

## THE (UN)DESERVING RICH

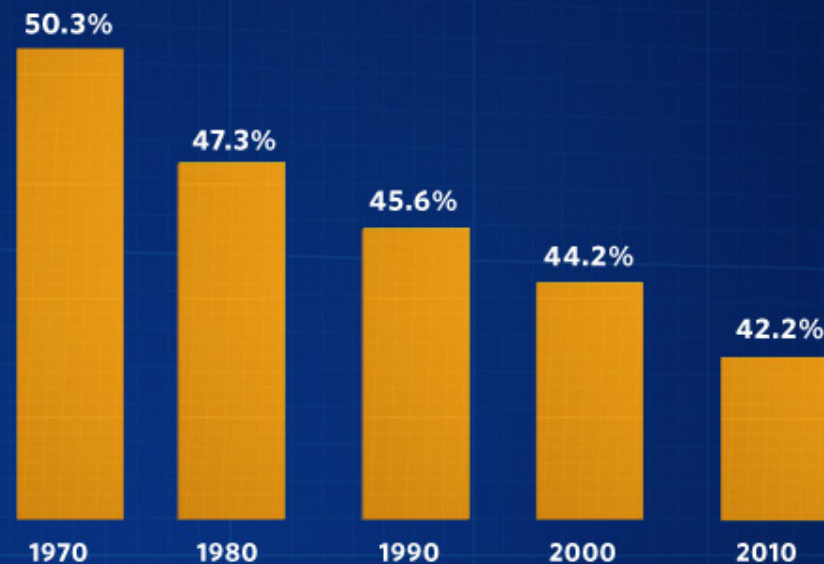
American Beliefs about Income Inequality  
from 1980 to the Occupy Wall Street Movement

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# THE SHRINKING MIDDLE-CLASS

Percentage of households with annual income within 50% of the median



CEA CALCULATIONS

“The basic American promise [is] that if you worked hard, you could do well enough to raise a family, own a home, send your kids to college, and put a little away for retirement.

The defining issue of our time is how to keep that promise alive...

We can either settle for a country where a shrinking number of people do really well, while a growing number of Americans barely get by.

Or we can restore an economy where everyone gets a fair shot, everyone does their fair share, and everyone plays by the same set of rules.”

*President Obama, 2012 SOTU*

## The Economics of Income Inequality: Economists Link Inequality and Opportunity

*Joseph Stiglitz (May, 2011, Vanity Fair, "Of the 1%, by the 1%, for the 1%"):* "An economy in which most citizens are doing worse year after year is not likely to do well over the long haul [because] first, **growing inequality is the flip side of shrinking opportunity**, [which] means that we are not using some of our most valuable assets—our people—in the most productive way possible. Second, many distortions that lead to inequality—such as monopoly power and preferential tax treatment for special interests—undermine the efficiency of the economy. This new inequality goes on to create new distortions, undermining efficiency even further..." (such as diverting talented youth into finance rather than productive sectors of the economy)

*Alan Krueger (January, 2012, "The Rise and Consequences of Inequality in the U.S."):* "...**inequality in incomes is causing an unhealthy division in opportunities**, and is a threat to our economic growth. Restoring a greater degree of fairness to the U.S. job market would be good for businesses, good for the economy, and good for the country. It's hard to bemoan the fact that because of rising inequality the happenstance of having been born to poor parents makes it harder to climb the ladder of economic success.

## The Politics of Income Inequality: Daniel Bell's Just and Unjust Meritocracies

“How much difference should there be in income between the head of a corporation and a common laborer, between a professor at the top of the scale and an instructor? The differences in pay in a business firm are on the order of 30:1, in a hospital of 10:1, and a university of 5:1. What is the rationale for these differences? What is fair? ... Clearly this will be one of the most vexing questions in a post-industrial society.”

“A meritocracy is made up of those who have earned their authority. An unjust meritocracy is one which makes these distinctions invidious and demeans those below...those at the top convert their authority positions into large, discrepant material and social advantages over others.”

Daniel Bell, *The Coming of Postindustrial Society* (1973: 451, 453)

## The Politics of Income Inequality: The Opposition between Inequality and Opportunity

“Like Bell and others, we have contrasted equality of opportunity and equality of result. It may be analytically more precise to think of this as a continuum from equality of rights to equality of result, with equality of opportunity occupying a somewhat unstable position in between. Full equality of opportunity implies going beyond equal rights, but it probably cannot exist without some prior degree of equal result. **Nonetheless, the formulation we have adopted distinguishes between equal opportunity and equal result, if only to remain consistent with common usage.**”

Sidney Verba and Gary Orren, *Equality in America* (1985: footnote to text in opening chapter).

## Public Opinion Questions (Usually) Pit Inequality against Opportunity

### Americans Care About Opportunity and Not Inequality

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What do you think is more important for this country?

To reduce inequality: **29 %**

To ensure everyone has a fair chance of improving their economic standing: **71%**

### Americans Care About Inequality as Barrier to Opportunity

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Greater economic inequality means that it is more difficult for those at the bottom of the income ladder to move up the ladder.

Agree: **71%**

Disagree: **29%**

## Reaction to Obama Speeches: Opportunity not Inequality

*William Galston (December, 2011, The New Republic, "Why Obama's New Populism may sink his campaign")*: "...a campaign emphasizing growth and opportunity is more likely to yield a Democratic victory than is a campaign focused on inequality."

*Andrew Kohut (January, 2012, The New York Times, "Don't Mind the Gap")*: "The issue here is not about class envy. Rather, it's a perception that government policies are skewed toward helping the already wealthy and powerful...[but] What the public wants is not a war on the rich but more policies that promote opportunity."

*Ron Haskins and Isabel Sawhill (2009, Creating an Opportunity Society)*: "...we focus more on opportunity than on inequality and poverty [because] Americans...are far more interested in equal opportunity than in equal results."

