

Subjective perceptions about inequality, redistribution, and tax burden: a comparative analysis (Research proposal)

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Point of view: Externality and its effect

The influence of the **externality** (defined by **economics**) is thought to form individual value and perception.

Example of externality

(1) For instance, envy from surrounding people when people gain high earnings.

(2) Poorer people have an incentive to commit a robbery and their target is richer people.



Increase in income possibly **reduces** the individual utility.

Externality and its effect

The externality causes individuals to form an individual's perception (perceived tax burden and inequality), through learning process.



High income earners have an incentive to **reduce the externality** (for instance, by supporting redistribution policy).

Externality and its effect

The influence depends on the frequency of interaction between different income group.

(frequency=degree of social capital such as community participation).

Yamamura EJPE (2012) deals with it.

Community participation and externality (Yamamura EJPE 2012).

Data

- Individual level data (JGSS).
- The dataset covers 2000-2008 in Japan.
- Observations are over 10,000.

Key dependent variable (proxy for preference for redistribution)

“It is the responsibility of the government to reduce the differences in income between families with high incomes and those with low incomes.”

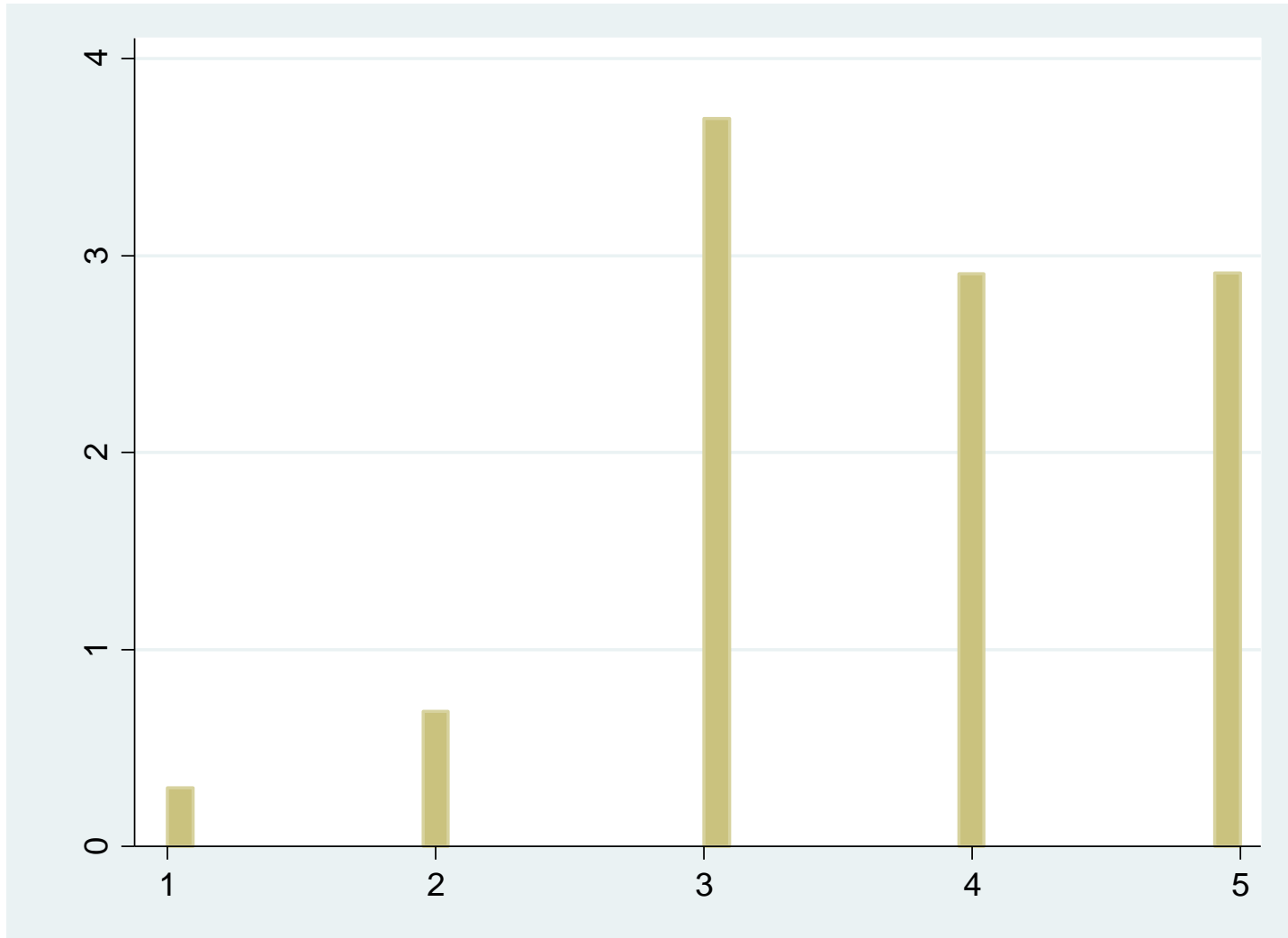
There were five response options: “1 (strongly disagree)” to “5 (strongly agree)”.

