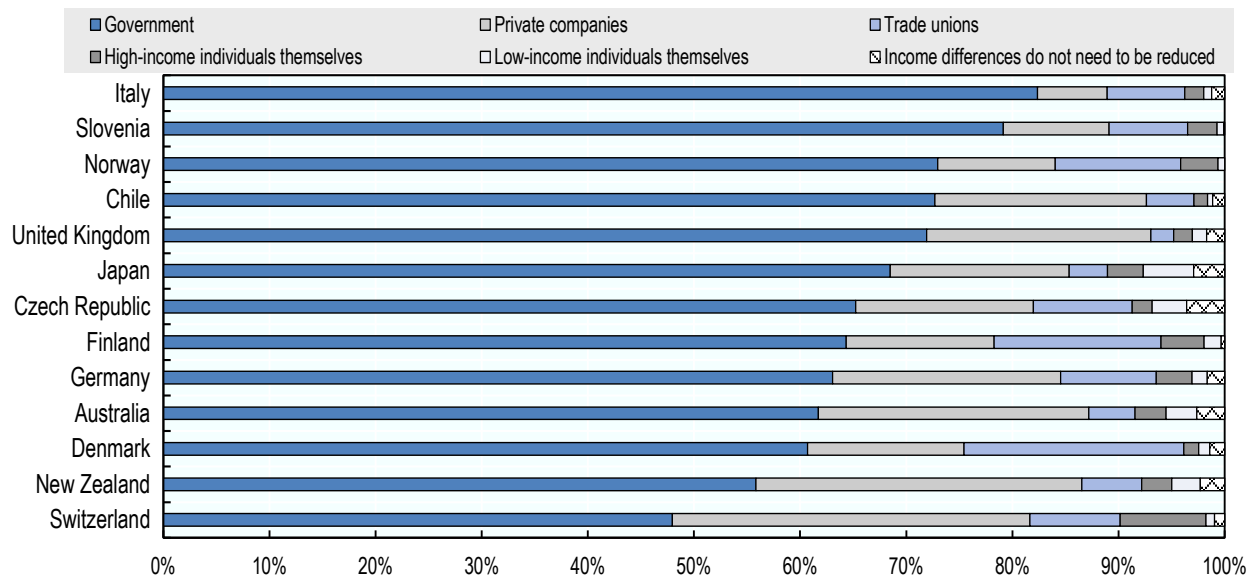
redistribution (Rueda and Stegmueller (2019^[21]) and Section 3.3). In fact, although redistribution comes at a cost for them, the rich can still support it either because of purely altruistic motives or because they believe that higher inequality might harm them through other channels – e.g. through decreased national productivity or increased crime. Finally, independently from own income, people are more supportive of inequality-reducing policies if they believe that existing disparities are the result of circumstances outside an individual’s control.

Beyond perceptions of inequality, people’s views of the role of government and the effectiveness of policies matter

Even if perceptions of and concern over inequality are key drivers of redistributive preferences, stronger demand for more equality does not always spell widespread support for government intervention. Over time, preferences for income redistribution in OECD countries have, on average, risen less than concerns. Conventional statistical indicators also suggest they have also been less responsive to changes in observed income inequality (as tracked by conventional statistical indicators). In most countries, the share of respondents who believe that it is the state’s duty to reduce income disparities is lower than the share who feel that such disparities are too wide (Figure 1.9). In some countries there is a sizeable share of respondents who believe it is the job of private companies, trade unions or individuals themselves to reduce income differences, rather than the government.

Figure 1.9. For some people, the greatest responsibility in reducing income differences lies with private companies, trade unions or individuals themselves

Shares of respondents by answer to the question: “Who do you think should have the greatest responsibility for reducing differences in income between people with high incomes and people with low incomes?” among those who think that such differences are too large



Source: OECD calculations from ISSP 2019.

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The perceived effectiveness of policies drives support for inequality-reducing policies. People demand more redistribution through the tax and benefit system if they believe that the benefits are effective and well targeted. Indeed, evidence from the OECD Trustlab survey shows that people are less in favour

of progressive taxation if they believe that petty corruption is widespread among public officials, prompting the misuse and misallocation of public benefits. By contrast, experimental evidence shows that they do support redistributive policies if they perceive that those policies effectively reduce inequality and poverty.

