



Inequality aversion predicts support for public and private redistribution

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Rising inequality has brought redistribution back on the political agenda. In theory, inequality aversion drives people's support for redistribution. People can dislike both advantageous inequality (comparison relative to those worse off) and disadvantageous inequality (comparison relative to those better off). Existing experimental evidence reveals substantial variation across people in these preferences. However, evidence is scarce on the broader role of these two distinct forms of inequality aversion for redistribution in society. We provide evidence by exploiting a unique combination of data. We use an incentivized experiment to measure inequality aversion in a large population sample ($\approx 9,000$ among 20- to 64-y-old Danes). We link the elicited inequality aversion to survey information on individuals' support for public redistribution (policies that reduce income differences) and administrative records revealing their private redistribution (real-life donations to charity). In addition, the link to administrative data enables us to include a large battery of controls in the empirical analysis. Theory predicts that support for public redistribution increases with both types of inequality aversion, while private redistribution should increase with advantageous inequality aversion, but decrease with disadvantageous inequality aversion. A strong dislike for disadvantageous inequality makes people willing to sacrifice own income to reduce the income of people who are better off, thereby reducing the distance to people with more income than themselves. Public redistribution schemes achieve this but private donations to charity do not. Our empirical results provide strong support for these predictions and with quantitatively large effects compared to other predictors.

inequality aversion | redistribution | charitable donation | social preferences | altruism

Over the last decades, many Western countries have experienced steadily rising inequality (1, 2) and decreasing social mobility (3–5). This concerns the general public (6–8) and puts redistribution and fairness of tax-benefit policies back on the political agenda (9, 10). Theory suggests that people's direct concerns about the distribution of income—their distributional preferences—should play an important role in their support for private redistribution in the form of charitable donations and in their support for public redistribution, which reduces income differences through tax-benefit policy (11–13). Despite the existence of a large literature on distributional and social preferences (14–23), we have limited empirical insights into how these preferences affect people's support for private and public redistribution.

A key insight from the literature (24) is that people's distributional preferences often differ strongly depending on whether social comparison occurs in the domain of advantageous inequality (i.e., relative to those who are worse off) or in the domain of disadvantageous inequality (i.e., relative to those who are better off). People also exhibit vast heterogeneity in their dislike of advantageous inequality and in their aversion to disadvantageous inequality (13, 20, 23, 25, 26). Many people resist both types of inequality while others care mostly about advantageous inequality and little about disadvantageous inequality. Those who are averse to both advantageous and disadvantageous inequality are the most equality seeking in the sense that they are willing to incur costs to reduce both types of inequality.

Theory suggests that individuals with a stronger dislike of advantageous inequality, *ceteris paribus*, display stronger support for both public and private redistribution (see *SI Appendix, SI Text* for a formal derivation of the predictions in a basic model of redistribution). These individuals are willing to sacrifice own income if this reduces the income gap to people with lower incomes. Both public and private redistribution achieve this. In contrast, theory predicts that individuals with a stronger dislike of disadvantageous inequality are more supportive of public redistribution while engaging

Significance

Growing inequality and debates about the need for action highlight the importance of understanding what drives support for redistribution in society. Beyond traditional selfish motives, the theory of inequality aversion predicts that individuals dislike advantageous inequality (material well-being relative to those worse off) and dislike disadvantageous inequality (material well-being relative to those better off) and that these two motives drive people's support for public redistribution policies and their choices of private redistribution (charitable donations). Our empirical results confirm these theoretical predictions of human behavior by using a unique combination of experiments eliciting people's inequality aversion, survey information about their support for public redistribution, and administrative records documenting their real-life private donations to charity.

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less in private redistribution. These individuals are willing to sacrifice own income by, e.g., paying higher taxes if taxation simultaneously reduces the income gap to people with higher incomes. They are, however, less willing to sacrifice income for charities as this increases the income gap to those with higher incomes.