Key independent variable (social capital: regional level)

SC: Rate of those who actively participate in community events in each prefecture where respondents live.

In order to reduce possibility of the reverse causality (endogenous bias), regional level rather than individual level variable is used.

Figure 1. Distribution of views regarding income redistribution



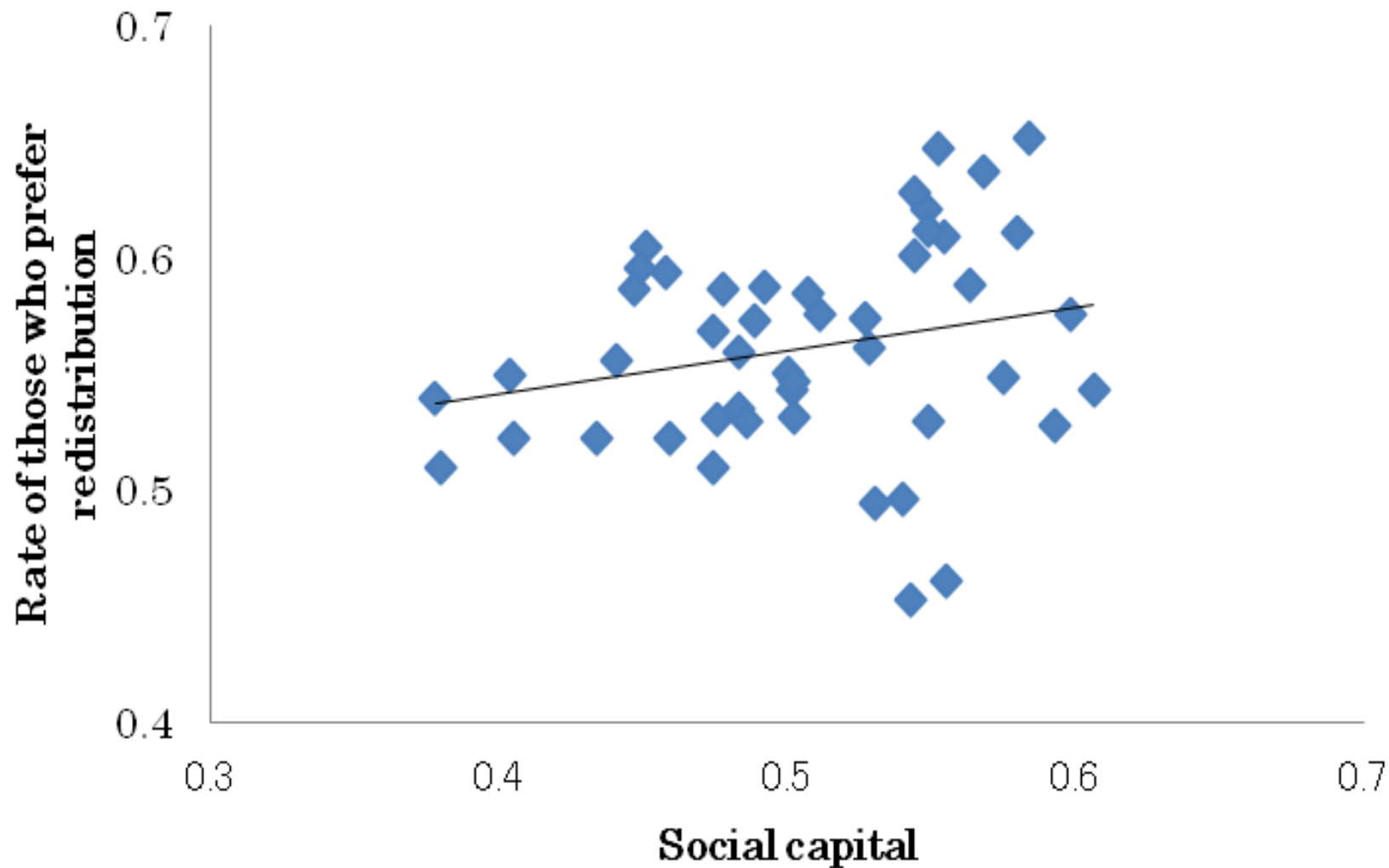


Figure 2. Relationship between social capital and preference for income redistribution

Table 3(a) Baseline model: dependent variable is “supporting redistribution policy”(ordered probit model)

	All		
	(1) All	(2) High-income	(3) Low-income
Regional characteristics			
SC	0.50*** (2.78)	0.69*** (2.77)	0.39 (1.40)

Community participation and externality.

Key findings of Yamamura (EJPE 2012):

- people are more likely to prefer income redistribution in areas with higher rates of community participation.
- This tendency is more clearly observed in high-income groups than in low-income groups.

Implication

Implication of findings of Yamamura (EJPE 2012):

- **High earners** have an intention to improve low earner's economic condition **at the expense of their earnings** when there is interaction among them.

Implication (virtuous circle)

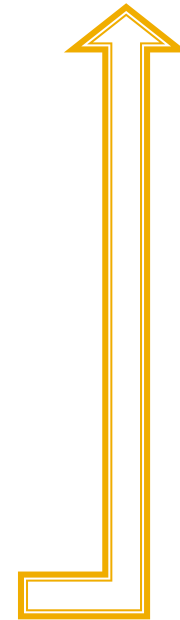
Interaction among people (low segregation)



Redistributive policy.



Low inequality



Question

Japan: **homogenous** society. low inequality society.

The findings only suggest the effect of high community participation (less segregated community) in homogenous society.

- Does the argument also hold in other countries?

Another point: Effect of Social heterogeneity

- Using data of Sweden, Dahlberg et al (2012, JPE) the significant **negative effect of increased immigration** on the support for redistribution.
- This is especially pronounced among **high-income people**.



Racially heterogeneity reduces the high income people's incentive to support redistribution policy.

Comparative view