Even if people agree on the need for policy action, they may disagree on what measures to take.

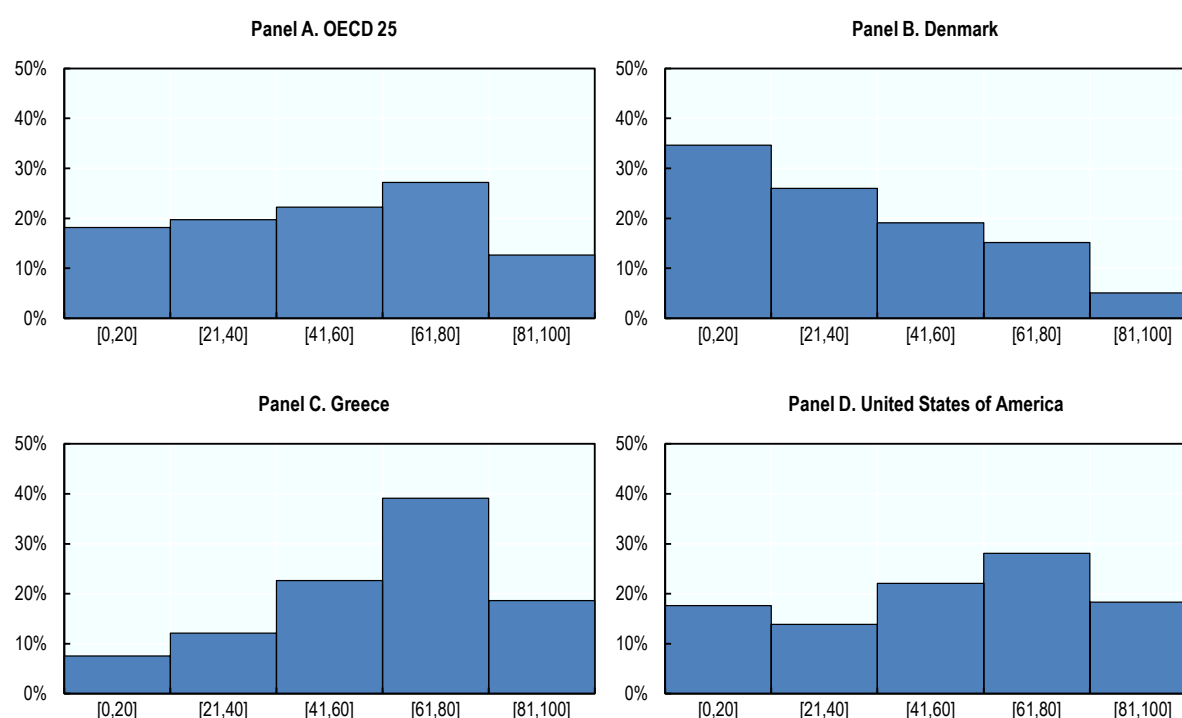
Countries – and people – differ as to their perceptions of the scale of inequality of outcomes (bottom or top inequality) and obstacles to intergenerational mobility, like parental education or wealth. Similarly, people in different countries associate “redistribution” with different types of intervention, ranging from progressive taxation and income support to increased government expenditure on housing and healthcare.

1.4. In most countries, public opinion on inequality is divided

People’s perceptions of current levels of income inequality may also vary widely within countries, with some people perceiving it as fairly low and others extremely high (Figure 1.10). In some countries – as in the OECD average – there is no single prevailing perception, but a wide variation. In others, like the United States, perceptions tend to polarise in groups with starkly different views. In only a few countries do most people tend to perceive broadly similar levels of income inequality – either low, as in Denmark, or high, as in Greece. Perceptions of earnings disparities and social mobility are similarly dispersed (see Chapter 4).

Figure 1.10. People’s perceptions of income inequality are widely dispersed

Estimated distribution of perceived shares of total income going to the 10% richest households, OECD average and selected countries, 2020



Note: The bars give the distribution of respondents’ estimates of the richest 10%’s share of income in their country (where the bar is higher, more respondents answered in the displayed range).