## Current Research and Public/Policy Discourse

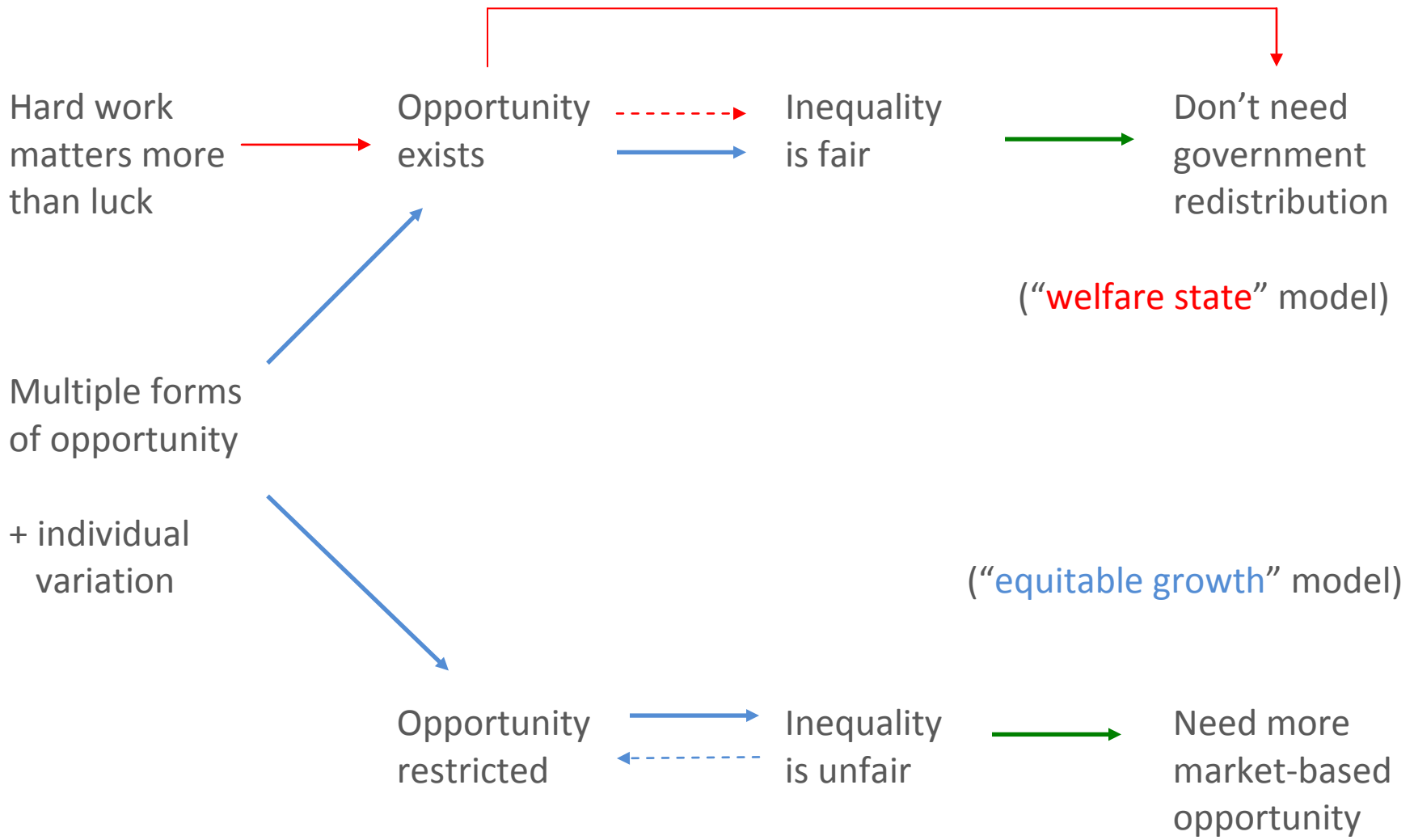
- (1) **Americans care about opportunity and not inequality (of outcomes).** Relative to other nations, Americans believe the opportunity to get ahead through hard work is widely available and therefore outcomes are fair (e.g., Alesina, Benabou, Sawhill/Mobility Project).
- (2) **Americans care about inequality but are ill informed:** they do not connect their concerns to the proper policy preferences and outcomes (e.g., Bartels 2005) and they underestimate the level of inequality (e.g., most recently Norton and Ariely 2011).
- (3) **Americans are ambivalent:** they care about inequality and favor some policies to reduce it but are economic individualists and distrust government (e.g., Hochschild 1981, Kluegal and Smith 1986, Page and Jacobs 2009).
- (4) **Americans connect inequality to opportunity:** inequality can reduce opportunity, resulting in preferences for policies that expand opportunity (McCall and Kenworthy 2009; McCall, forthcoming). Focus is on *Why?*



Indicators  
of opportunity:

Common inferences about inequality and redistribution  
(in red), and my empirical analysis today (in blue):

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## Plan of Talk

- (1) Americans believe income inequality is excessive.
- (2) Americans perceive both open and restricted opportunities.
- (3) Americans connect restricted opportunities to excessive income inequality.
- (4) Americans prefer policies to enhance opportunity as a result of their concerns about income inequality.

## Data: Measuring Income Inequality

GSS Social Inequality Modules (1987, 1992, 1996, 2000, 2008, 2010):

Do you strongly agree, agree, neither, disagree, or strongly disagree:

(1) “Differences in income in America are too large?”

-- straightforward question on satisfaction with current levels of inequality

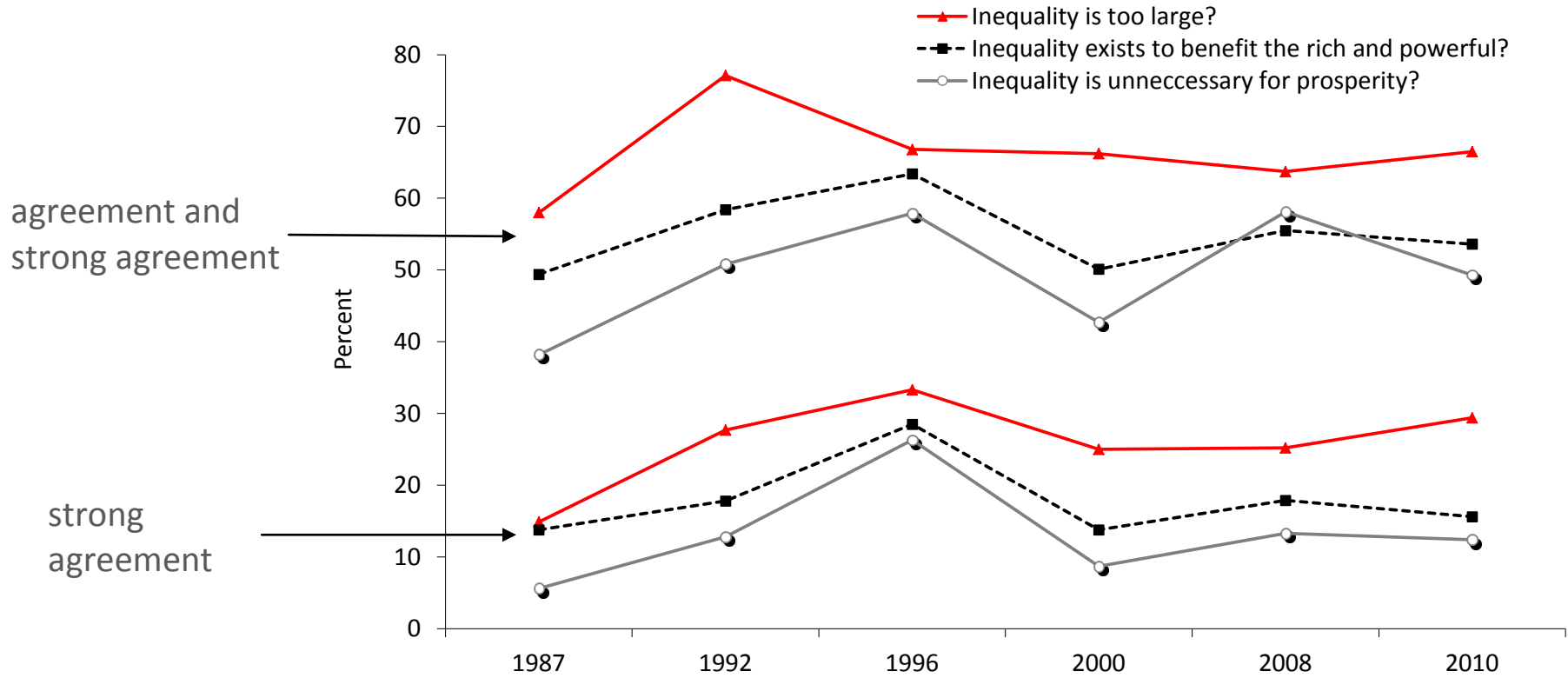
(2) “Large differences in income are *unnecessary* for America’s prosperity?”

