

Ask NUS economists

Inequality: How your view it depends on what you're told

**Ong Ee Cheng and
Kok Siew Peng,
Evelyn**

For *The Straits Times*

Q *Are our views on inequality and policy preferences affected by the information we consume?*

A The 2,153 wealthiest individuals in the world are richer than 60 per cent of the global population, according to an Oxfam report this year.

While economic inequality is regarded by some to be the defining challenge of our time, others shrug it off. Why are our views on inequality so divergent, and do we adjust our views when we are presented with new information?

Several studies have investigated whether information shapes views on inequality and policy preferences. Participants were randomly assigned to different groups that received different types of information.

In one study by Berkeley, Harvard and Princeton universities, a group was given information on income inequality and tax policies in the United States. The information had large effects on views about inequality, but small effects on tax policy preferences.

The authors theorised that the insignificant effects on policy

preferences could be due to respondents' mistrust of the government and inability to perceive how public policies can affect the level of inequality.

Another type of study corrects individuals' misperceptions of how their income compares with others'.

In a survey on Swedes, 85.8 per cent of respondents underestimated their position in the income distribution.

A sub-sample of respondents was then informed of their actual position in the income distribution. Those told they were richer than they thought demanded less redistribution.

A third type of study manipulates respondents' beliefs about social mobility or inequality.

Economists at Harvard and Northwestern universities explored how perceptions of mobility influenced preferences for redistribution in France, Italy, Sweden, the United Kingdom and the United States.

A group was given pessimistic information about mobility, and consequently expressed more support for redistribution, mostly for "equality of opportunity" policies.

Another study investigated how respondents' beliefs about inequality affected their preference for redistribution.

In a survey experiment in South Africa, a group was shown information on how South Africa is

experiencing much higher levels of inequality than many other countries while another – the control group – was not.

The information reduced the first group of respondents' beliefs that inequality is inevitable, and increased their support for redistribution.

Are Singaporeans' views on inequality and policy preferences influenced by information?

While economic inequality is regarded by some to be the defining challenge of our time, others shrug it off. Why are our views on inequality so divergent, and do we adjust our views when we are presented with new information?

We conducted a study on 404 National University of Singapore students to explore whether information affects people's views on inequality and policy preferences.

Respondents were randomly assigned to one of three groups: control, Treatment 1 (positive narrative), and Treatment 2 (negative narrative). The control group did not receive any information.

Treatment 1 received a positive narrative highlighting these arguments:

- Low corporate tax rates encourage foreign investment while low individual tax rates promote hard work and entrepreneurship.
 - Foreign talent can boost our competitiveness and complement the domestic labour force.
- Treatment 1 contended that such policies have helped to foster economic growth. Households in all income deciles experienced growth in their incomes between 2013 and 2018, and those in the bottom quintile of the income distribution experienced marginally higher income growth than those in the top quintile.

Conversely, Treatment 2 received a negative narrative highlighting that:

- Singapore's tax system has become increasingly less progressive. While corporate and personal income taxes have largely fallen over the last few decades, the goods and services tax – a regressive tax – has increased. Meanwhile, capital gains (profits from the sale of property, stocks or bonds) – a source of income for the rich but not the poor – are not taxed at all.
- The influx of foreign workers has depressed the wages of Singaporeans at the bottom of the wage distribution.

Treatment 2 contended that tax and immigration policies have potentially exacerbated inequality in Singapore.

The income gap widened between 2000 and 2018; average incomes at the top decile doubled, whereas those in the bottom decile appeared stagnant.

So, is inequality in Singapore a problem?

Relative to the control group, those assigned to Treatment 2 (negative narrative) were 9 per cent less likely to agree that inequality is a small problem or not a problem.

Is being rich or poor due more to individual merit or circumstances?

Relative to the control group, those assigned to Treatment 1 (positive narrative) were more likely to agree that being rich is due more to individual merit than to circumstances.

Conversely, those assigned to Treatment 2 (negative narrative) were 22 per cent more likely than the control group to agree that being rich is due more to circumstances than to individual merit.

Should a capital gains tax be introduced in Singapore?

Those assigned to Treatment 2 (negative narrative) were 13 per cent more likely than the control group to agree that a capital gains tax should be introduced.

Should the number of Employment Pass, S Pass and work permit holders be increased, be decreased or stay the same?

Those assigned to Treatment 1 (positive narrative) were 12 per cent more likely than the control group to support increasing the number of Employment Pass holders and 8 per cent more likely to support increasing the number of S Pass and work permit holders.

Our study suggests that information does have some effect on Singaporeans' views on inequality and policy preferences.

Therefore, exposure to different sources of credible information is critical if we are to have thoughtful and informed public discourse.

stopinion@sph.com.sg

• Ong Ee Cheng is a senior lecturer at the Department of Economics, National University of Singapore. Kok Siew Peng, Evelyn, recently graduated from NUS with an honours degree in economics. This is a monthly series by the NUS Department of Economics. Each month, a panel will address a topical issue. If you have a burning question on economics, write to stopinion@sph.com.sg with "Ask NUS" in the subject field.