The framework of Yamamura (2012) is useful for comparative research.

Social heterogeneity is taken into account when **effect of externality** is examined.

Remaining issue

Effect of interaction on high earner's preference.

	High community participation (Low segregation)
Homogenous	+
Hegerogenous	?

Measure to reduce externalitiy

- (1) In **homogenous** society:
redistribution policy is supported to help poor people (**reciprocal**).
- (2) In **heterogenous** society:
Increase in expenditure for security police (**Selfish**).

Hypotheses

- Hypothesis 1: Frequency of contact with neighbors causes people to prefer redistribution and perceive their tax burden as low.
- This is observed for rich people but not for poor people.

Hypotheses

- Hypothesis 2: Hypothesis 1 holds true for a racially homogenous society such as (Japan and Korea), but not for racially heterogeneous societies (Italy, Russia, United States).

(on the assumption that preference redistribution is based on altruism for the poor people belonging to same background).

Dependent variables (Individual level variable)

(1) REDIS: Degree of agreement with the argument that the government should reduce income inequality:

1 (strongly disagree) – 5 (strongly agree)

(2) TAX: Degree of perceived tax burden:

1 (too low) – 5 (too high)

(3) INEQUAL: Degree of perceived income inequality:

1 (too low) – 5 (too high)

Independent variables (province level variable)

(1) CONTACT: Value in each province (or prefecture).

In order to reduce the possibility of reverse causality, the value is province level rather than individual level.

For instance,

the frequency of contact with neighbors.
degree of participation in community activity.

Estimated equation

- $REDIS (TAX \text{ or } INEQL)_{im} = \alpha_0 + \alpha_1(\text{Community participation or contact with others})_m + X_i \beta + u_{im},$
- X_i is the vector of various individual characteristics such as ages, gender, household income, unemployment dummy etc...