-- embeds a reference to rising tide opportunity

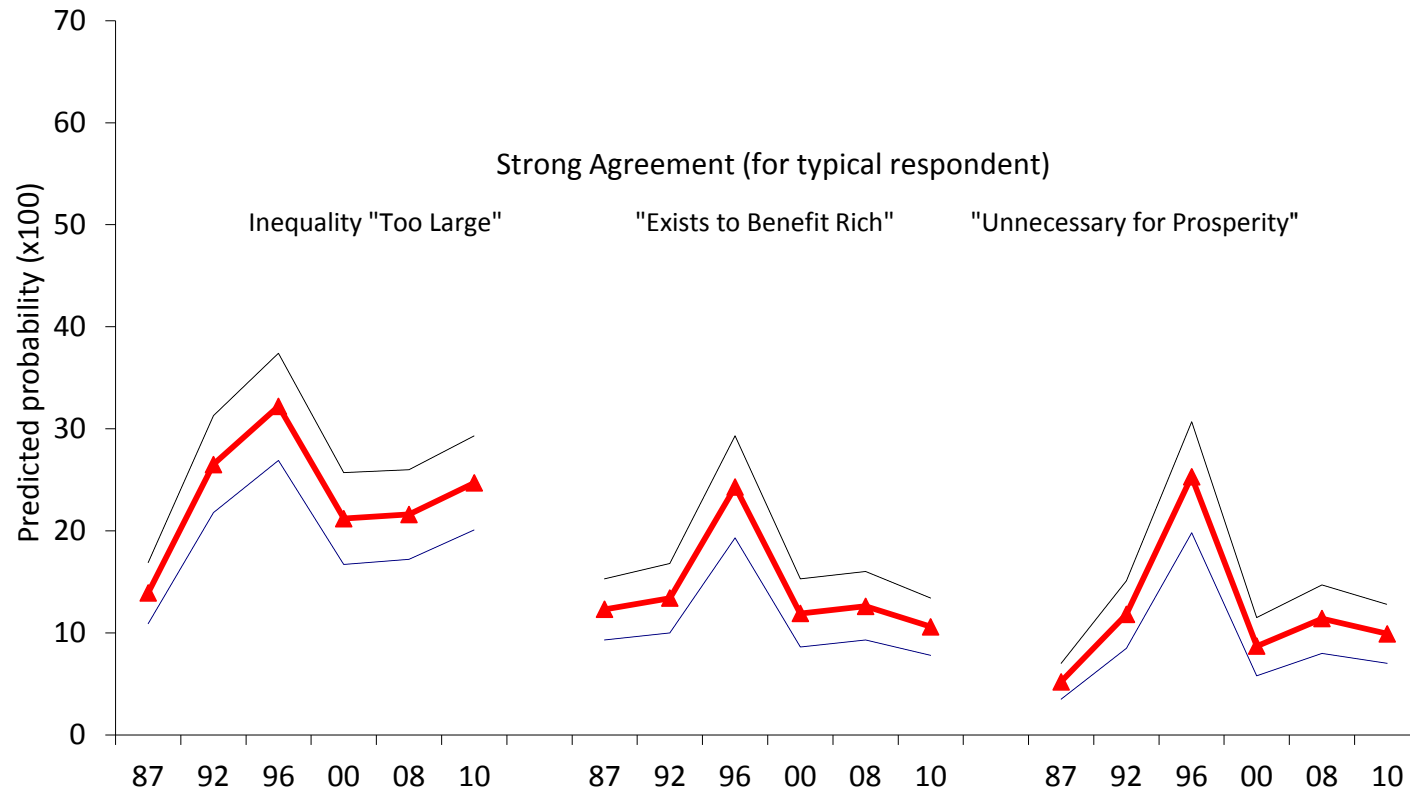
(3) “Inequality continues to exist because it benefits the rich and powerful?”

-- embeds a reference to (un)equal treatment opportunity

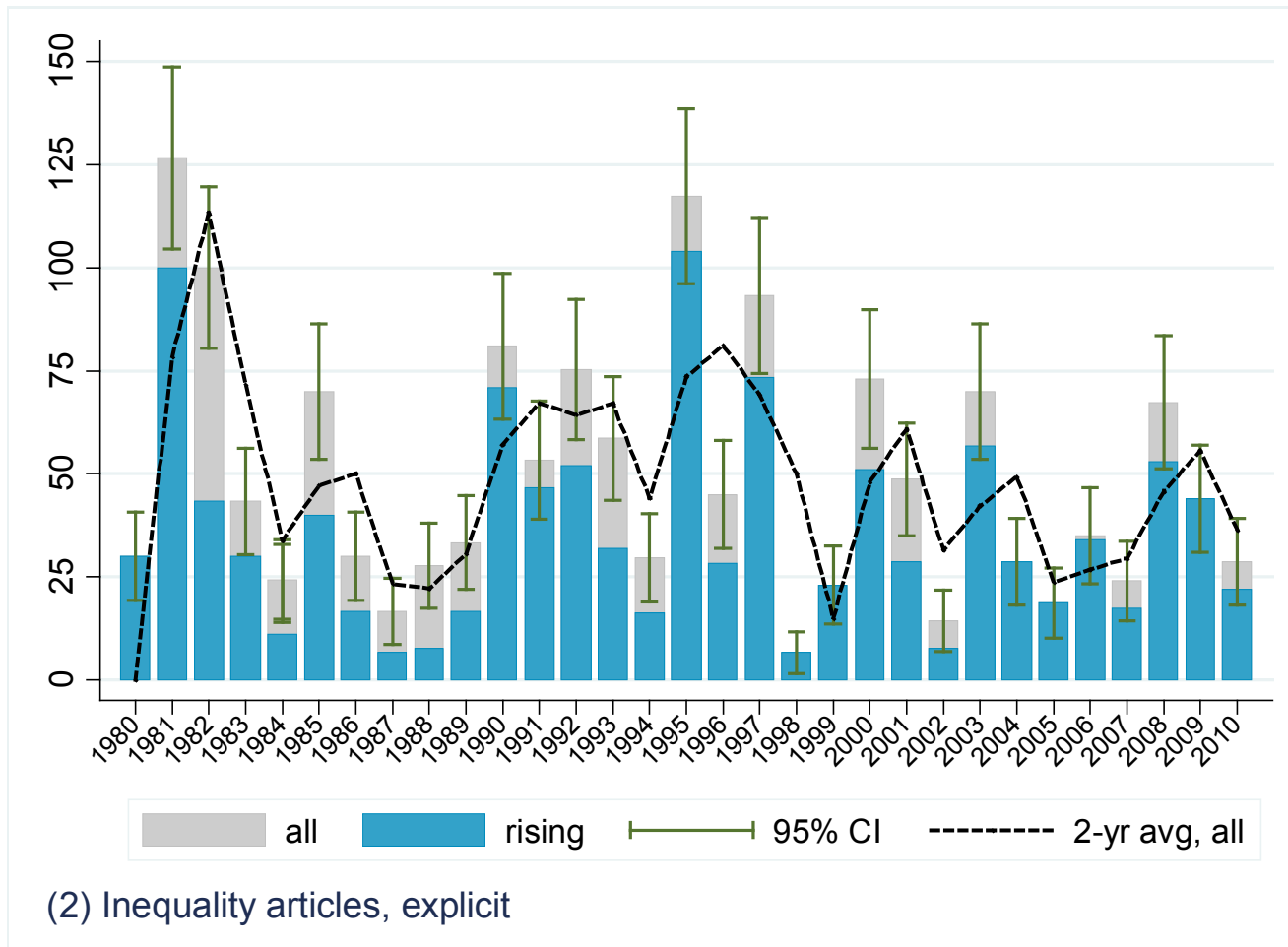
## Trends in Beliefs about Income Inequality, 1987-2010



# Trends in Beliefs about Income Inequality, 1987-2010 (with controls)



## Trends in Media Coverage of Income Inequality, 1987-2010



## Five Definitions of Opportunity

### *Level playing field*

Equal opportunities to prepare for the labor market (especially through education).