Source: OECD calculations based on (OECD, 2021^[16]), *Main Findings from the 2020 Risks that Matter Survey* (Section 4.1).

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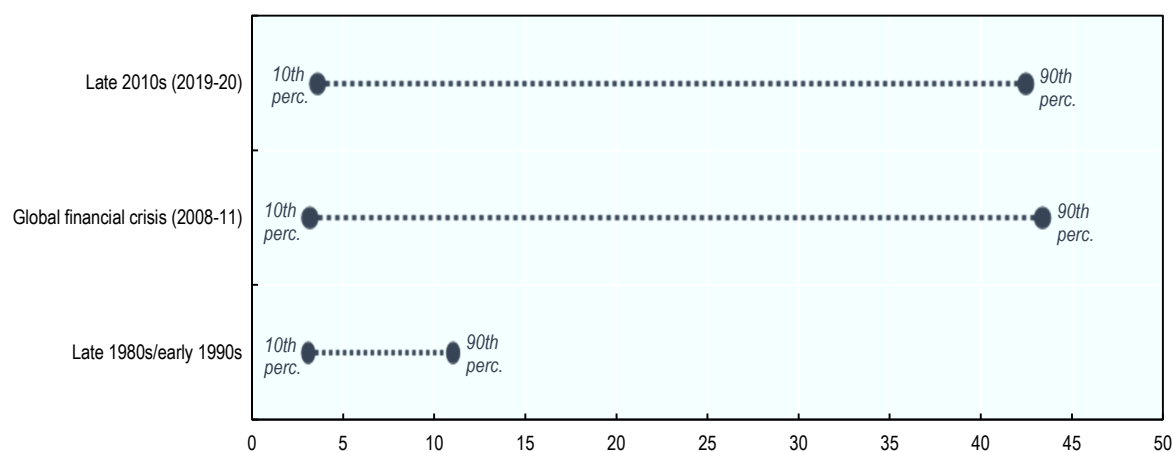
Different individuals are more likely to agree on the “ideal” level of income inequality than on what they think the current level of income inequality actually is. In fact, in all countries, the preferred share of income held by the top 10% vary less than perceived levels. People disagree with each other as to how much income inequality should be reduced, but mostly because they perceive different levels of inequality, rather than because they have different preferred levels.

Perceptions and preferences about earnings disparities have become considerably more dispersed in recent decades (Figure 1.11), indicating increased levels of disagreement. In some countries, there are also signs of mounting polarisation. Two schools of opinion have emerged: one believes current earnings disparities are more acceptable, and the other that they are extremely wide. People tend to disagree particularly about what levels of top earnings are and should be. Their steep rise in the last three decades, as documented by conventional statistical indicators (OECD, 2011^[11]), is associated with a more divided public opinion.

Disagreements over the extent of inequality can be wide even among people with similar socio-economic characteristics. Such disagreements have increased over the years. Perceptions of income inequality and social mobility vary by income, educational attainment, employment status, gender, age, and household type, but those disparities are comparatively mild. No more than 10% of the total dispersion in perceptions reflects differences *between* socio-economic groups – the remaining 90% represents differences in perceptions among people with very similar profiles. Also the rise over time in the dispersion of perceptions of and concern over earnings disparities mostly reflects greater *within-group* dispersion.

Figure 1.11. People disagree more than 30 years ago on the extent of earnings disparities

10th and 90th percentiles of the perceived top-bottom earnings ratio, averaged across 8 OECD countries



Note: The lines represent the difference between the bottom 10% of respondents and the top 10%, ranked by their view about the top-bottom earnings ratio. The values are the average of the values for Australia, Germany, Italy, New Zealand, Norway, Slovenia, Switzerland and the United Kingdom. Trends between the late 1980s and the global financial crisis are similar if countries observed only up to ISSP 2009 are included (Austria, Hungary, Poland, Sweden and the United States).

Source: OECD calculations from ISSP 1987, 1992, 2009, 2019; Australian Survey of Social Attitudes 2019; Norwegian part of ISSP 2019; British Social Attitudes 2019 (Section 4.2).

