Why is it So Hard to Reduce the Wealth Gap? Cognitive Bias May Be Partly to Blame

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Date : February 25, 2022

Joshua Conrad Jackson & Keith Payne, *Cognitive Barriers to Reducing Income Inequality*, 12 **Soc. Psych. & Personality Sci** 687 (2021).

The problem of income inequality is well-documented. And for those who support greater income redistribution, the current state of affairs is bleak. Proposals for a wealth tax or heavier taxation of capital income appear to have stalled, and little progress has been made towards meaningful reform measures that would shrink wealth and/or income gaps.

So what gives? We already know part of the story. Progressive tax proposals, such as mark-to-market taxation, tend to be complex, which in turn makes them harder to sell to politicians and the public. Similarly, reform measures like a wealth tax face criticism that they would be too hard to administer. Yet adding to these problems appears to be a general indifference, if not outright lack of support, from the public. This is puzzling because, given the evidence that only a very small percent of Americans holds most of the nation's wealth, a lot of people would benefit from wealth or income redistribution. So why isn't there more popular support for redistributive tax policies? A recent empirical study offers compelling evidence of another major barrier to reform: our irrational, subjective beliefs about where we fall on the income distribution.

The study's authors, Joshua Conrad Jackson and Keith Payne, describe several cognitive tendencies that may explain why preferences for income redistribution are weaker than they should be based on economic self-interest. First, the authors explain that individuals' perceptions of how their income compares to others (what they term "subjective income") often does not line up with reality. The reason for this is that we tend to make social comparisons within our own groups, and we form those groups through our neighborhoods, social circles, and the like. This means low-income individuals will compare themselves to other low-income individuals in their social and geographic circle, and are less likely to compare themselves to those outside this circle. As a result, and unsurprisingly, most people tend to consider their income to be average. In other words, most people see themselves as middle class.

Jackson and Payne document the subjective income theory by analyzing survey responses from over 50,000 individuals who participated in the general social survey. Respondents were asked to rate their family income as "far below average", "below average", "average", "above average", and "far above average", as "compared with American families in general." The actual income distribution of the respondents was highly skewed and reflected inequality, with a small portion of individuals earning the majority of the income. Yet the subjective income reflected a normal (or bell curve) distribution: most participants reported their income as "average", with roughly equal amounts reporting themselves above or below average. As the authors summarize, "This suggests that many people who actually have far less than the average American still considered themselves to have 'average' wealth."

What's more, Jackson and Payne found that subjective income predicted peoples' attitudes about wealth redistribution. Specifically, they analyzed respondents' attitude ratings to prompts such as, "The rich should pay a greater share of taxes compared with the poor." Not only were subjects with higher actual income less supportive of redistribution, but also those with higher *subjective income* (i.e., those who perceived themselves to be higher in the income distribution, despite not necessarily being so) were less supportive of redistribution. In other words, the survey responses support the theory that, because people think in subjective income terms, some people think they are higher on the income distribution than they actually are, and these people are less supportive of redistribution policies that would benefit them.

Further surveys conducted by Jackson and Payne also support the notion that when subjects compare themselves to similarly situated individuals, their subjective perceptions of income tend to be more inaccurate relative to the actual income distribution. (The converse is also true: when subjects compare themselves with a group that is representative of the actual income distribution, their subjective income is much more likely to line up with their actual income.) Jackson and Payne also demonstrate evidence of a well-documented cognitive bias – insensitivity to large numbers—which they argue further exacerbates misperceptions about where one stands in the income distribution. Insensitivity to large numbers means that the larger numbers get, the less we tend to think the difference matters. For example, we might think there is a big difference between making $30,000 and $40,000, but we don't think there is a big difference between making $400,000 and $410,000. Jackson and Payne argue that this bias matters in the current context because it "leads [people] to underestimate the gap between themselves and the very wealthy."

Jackson's and Payne's article is insightful and well worth a read for any scholar interested in wealth and income inequality and redistributive tax policy. As the authors acknowledge, cognitive bias clearly isn't the only reason redistributive policies are so hard to enact. And the cognitive barriers identified by Jackson and Payne are surely not the sole explanation for why there isn't more public support for measures like a wealth tax. For example, overall mistrust in the government, or tax aversion, might also be contributing factors. But understanding why more people aren't at least *upset* about income and wealth inequality is illuminating. And, as the authors suggest, perhaps this understanding can help inform future policymaking.

Cite as: Kathleen DeLaney Thomas, *Why is it So Hard to Reduce the Wealth Gap? Cognitive Bias May Be Partly to Blame*, JOTWELL (February 25, 2022) (reviewing Joshua Conrad Jackson & Keith Payne, *Cognitive Barriers to Reducing Income Inequality*, 12 **Soc. Psych. & Personality Sci** 687 (2021)), https://tax.jotwell.com/why-is-it-so-hard-to-reduce-the-wealth-gap-cognitive-bias-may-be-partly-to-blame/.