### *Bootstraps*

The opportunity to “get ahead” in life through hard work and perseverance.

### *Rising tide*

The availability of good jobs for all who seek them.

### *Equal treatment*

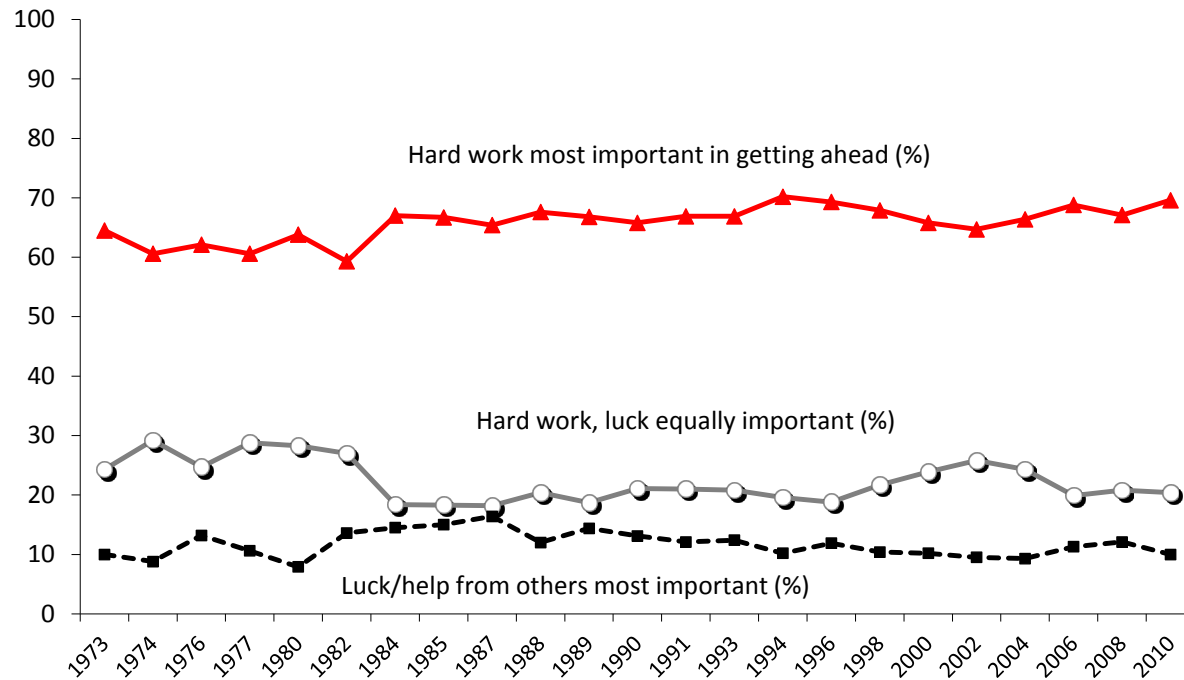
Equal employment opportunities for individuals with equal qualifications, regardless of race, gender, or other characteristics unrelated to job performance, including family background and social connections.

### *Just deserts*

Compensation commensurate with contribution and performance.

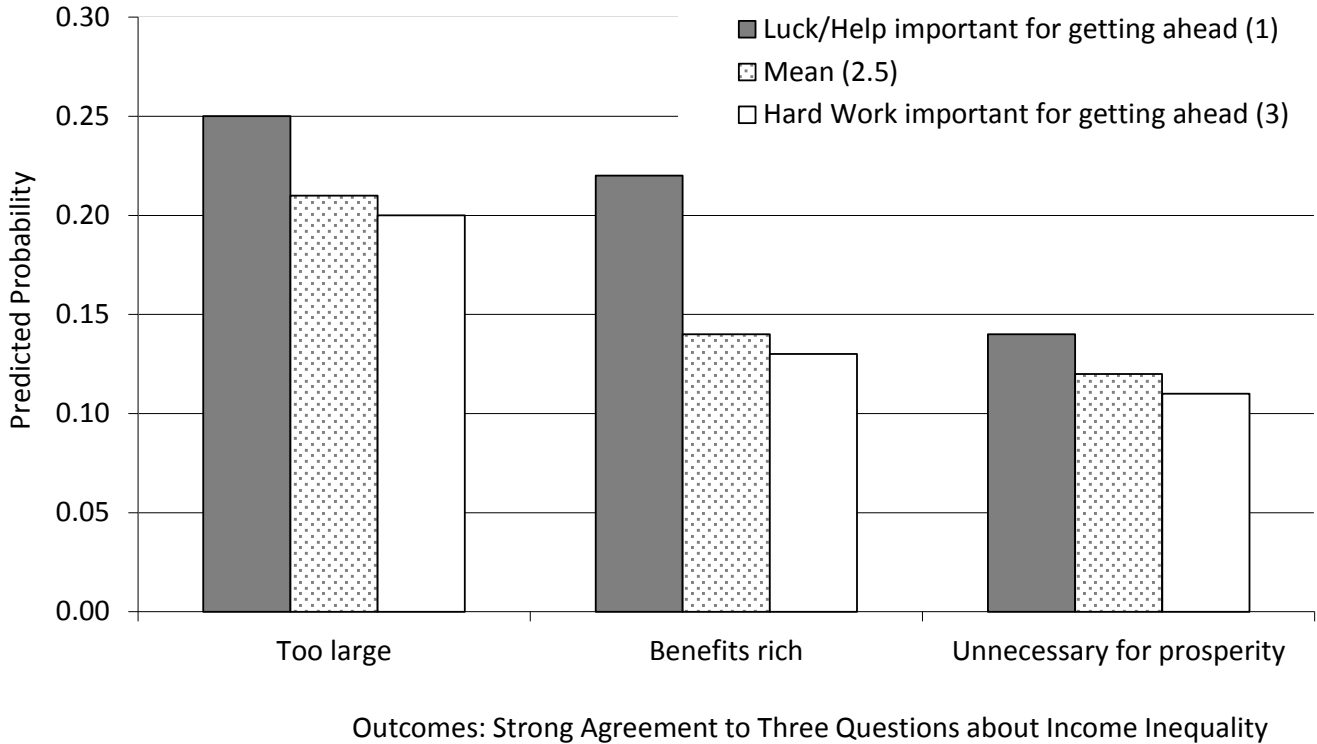
## Measuring “Bootstraps” vs. “Equal Treatment” Opportunity

GSS question: “Some people say that people **get ahead** by their own hard work, others say that lucky breaks or help from other people are more important. Which do you think is most important?”