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1.5. Conclusion: understanding people's perceptions of and concern about inequality can help design the reforms that lie ahead

The COVID-19 crisis has exposed the vulnerability of large segments of the population in OECD countries. As emergency measures gradually fade, governments are set to implement reforms that will address that vulnerability and enhance equal opportunities. To that end, the report argues that getting citizens and governments on the same page when it comes to reducing inequality and promote social mobility requires understanding how people form their perceptions and opinions. Perceptions of, preferences for and concern over inequality all respond to changes in measured inequality. Eventually, however, it is how they combine that determines public support for reforms to tackle persistent disparities. Perceptions, preferences and concerns differ from one country to another and evolve over time. Data on people's views of inequality can, therefore, inform policy design and so increase the chances that proposed reforms garner the necessary public support.

Most people across the OECD believe that the current level of income inequality is too high. Perceptions of income inequality and low social mobility determine this concern. Furthermore, people are more concerned about income inequality when and where they believe that hard work is not a factor in getting ahead in life. In other words, they care about inequality of both outcomes and opportunities. They perceive them as interrelated, and both matter in demand for government intervention to reduce income differences. Reforms that tackle both are therefore more likely to receive support.

Nevertheless, the widespread demand for more equality **does not mean that people are in favour of any government intervention, as perceptions and preferences differ from country to country.** First, perceptions and preferences of outcomes and opportunities vary across societies. Consequently, how much importance people accord to outcomes rather than opportunities changes across countries, so influencing public support for policy mixes. Some focus on redistributing outcomes, like raising tax rates on high incomes, others on fostering equal opportunities, such as improving access to high-quality education. Second, people's perceptions and opinions may also be shaped by other considerations – whether top earnings are too high or bottom earnings are too low, or which obstacles to intergenerational mobility (like parental education or wealth) are more challenging. To garner sufficient public support, policy makers should take into account these national differences in designing reform packages.

Considering the scale of public resources that governments have mobilized during the pandemic, growing attention is being paid to the costs and benefits of incoming reforms. Importantly, **policy effectiveness matters to the general public. People's support for certain policies is stronger when they are seen to be effective in reducing inequality.** Hence the need to carefully design redistributive and welfare reforms, learning from best practices and assessments of previous action. However, it also shows the importance of facilitating people's understanding of the functioning and impact of the policies. To that end, governments should thoroughly evaluate existing interventions and clearly explain their redistributive effects, as well as collect the open data that would allow such an evaluation. They should draw on independent research from academia and non-governmental or international institutions, to guarantee transparency and facilitate people's confidence and trust.

Introducing reforms can be hard even when most people support them if different groups hold hard-to-reconcile views. In fact, public opinion is often divided about the extent of actual inequality and what to do about it. This division complicates the public debate around the need for inequality-reducing policies, because different groups often hold very different views. Importantly, such division goes past the class struggle: the strong division in the public opinion is only partly explained by differences in opinions between the rich and the poor or between socio-demographic groups. Policies focusing on just one main interest group – as defined along traditional lines (e.g. the young or the working class) – might fail to reach sufficient consensus even within that target group.

Experimental evidence shows that informing people about inequality changes their perceptions, although it has only a minor effect on redistributive preferences. **High-quality information about inequality of outcomes and opportunities could help lessen the widespread dispersion of perceptions across the population.** It could provide common ground for public debate, even if it would not necessarily ease differences of opinion about policies.

Lastly, the interpretation of data on people's perceptions requires careful analysis and measurement. **Improving comparability between countries and over time calls for standards and guidelines on how to measure perceptions, preferences and opinions pertaining to inequality.** The recently created OECD Expert Group on New Measures of the Public Acceptability of Reforms aims at contributing to this effort. This report also highlights a series of evidence gaps related to important factors that influence how people think about inequality.

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Annex 1.A. Measuring and interpreting perceptions and preferences of inequality

The literature, as well as public debate, uses a wide range of measures to study people's views on inequality. They may be classified as belong to three broad dimensions:

- Domain. Inequality of outcomes (e.g. income disparities) or inequality of opportunities (e.g. chances of climbing the social ladder).
- Perspective. Views of the overall distribution of outcomes and opportunities in the population in a given country, or views of the individual's own position in that distribution.
- The state of the world. Surveys may ask people about their perception of the current situation as it is, or what they would like it to be. Alternatively, they might ask them to express their concern about the current state of the world – a reflection of the gap between what they perceive and what they wish. The International Social Survey Programme, for instance, has been asking since 1987 whether respondents agree or not with the statement “Income differences in [your country] are too large”. Agreement with the statement measures the tension between what people think existing disparities are and what they think they should be.

