

Opening Remarks



The Inequality Delusion

Americans think the U.S. has far more income equality than it has. They want it to be even fairer. Yet they hate the policies that would make it so. **By Drake Bennett**

"I think when you spread the wealth around, it's good for everybody." So said Barack Obama almost exactly two years ago to an opinionated plumbing company employee named Joe Wurzelbacher. The comment, captured on video, was one that then-candidate Obama would have reason to regret: Joe the Plumber's celebrity has waned, and a defeated John McCain has gone back to the Senate, but the quote has lived on among the President's critics as evidence of his unabashed liberalism—even, to many, his secret socialism. "That

is what change means for Barack the Redistributor: It means taking your money and giving it to someone else," McCain said at the time. "He believes in redistributing wealth, not in policies that grow our economy and create jobs."

Political equality is a sacred idea to Americans; economic equality, however, is not. Spreading the wealth is what Marx wanted to do, and Mao. One rallying cry of the Tea Party has been that health-care reform, the stimulus, and the proposed climate change legislation all amount to stealthy ways to redistribute billions of dollars downward. The impending elections are expected to sweep into Congress a crop of Republicans vehemently opposed to the leveling effects of activist liberal government.

Minnesota Representative Michele Bachmann, founder of the Tea Party

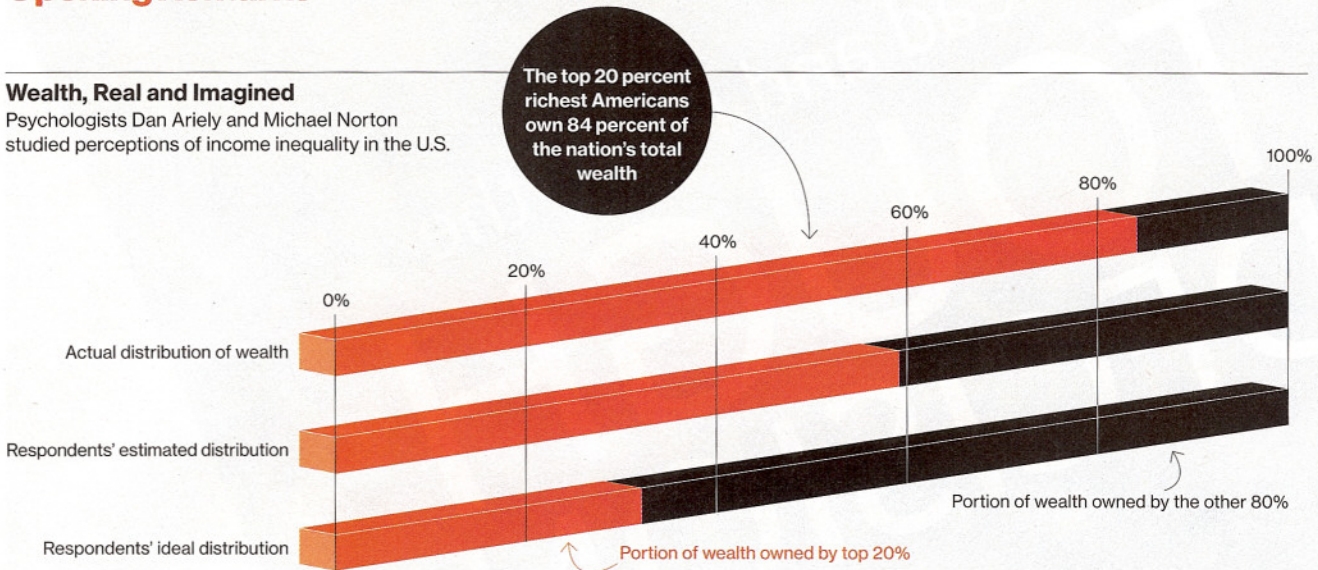
Caucus, attacked the BP oil spill victims fund as "a redistribution of wealth," and Pat Toomey, the Tea Party-backed U.S. Senate front-runner in Pennsylvania, decries all governments for "confiscating the wealth they choose to transfer." Even Robin Hood, as portrayed by Russell Crowe in last spring's film, wasn't robbing from the rich to give to the poor but fending off the predations of greedy tax collectors.