# Effect of “Bootstraps” Opportunity on Beliefs about Income Inequality (for typical respondent, controlling for wide range of factors)



The effect of beliefs about getting ahead on beliefs about income inequality (binary logistic regression estimates).

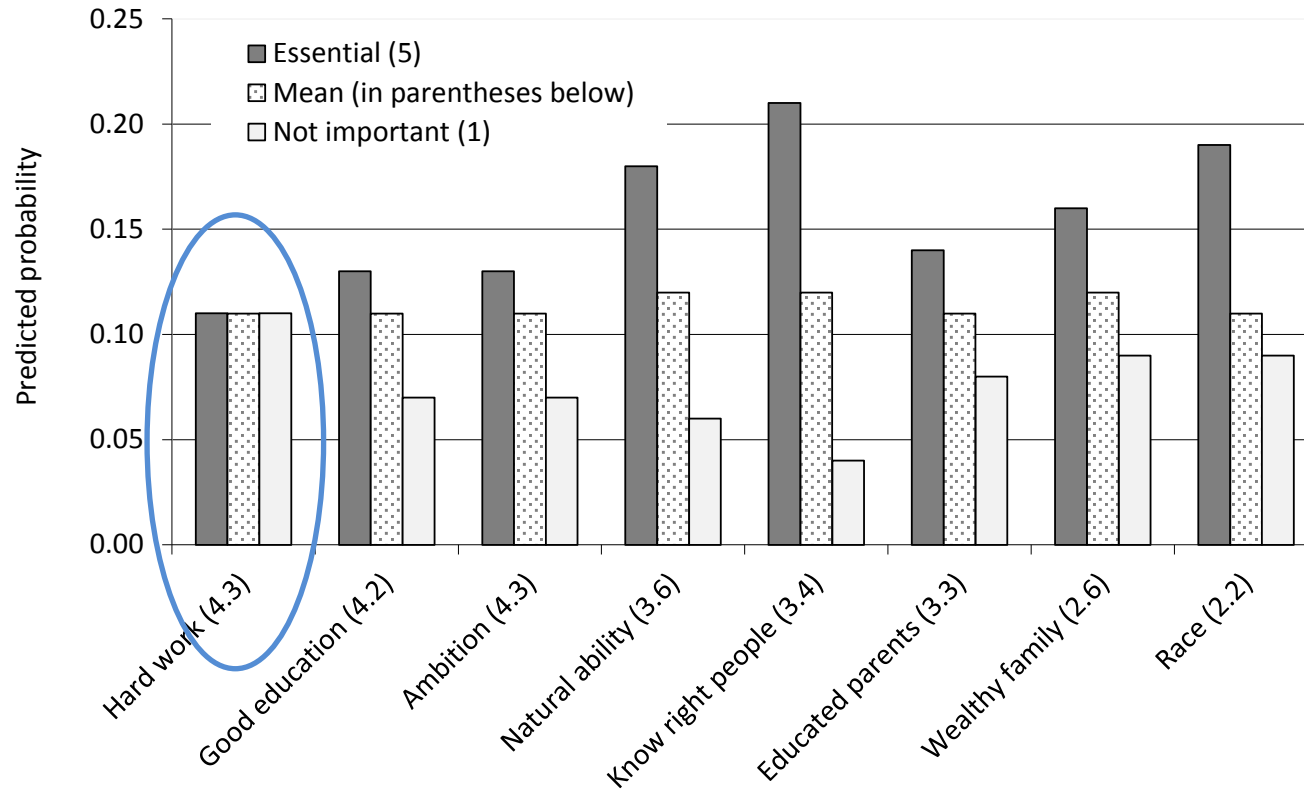
<b>Strong agreement that inequality is ...</b>	<b>“Too Large”</b>	<b>“Benefits Rich and Powerful”</b>	<b>“Unnecessary for Prosperity”</b>
<b>Average marginal effect of “get ahead” variable<sup>a</sup>:</b>			
<b>Probability of strong agreement for typical respondent<sup>b</sup>:</b>	.21	.14	.11
Getting ahead through hard work <sup>c</sup> 3.0=hard work 2.5=mean 2.0=both equally 1.0=luck/help from others	-0.026 (0.009)**	-0.041 (0.009)**	-0.013 (0.008) <sup>†</sup>
Standard of living will improve <sup>d</sup> 3.0=agree 2.5=mean 2.0=neutral 1.0=disagree	-0.041 (0.009)**	-0.046 (0.008)**	-0.031 (0.007)**

Detailed questions about importance of individual and structural factors (related to luck) for getting ahead.

Importance for getting ahead in life...	Essential	Very Imp.	Fairly Imp.	Not Very Imp.	Not at all Imp.	
Hard work	40.8%	50.9	7.3	1.0	0.1	} Hard work and individual initiative matter
Having good education	33.8	53.1	11.9	1.0	0.3	
Ambition	40.8	49.3	8.7	0.9	0.2	
Natural ability	11.2	45.1	38.1	5.2	0.5	
Knowing right people	10.0	33.9	42.1	11.7	2.3	} Luck and help from others matter
Well educated parents	6.2	37.7	39.5	12.8	3.8	
From wealthy family	3.9	18.4	30.0	32.2	15.5	
Race	2.1	11.3	22.2	33.7	30.8	

## Effect of “Bootstraps” Opportunity on Beliefs about Income Inequality

(outcome = strong agreement that inequality exists to benefit the rich and powerful)



## Americans Believe in Both Hard Work and Luck

Beliefs about getting ahead through hard work *and* social advantages.

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<b>Importance of hard work for getting ahead:</b>	<b>Essential/ very important</b>	<b>Fairly/not very/ not at all important</b>
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**Importance of non-individual  
characteristics for getting ahead**  
(including knowing the right people,  
coming from a wealthy family, having  
well-educated parents, and race):