A simple conceptualization, summarized in Annex Figure 1.A.1 and inspired by Alesina, Miano and Stantcheva (2020^[17]), helps connect the different elements discussed in the report:

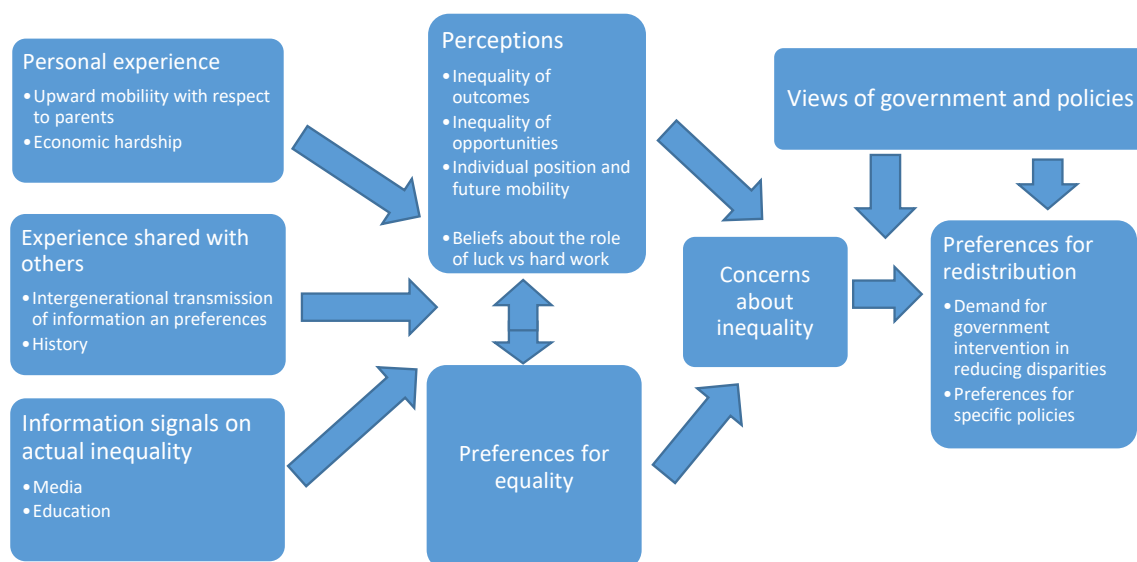
- People formulate perceptions about the distribution of outcomes and opportunities in their society, and about their position in this distribution (Hauser and Norton, 2017^[22]). The perceptions are shaped by experience – such as personal history of success (Piketty, 1995^[23]; Gärtner, Mollerstrom and Seim, 2021^[24]), shared historical experience (Corneo and Grüner, 2002^[25]), and information acquired from media or other sources (Diermeier et al., 2017^[26]; Perez-Truglia, 2019^[27]; Phillips et al., 2020^[28]). People also hold beliefs about the role of luck, merit or circumstance in explaining income disparities. These beliefs are crucial in explaining different attitudes towards redistribution and are closely tied to perceptions (as such, they are classified along perceptions in Table 1.1). However, they are actually a combination of perceptions and concerns, because they tend to conflate a positive statement (about the actual source of disparities) with a normative one (which relates to people's meritocratic attitudes).
- Individuals have preferences as to what extent of inequality in outcomes and opportunities might be acceptable (Clark and D'Ambrosio, 2015^[29]). Preferences might be transmitted through generations (Luttmer and Singhal, 2011^[30]) and depend on national history (Corneo and Grüner, 2002^[25]; Alesina and Fuchs-Schündeln, 2007^[31]). They are also shaped by experience. The evidence shows that people might become more accepting of inequality (or believe in stronger meritocracy) when they live in a more unequal society (Benabou and Tirole, 2006^[32]; Trump, 2018^[33]; Mijs, 2019^[34]). Having experienced hardship, though, seems to make them less willing to accept wider inequality (Giuliano and Spilimbergo, 2013^[35]). Perceptions may also influence preferences. First, those who perceive themselves as relatively rich are less likely to be concerned by inequality for motives of self-regard (Hvidberg, Kreiner and Stantcheva, 2020^[36]). Second, extensive literature has shown that people are at least partly prepared to accept disparities in income if they believe that equal opportunities are available, or that higher incomes are the result of effort rather than circumstance or sheer luck (Piketty, 1995^[23]; Alesina and Giuliano, 2011^[37]). It is also possible that preferences and other related subjective factors (e.g. political views) in turn

