When Do the Wealthy Support Redistribution? Inequality Aversion in Buenos Aires

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When Do the Wealthy Support Redistribution?

- Standard Answer: The rich oppose redistributive taxation (Meltzer and Richard 1981).
- Yet... Interpersonal comparisons matter, too (Fehr and Schmidt 1999).
 - Outside the lab, most studies focus on how *altruism* impacts preferences for redistribution (e.g., Alesina and Giuliano 2011, Dimick, Rueda, and Stegmueller 2017; Rueda and Stegmueller 2015).
 - But *resentment* ('keeping-up-with-the-Joneses') or *empathy* can also affect support for redistribution.
- We evaluate both pocketbook effects and interpersonal comparisons in shaping the wealthy's views on redistribution using evidence from the developing world.



- We investigate the role of material concerns and normative framings exploiting a natural experiment created by the Argentine government.
- In November 2012, the government removed subsidies on prices of gas, water, and electricity for households in selected areas.
 - Utility **bills rose up to 500%** in some cases.
 - The price hike was equivalent to a **5 per cent** increase in the income tax paid by the typical household in the affected areas.
 - Some affluent neighborhoods, along with middle and working-class areas, kept their subsidies.



Example of a selected area in the neighborhood of Nuñez.



Summary

- Question: When do the wealthy support redistribution?
- Data: Representative sample of wealthy Porteños in the affected areas (N=1,000).
- Research design: a survey experiment embedded to a government-produced natural experiment.
- Main findings:
 - Many of our subjects entered our study supporting redistribution.
 - But they withdrew their support when they were reminded that they paid for it while their neighbors were spared.
 - Pocketbook effects were basically absent.
 - We also find little evidence of altruism or empathy among our wealthy respondents.



The Natural Experiment

- The price hikes were assigned in a manner that was **as-if** random. Comparable households received different fiscal "treatments."
- Households located across the street from one another in some instances faced vastly divergent utility rates.
- Our sample includes people who did and who did not experience the price hike living within a three-block radius in "matched" census tracts.
- Because the government allowed some households to optout (and also opt-in) to the subsidy withdrawals, we use the Wald estimator and use geographic location as our instrument.
- "Treated" and "control" households were balanced on a host of relevant pre-treatment characteristics (balance plot).



The Survey Experiment

Neutral frame:

In recent months, the national government modified residential subsidies for gas, electricity, and water in some areas of the city of Buenos Aires.

Intra-class frame:

Neutral framing + This measure eliminated subsidies in some high-income areas of the city, but retained them in others that have the same income levels, as defined for example by square footage of residences, garbage collection taxes, and levels of expenditures. In your case, whereas the government decided to **withdraw** *[maintain]* the subsidies for gas, electricity, and water for households on your block, households less than three blocks away **lost [kept]** them.

Cross-class frame:

Neutral framing + This measure did not affect the poorest areas of the city, which kept their subsidies. According to an independent study prepared by the University of Buenos Aires, this decision had the effect of making the cost of living more equal between those with the higher and lower incomes in the city of Buenos Aires.

Control group:

No frame.

Hypothesis Treatment Group

Pocketbook Rates Rose, No Framing

Resentment	Rates Rose, Intra-Class Inequity
	Framing
Empathy	Rates Stable, Intra-Class Inequity
	Framing
Altruism	Cross-Class Inequity Framing
	Rates Rose + Stable

Comparison Group	Effect on Preferences f Redistribution
Rates Stable, No Framing	(-)
Rates Rose, Neutral Framing	(-)
Rates Stable, Neutral Framing	(+)
Neutral Framing Rates Rose + Stable	(+)







Redistribution

H1: Pocketbook Effects

Unemployment insurance



Redistribution

H2: Resentment

Unemployment insurance







H4: Altruism

Conclusions

- We study the importance of advantageous and disadvantageous inequity aversion among the wealthy in the real world.
- the measure's pocketbook effects.
- one had suffered while one's peers had not.
- affluent peers.

Wealthy people's reactions to redistributive measures had little to do with

• The clearest driver of opinion was **resentment**: an allergy to the idea that

 Governments favoring redistribution should steer clear of policies that might leave the wealthy feeling relatively ill treated compared to their

Mean Mean Treated Untreated 0.54 0.57 49.94 49.28 Head of household 0.73 0.74 0.19 0.17

Level of education	8.19	8.09
Household size	2.64	2.68
Number of wage earners	1.7	1.73
Household owner	0.69	0.65
Income	2.15	2.08
Support for gov.	0.19	0.19
Unemployed	0.03	0.04
Number of cars owned	0.71	0.67
Missing	0.12	0.1

Gender

Retired

Age



Go back