**Essential/very important**

60.2

4.7

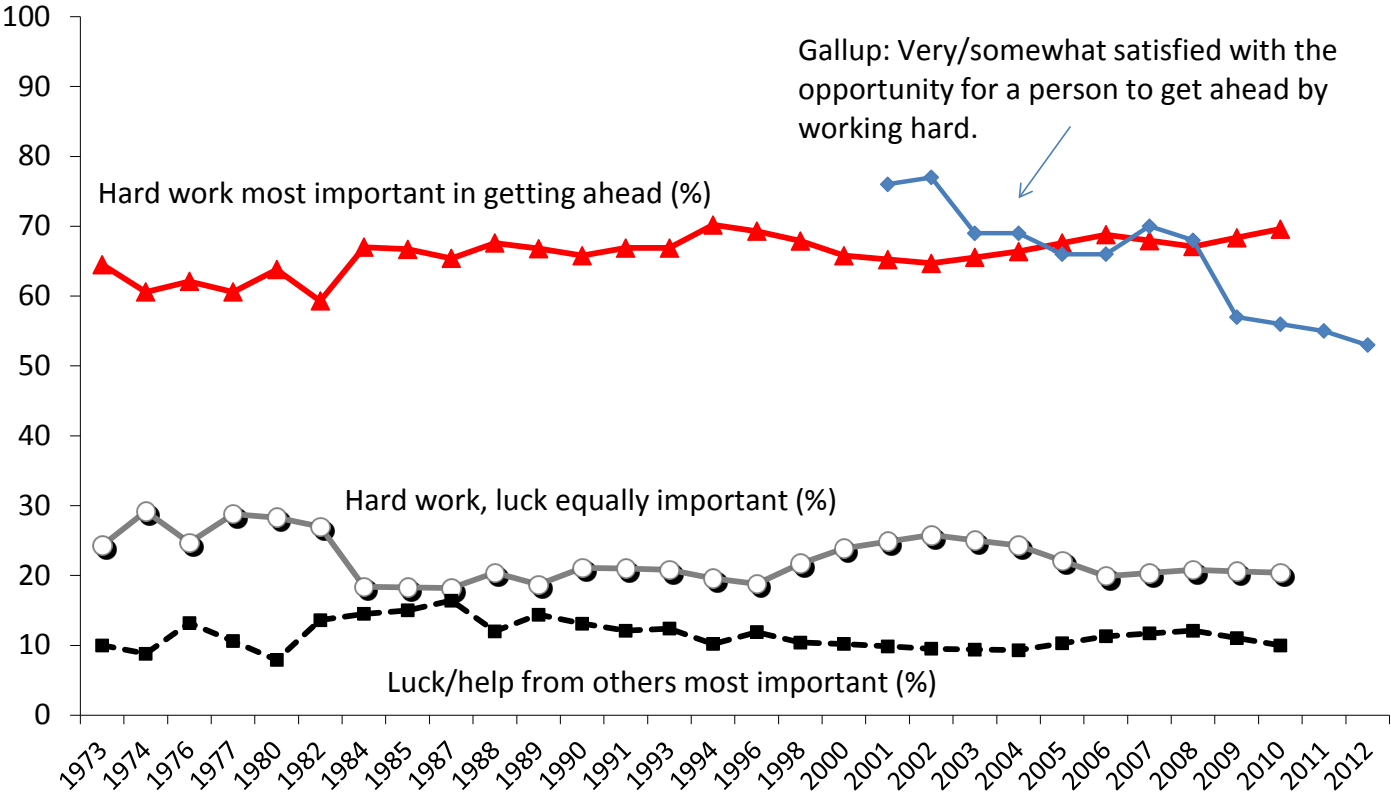
**Fairly/not very/not at all  
important**

31.5

3.6

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# Americans Believe in Both Hard Work and Luck, and This Changes Over Time



## Summary: “Bootstraps” vs. “Equal Treatment” Opportunity

(1) Americans believe that both hard work and social advantages are important in getting ahead, and yet

(2) connect social advantages (and not hard work) to unequal outcomes, especially regarding the benefits of inequality for the rich.

The specific connection made between social advantages in getting ahead and the capacity of the rich to maintain inequality is a description of the intergenerational transmission of inequality.

However, Americans do not think this aspect of income inequality harms prosperity (is this consistent with “system justification” theories, i.e., that this type of inequality doesn’t interfere significantly in economic growth?)

## “Just Deserts” Opportunity

How one **performs** on the job, whether one “gets what one deserves” (how one **gets** a job is irrelevant).

Pay above or below what is expected based on performance and contribution has at least three consequences:

- Violates norms of fairness.
- Restricts opportunity to be paid according to performance and worth for those underpaid.
- Restricts broader opportunities by distorting incentives, jeopardizing economic growth, and limiting jobs (i.e., affecting “rising tide” opportunity; e.g., the financial crisis).



## Measuring “Just Deserts” Opportunity

**Unfair pay relative to performance/contribution:** measured using data on desired and perceived pay of executives and unskilled workers (available in 4 years)

### Measures of *just pay* (desired pay/perceived pay)

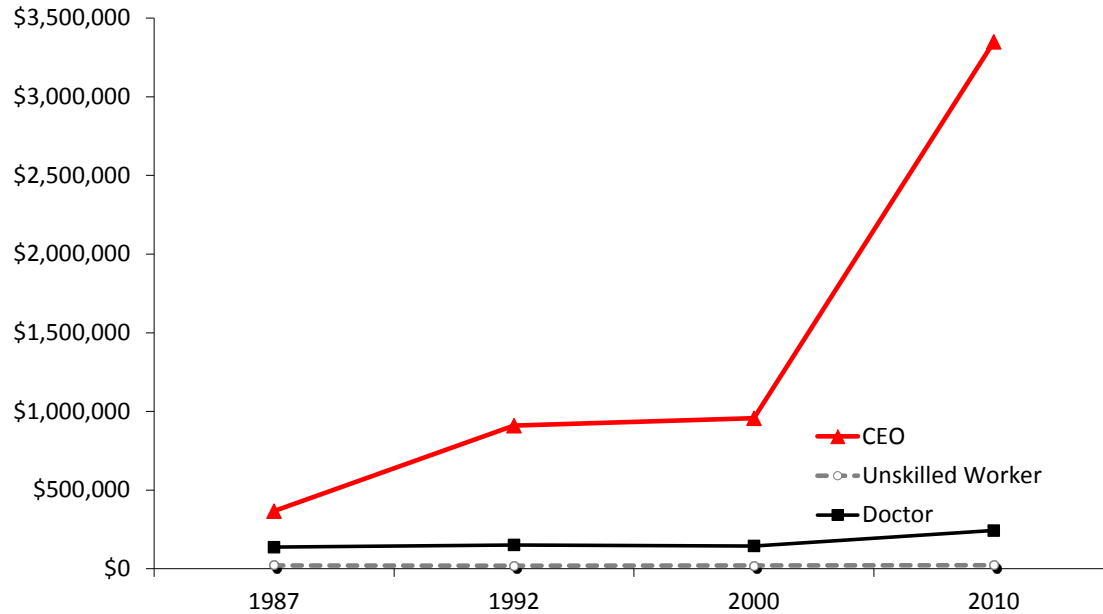
- Desired/perceived pay of executives (<1 = execs overpaid)
- Desired/perceived pay of unskilled workers (>1 = workers underpaid)

### Measures of *just pay inequality* (desired inequality/perceived inequality)

- $$\frac{\text{Desired pay of executives / desired pay of unskilled workers}}{\text{Perceived pay of executives / perceived pay of unskilled workers}}$$

(<1 = desires less inequality; 1 = inequality is as it should be)

Perceptions of Changes in Annual Pay Over Time (in 2000 \$):  
 Executives (CEO of large national corp.), Unskilled Workers, and Doctors

