Inaccurate Public Perceptions of Inequality and Social Mobility in Mexico

PITCH

Mexico has some of the highest inequality levels and lowest social mobility rates in the world, with a growing distance between high-income individuals and the rest of the population. This social rigidity leads to 'opportunity hoarding', as people from disadvantaged backgrounds enjoy fewer opportunities compared with those born into privilege. Yet according to new survey evidence, public perceptions are out of line with the reality of the country's distribution of both income and opportunity. The research reveals, for example, that people overestimate significantly the percentage of the population that are rich; they also overestimate the extent of upward and downward social mobility.

MOTIVATION

Growing concerns about inequality and social mobility among researchers and policy-makers has inspired a large number of studies analyzing their causes and consequences. But little is known about how the public perceives these phenomena. Although perceptions are often different from reality, understanding them helps to explain people's attitudes towards that reality. People make sense of the world based on their experiences, mediated by their beliefs about fairness, expectations about the opportunities open to them and their families and communities, as well as other social norms. Understanding perceptions of inequality and social mobility in a given context can help to explain why the public tolerates differences between rich and poor, as well as the degree of redistribution that would receive broad support.

There is a lack of consensus in existing research both about the degree to which perceptions of inequality and social mobility inform people's policy preferences, and whether correcting their perceptions with accurate data would alter those preferences. There is also disagreement about whether original perceptions and the effects of new information are necessarily consistent throughout a population (given the breadth of factors at play and the importance of context). Previous studies have not measured how to achieve desired levels of equality, nor whether individuals can accurately compute the tax rates needed to achieve the levels of equality they prefer. It is therefore important to examine the interactions of people's perceptions of social mobility with the realities of actual inequalities.

METHODS

This study addresses all three of the gaps in existing research with a survey of people's perceived and desired distributions of income, and their support for redistributive policies. The survey is the first of its kind in Mexico that is representative at the urban level. Based on the responses, the authors first calculate public perceptions about inequality and social mobility, focusing on differences between the rich and poor. The effect of accurate information on inequality and social mobility on redistribution preferences is then tested using an experimental design that provides such information to randomly selected survey respondents. Finally, the authors investigate whether desired levels of inequality and social mobility are consistent with redistribution preferences and their relationship with wealth. They measure redistribution preferences more directly than previous studies by examining preferred tax rates and willingness to contribute (as opposed to support for government transfers).

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RESULTS

The research finds that individuals have a relatively accurate perception of poverty rates, but that they substantially overestimate the prevalence of affluence.

The average perception of the percentage of poor people is 59% of the population, which is higher than the official poverty measure of 48.8%. The official measure is based on a monthly income of less than 2,548 Mexican pesos (close to $280 in purchasing power parity). The average perception of the percentage of rich people is 35%, based on a perception that the minimum income to be considered 'rich' is 38,248 pesos per month (close to $4,250 in purchasing power parity). But in reality, the percentage of the population that is above that threshold is much lower – around 0.6%, according to household surveys.

The research also finds that perceptions vary by wealth. Poorer people estimate higher proportions at the extremes of wealth and poverty than richer people. In general, people perceive inequality roughly correctly, with an average perceived Gini coefficient (a widely used measure of income or wealth distribution) of 0.56 compared with its actual value of 0.5. With social mobility, survey respondents accurately estimate persistence rates at the bottom and top of the distribution, but they overestimate upward and downward mobility.

To test the effect of new information on people's attitudes towards redistribution, the authors conduct an experiment where they provide accurate data on inequality levels to a third of the participants and on social mobility rates to another third, leaving the final third as a 'control' group without additional information. All are then asked about their desired distributions. Informing participants of the actual levels of inequality and social mobility has almost zero effect on the levels of inequality, social mobility, and tax rates that they describe as desirable. But informing participants about actual levels of inequality has a negative effect on the difference between the perceived and desired Gini coefficient – the accurate knowledge reduces the gap.

After receiving this information, participants are also asked about the perceived and desired levels for their own tax rate, as well as their desired tax rate for the poor, those on middle-incomes, and the rich. This is a key innovation compared with previous research, providing an evaluation of the type of social contract that is supported by individuals at different wealth levels. The results show that people favor a progressive tax system in which the poor have a positive tax rate, with higher rates for individuals with higher income. There is also a negative relationship between wealth and preference for a more progressive tax structure, independent of whether participants are provided with actual data about inequality. Moreover, both rich and poor respondents overestimate the taxes they pay themselves and wish to pay less.

The results also show that the distribution desired by the respondents is inconsistent with the taxes that they propose for different income strata. Mexicans' aversion to inequality is low, as judged by a measure of their willingness to pay to achieve a significant decrease in inequality. In particular, they do not grasp the size of the tax base, so they propose high tax rates for the rich, but not enough to make the desired distribution possible.

RECOMMENDATIONS

▸ Support for redistributive policies could be promoted by changing perceptions of inequality among the many people who underestimate its actual level. This improvement could be accomplished by informing people about their true economic position, rather than simply presenting a general view of the income distribution.

▸ Better public policy requires informed decisions about inequality within the tax system. This could be accomplished through better education about the connection between tax regimes and the income distributions that they can produce.

▸ The government should inform the public not only about the number of high-income individuals, but also about their average income. Such data would support more informed public discussions about feasible tax reform.