influence perceptions, shaping the way people interpret and weigh information and experience (Alesina, Miano and Stantcheva, 2020^[17]; Phillips et al., 2020^[28]).

- People’s concern about inequality arises from the distance between their perceptions and their preferences. Their scale of concern may depend on whether they perceive that the current level of inequality is greater than they would prefer it to be.
- Concern about inequality might lead individuals to prefer more redistribution and demand policies designed to reduce disparities. However, preferences for redistribution depend also on their perceptions of policy effectiveness, as well as on their personal gains and costs – i.e. benefits and taxes, or “pocketbook considerations”. Perceived gains and costs hinge on individuals’ perceived position in the distribution (Cruces, Perez-Truglia and Tetaz, 2013^[38]), as well as on expectations of future mobility (Piketty, 1995^[23]; Benabou and Ok, 2001^[39]).
- Preferences for redistribution and how they relate to perceived and actual inequality also depend on people’s views of the role of government in narrowing disparities (Osberg and Bechert, 2016^[40]). For instance, perceived inequality might not translate into more support for redistribution if people have limited confidence in the effectiveness of policies.

Annex Figure 1.A.1 assumes that some of these dimensions do not influence each other. In reality, the framework may well be more complicated. For instance, preferences might shape people’s experience (by changing their social network) and how they gather information (e.g. by influencing which sources they deem trustworthy). The report does not address these further considerations, as its focus is on how actual income inequality shapes perceptions of inequality, and how those perceptions influence demand for redistribution.

Annex Figure 1.A.1. Perceptions, preferences and concerns about inequality



Note: The arrows indicate the direction in which one element influences another. For simplicity’s sake, only one arrow per box was included for the first three aspects on the left, even though they all influence both perceptions and preferences.

Notes

¹ As users of CYI are not representative of the population, the figures are estimated using a re-weighting procedure that makes the CYI sample similar to the general population on the basis of age, gender, household size and disposable income (Balestra and Cohen, 2021^[42]).

² In this report, the term “conventional statistical indicators” indicates the estimates of inequality based on household income data (such as the Gini index derived from the *OECD Income Distribution Database*), in order to distinguish them from people’s perceptions, which refer to a subjective factor. It should be noted, however, that inequality indices have a normative interpretation (Atkinson, 1970^[41]) and, therefore, also the use of different statistical indices can correspond to different social preferences.

³ As a result, cross-country differences in average levels of concern do not always align with conventional statistical estimates of inequality: not only might people perceive a level of inequality that differs from the statistical measures, but people’s preferred levels of inequality are also likely to differ from one country to another.

Does Inequality Matter?

HOW PEOPLE PERCEIVE ECONOMIC DISPARITIES AND SOCIAL MOBILITY

The recovery after the COVID-19 crisis requires policies and reforms that tackle inequalities and promote equal opportunities. However, the implementation of such reforms requires widespread support from the public. To better understand what factors drive public support, this report provides a detailed cross-country analysis of people's perceptions of and concern over inequality. It documents how concern over income disparities has risen in OECD countries over the long run. Nowadays, in most countries a large majority of the population believes that income disparities are too large and that intergenerational mobility is low. Yet, sufficient support for inequality-reducing policies may fail to arise if people do not agree on concrete policy options, or doubt the effectiveness of such policies. Moreover, even when the majority demands more equality, a divided public opinion can complicate the introduction of reforms. The report highlights how people within the same country are often divided as to the extent of inequality and what should be done to address this challenge. The report illustrates how the findings from analysis of perceptions and concerns can serve to inform policy making.



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