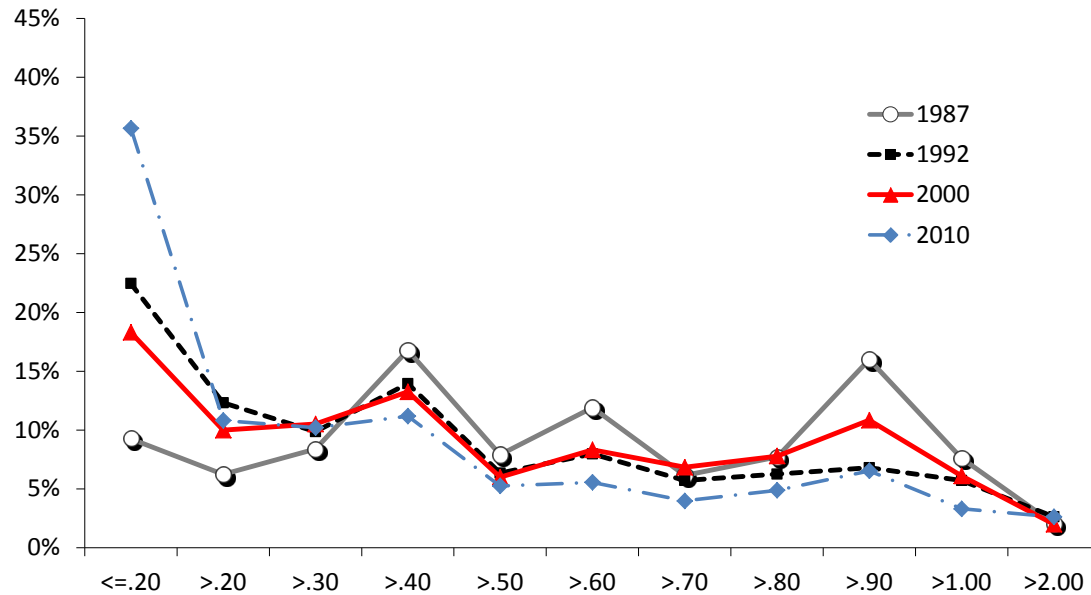


Americans are aware of large increase in CEO pay and stagnation of worker pay in 2000s.

They also were aware of this in early 1990s.

	Mean Perceived Pay (2000 \$)		Mean Desired/Mean Perceived	
	Executives	Unskilled Workers	Executives	Unskilled
1987	\$ 353,502	\$20,515	0.56	1.16
1992	\$ 759,117	\$19,097	0.33	1.24
2000	\$ 831,435	\$20,873	0.41	1.27
2010	\$3,315,226	\$21,733	0.25	1.25

## Ratio of Desired Pay Inequality to Perceived Pay Inequality: Executives (CEO of large national corp.)/Unskilled Workers



Americans desire less pay inequality in 2010, due mainly to desiring less pay for executives.

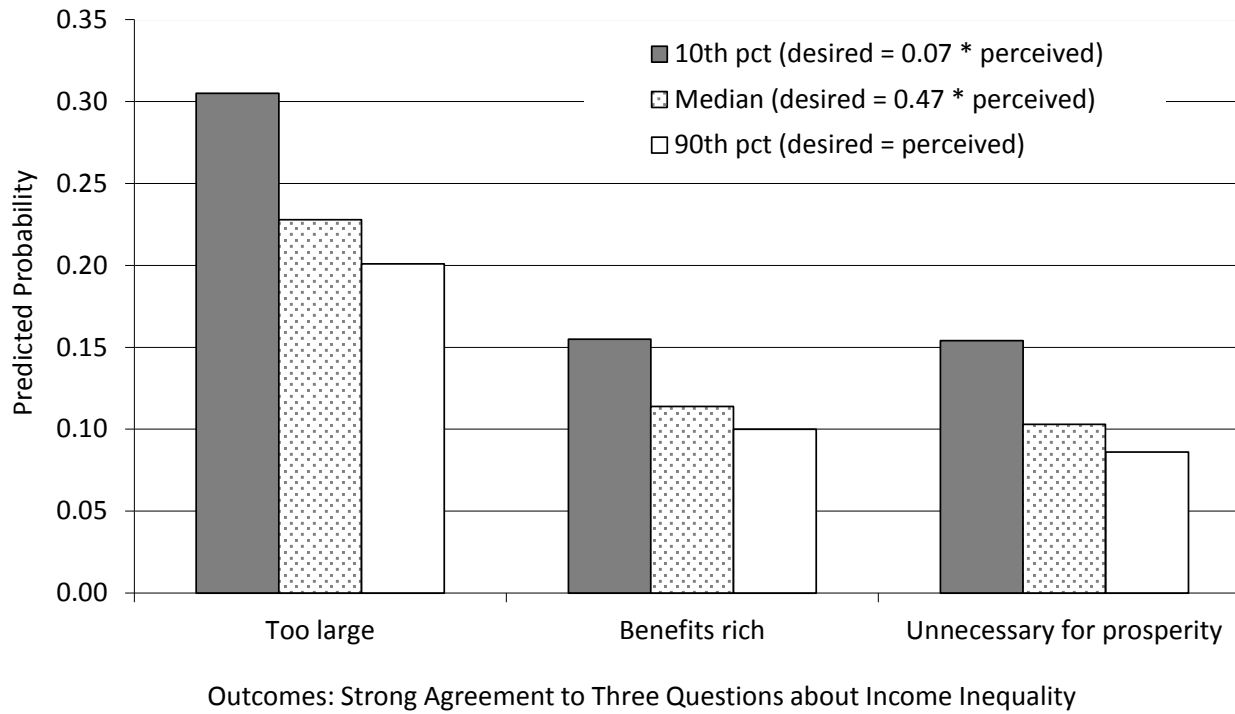
But the increase is not linear: Americans desired less inequality in the early 1990s as well.

## Median Ratio of Desired Pay Inequality to Actual Pay Inequality

1987	0.60
1992	0.44
2000	0.50
2010	0.32

# Effect of “Just Deserts” Opportunity on Beliefs about Income Inequality

(just deserts = desired pay inequality/perceived pay inequality)



The effect of beliefs about occupational pay inequality on beliefs about income inequality (binary logistic regression estimates).

<b>Strong agreement that inequality is ...</b>	<b>“Too Large”</b>	<b>“Benefits Rich and Powerful”</b>	<b>“Unnecessary for Prosperity”</b>
<b>Probability of strong agreement for typical respondent<sup>a</sup>:</b>	.191	.111	.091
<b>(1) Average marginal effects<sup>b</sup> of pay inequality (logged and standardized):</b>			
Desired pay inequality/perceived pay inequality			
Executives relative to unskilled <sup>c</sup>	-0.038 (0.007)**	-0.023 (0.006)**	-0.024 (0.006)**
Desired pay/perceived pay:			
Unskilled worker	0.025 (0.007)**	0.010 (0.006) <sup>†</sup>	0.009 (0.006)
Executive	-0.033 (0.007)**	-0.021 (0.006)**	-0.023 (0.006)**

## Supporting Evidence: Polls on Executive Pay, 1976-present

(Roper Poll): Now here is a list of people in different kinds of occupations...tell me whether it is your impression that [they] are generally overpaid, or underpaid, or paid about right for what they do: [Presidents of major business corporations](#).

1976, OVERPAID: 73%

1979, OVERPAID: 71%

(Business Week/Harris Poll): Do you think [top corporate executives](#) are worth what they are paid, or are they overpaid?

1984, OVERPAID: 76%

(Washington Post Poll): Do you think that [top corporate executives](#) in this country are paid too much, too little, or about the right amount?

1992, OVERPAID: 74%

(Gallup for Marlin company, Attitudes in the American Workplace II Survey): When compared with most employees at major corporations, would you say that [chief exec officers at major corporations](#) are paid...

1996, FAR/A LITTLE TOO MUCH: 64%

(Time/CNN/Harris Poll; LA Times/Bloomberg): In your opinion, are [most CEO's of major American Corporations](#) paid too much, about right, or not enough?