So it might be surprising to learn that Americans are in broad agreement on the need for a more equal distribution of wealth. Yet that's what a forthcoming study by two psychologists, Dan Ariely of Duke University and Michael I. Norton of Harvard Business School, has concluded. First, Ariely and Norton asked thousands of Americans what they thought the nation's actual wealth distribution looks

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Wealth, Real and Imagined

Psychologists Dan Ariely and Michael Norton studied perceptions of income inequality in the U.S.



DATA: MICHAEL I. NORTON, DAN ARIELY

like: how much is owned by the wealthiest 20 percent of the population, the next wealthiest 20 percent, and on down. The researchers then asked people what, in an ideal world, they would like the nation's wealth distribution to be.

Ariely and Norton found that Americans think they live in a far more equal country than they in fact do. On average, those surveyed estimated that the wealthiest 20 percent of Americans own 59 percent of the nation's wealth; in reality the top quintile owns around 84 percent. The respondents further estimated that the poorest 20 percent own 3.7 percent, when in reality they own 0.1 percent.)

And when asked to give their ideal distribution, they described, on average, a nation where the wealth distribution looks not like the U.S. but like Sweden, only more so—the wealthiest quintile would control just 32 percent of the wealth, the poorest just over 10 percent. “People dramatically underestimated the extent of wealth inequality in the U.S.,” says Ariely. “And they wanted it to be even more equal.”

The United States, according to this study, is a nation of people who would like to spread the wealth around. They just don't know it.

Can it really be that simple? In part, this work fits into a proud tradition of social science research demonstrating the basic ignorance of the average American. (Ariely and Norton conducted a small follow-up survey of economists and found that though their estimates were better than average, they also got it wrong.)

It's possible that if more people un-

derstood how deeply unequal American society has become they would support measures to combat it. The U.S. now has the world's second-lowest level of income mobility between generations, after England, according to research by economist Miles Corak at the University of Ottawa. Yet studies have also shown that voters have an impressive ability to absorb information that contradicts their beliefs without letting it change their minds. People support the abstract goal of equality, it seems, while staunchly opposing specific government measures—whether increasing tax rates or limiting executive pay—designed to impose it. Getting there, in other words, is what starts the political arguments, even at a moment of widespread bipartisan anger at Wall Street.

The government's primary tool for reducing wealth and income inequality is taxation. In the 1950s and 1960s, when the U.S. was a far more financially level country, the pretax salary differential was much smaller than today. The wealthiest earners also paid far more in taxes: During the Eisenhower years the top marginal rate was over 90 percent for income over \$400,000. Any attempt to reimpose that sort of tax rate today would lead to a flight of wealth and talent from the U.S. And with apologies to the social scientists, other ideas for dramatically reduc-

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ing the income gap are in short supply.

What's more, most economists would agree that the degree of wealth equality that the study's respondents identified as ideal would be disastrous, because it would seriously retard growth—sapping incentives to work and innovate, perhaps even requiring coercive measures mandating that the poor save rather than spend their money on necessary consumption.

“It's probably a good thing that the public underestimates how much wealth inequality there is,” says Bryan D. Caplan of George Mason University, since “they tend not to understand the ways that wealth inequality is good.”

Ariely and Norton are now working on a new set of surveys designed to refine their findings. Their goal is to try to discern what Americans think about basic questions of justice when hot-button details like the estate tax or the minimum wage are stripped away.

“We're asking, on a broad level, ‘What kind of country would you like to live in,’ and from there we try to boil down to specific policies,” says Norton.

With the nation on the cusp of one of the angrier elections in recent memory, perhaps it's enough to focus on Ariely and Norton's most basic finding. In an era of political vitriol, their results show a remarkable degree of consensus. Rich and poor, Republican and Democrat—all those surveyed shared a similar vision of what they thought America looked like and what a fairer society would be. It's not much, but it suggests that, at least in our egalitarianism and our ignorance, we are all alike. **E**