2002, TOO MUCH: 70%

2007, TOO MUCH: 81%, 86%

**Table 3.2.** Distribution of subjects in articles on social class and employment insecurity.

	No.	Pct.			
<b>I. Social Class Groups</b>			<b>II. Employment Insecurity</b>		
<b>Executives/Salaries</b>	<b>91</b>	<b>21.8</b>	<b>Unemployment</b>	<b>224</b>	<b>62.2</b>
Elites	22	5.3	<b>Layoffs</b>	<b>101</b>	<b>28.1</b>
Big Business	9	2.2	Corporations/downsizing	4	1.1
<b>Rich</b>	<b>108</b>	<b>25.9</b>	Outsourcing	17	4.7
Overclass	3	0.7	Job security	14	3.9
Upper Classes	5	1.2			
Avarice	11	2.6	<b>Total</b>	<b>360</b>	<b>100.00</b>
White Collar Workers	19	4.6			
<b>Middle Classes</b>	<b>75</b>	<b>18.0</b>			
Blue Collar Workers	13	3.1			
Skilled Labor	18	4.3			
Minimum Wage	26	6.2			
Social Classes	9	2.2			
Class Conflict	8	1.9			
<b>Subtotal</b>	<b>417</b>	<b>100.0</b>			
All but labor	417	43.6			
<b>Labor</b>	<b>539</b>	<b>56.4</b>			
<b>Total</b>	<b>956</b>	<b>100.0</b>			

## Connections between Executive Pay, Economic Opportunities, and Policy

(Peter D. Hart Research Associates): (I'm going to read you a number of possible reasons for the problems that America has in competing economically with other countries. For each one, please tell me whether you think it is a very major reason, somewhat major reason, or only a minor reason for the problems America has in competing economically with other countries.)... Top corporate executives pay themselves excessive salaries, even when their companies are not performing well. 1992, Exec pay “VERY MAJOR REASON” for American uncompetitiveness : 66%

(Princeton Survey Research Associates): (Now I'd like to read you some items that relate to business practices and policies. Again, please use the 0 to 5 scale where 0 is of no importance and 5 is of the greatest importance.) What about corporate executives being paid too much--how important a reason is this for the loss of jobs in this country? 1992, Exec pay “GREATEST IMPORTANCE (5)” for loss of jobs: 60%

(NBC News/Wall Street Journal) Would you favor or oppose a law limiting the tax deductibility of corporate executive salaries that are more than 25 times higher than the salaries of their company's lowest-paid workers? (If 'Oppose' ask:) Is this because you think the limit is too high, because it is too low, or because the government should not be involved in regulating how much executives are paid?

1992, “FAVOR” law limiting tax deductibility of high exec salaries: 64%



## Summary: “Just Deserts” Opportunity

Americans believe that executives make more than they deserve (the “undeserving rich”), workers make less than they deserve, and occupational pay inequality is *much* greater than it should be (i.e., should be reduced by at least a third).

This is long known but little acknowledged.

These violations of “just deserts” norms are strongly connected with beliefs about income inequality as excessive, benefitting the rich, and unnecessary for prosperity.

The specific connection made between unfair pay and reduced prosperity is a description of how unfair pay inequalities can reflect (or trigger) the restriction of broader “rising tide” opportunities.

## Summary and Policy Implications

Americans believe that opportunity is based on more than individual effort.

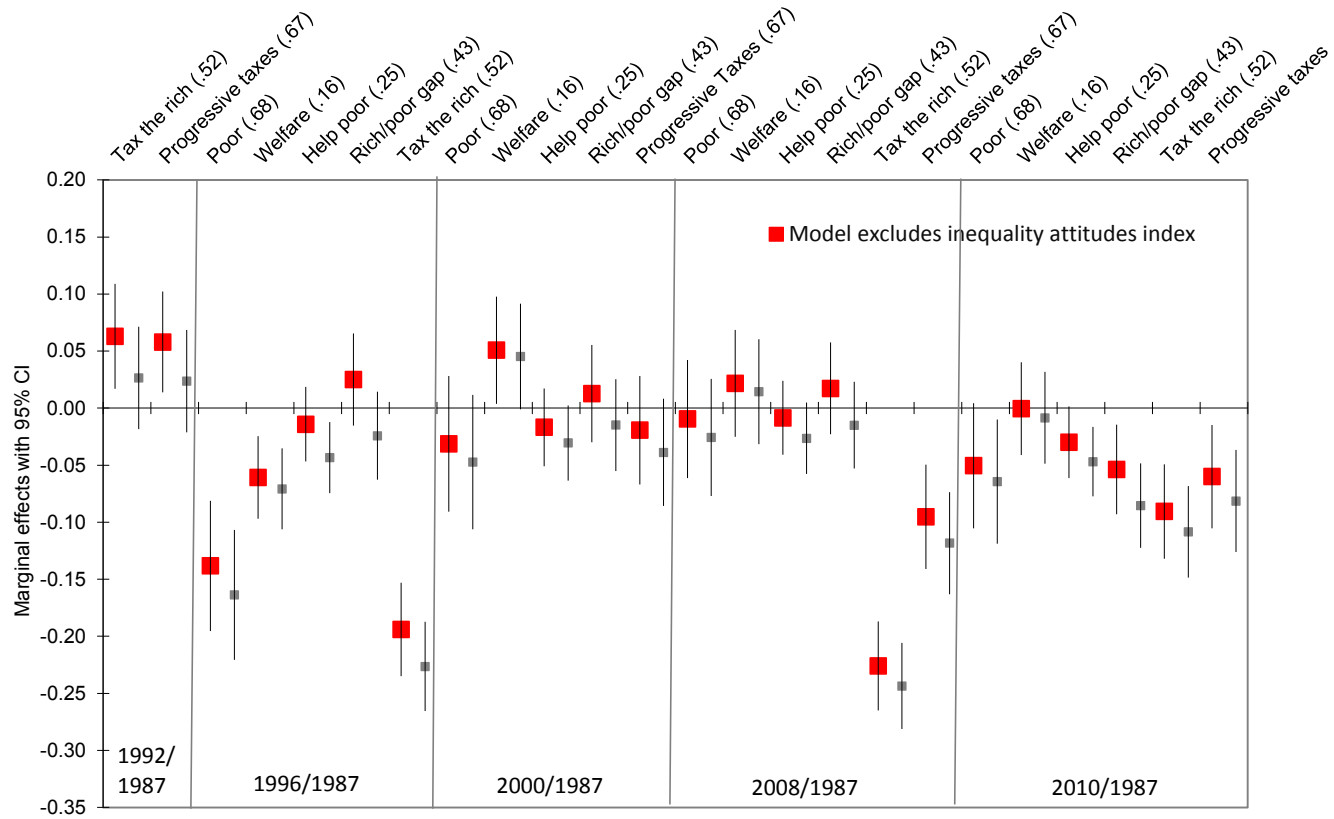
Opportunity is constrained by unfair social advantages and unfair pay.

This results in an unjust meritocracy, creating opposition to income inequality.

To reflect these beliefs, **anti-inequality (as opposed to anti-poverty)** social policies should emphasize:

- undeserving rich, deserving workers
- **opportunity-expanding policies and redistribution in the private sector** (e.g., education, jobs/growth, fair pay, business regulation, and *not just growth alone*)
- in addition to traditional government redistributive policies such as welfare and progressive taxes, as indicated by conventional welfare state models of redistribution

# Preferences Regarding Traditional Redistributive Policies



# Preferences Regarding Education and Other Social Services