Thus, advantageous and disadvantageous inequality aversion should both be positively associated with demand for public redistribution, but have opposite signs when examining the association with private redistribution. We test these predictions by leveraging a unique combination of data where we use an incentivized experiment to measure both types of inequality aversion in a large representative sample of roughly 9,000 Danish working-age individuals (20 to 64y old) and link these experimental data to administrative records with third-party reported information on their charitable donations to humanitarian aid as well as survey evidence on their support for public redistribution policy. In addition, we include a rich set of controls obtained from other administrative records, survey responses, and preference elicitation experiments, which provide information about income, wealth, education, school performance, age, gender, family size, immigrant status, beliefs about the causes of income inequality, and other economic preference parameters (time and risk preferences).

Our empirical analysis confirms the predictions from theory. Individuals with the highest aversion against advantageous inequality are 8 percentage points more likely to donate to charity compared to those with the lowest aversion when controlling for all the other observable differences across people. In contrast, individuals with the highest aversion to disadvantageous inequality are less likely, by 5.5 percentage points, to donate to charity than individuals with the lowest aversion. The coefficients are significant at the one percent level and are comparable in size to the 4.5 percent effect of moving from the bottom to the top of the income distribution. In our analysis of the demand for public redistribution, we find that the support for more redistribution goes up by 9.5 to 10 percentage points when moving from the lowest level to the highest level in either aversion against advantageous inequality or aversion against disadvantageous inequality while keeping other factors fixed. The magnitude of each of these effects corresponds to more than 1/3 of the effect of income on the demand for redistribution, which is sizable when taking into consideration that people's position in the income distribution is known to be one of the strongest predictors of the demand for redistribution (8, 27, 28).

We follow a large literature in experimental economics that uses incentivized choice experiments to elicit preference parameters (29–31). A few studies have been able to link experimental data to administrative records at the individual level and in this way analyze whether elicited preferences of people predict differences in their real-life choices and outcomes (32, 33). We contribute to this line of research by linking distributional preferences to charitable giving records for a large representative sample of individuals. Our measure of charitable giving captures all donations to approved charities eligible for tax deductions and is based on third-party reported records implying that it is not affected by tax evasion behavior. Previous studies of charitable giving rely on self-reported measures of charitable giving or use smaller student samples (34–37).

Another important feature is that we elicit both advantageous and disadvantageous inequality aversion for each individual instead of using a single measure of subjects' pro- or antisociality. This differentiates us from the literature that uses social value orientation (15, 38) or public goods contributions (36, 37) as

measures of social preferences. Finally, by studying demand for both public and private redistribution, we are able to study an important conceptual difference between advantageous and disadvantageous inequality aversion. Both dimensions predict support for public redistribution, but they predict opposite effects when it comes to private redistribution (charitable giving).

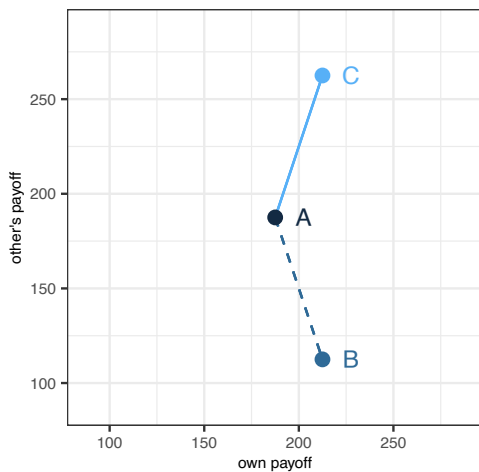
Materials and Methods

The starting point for our analysis is a random sample provided by Statistics Denmark of around 40,000 individuals in the age span 20 to 64, who we invited to participate in the online preference-elicitation experiment. Each participant received a personalized invitation letter from the University of Copenhagen in an official electronic mailbox (Digital Post), which is the default way to receive mail from public authorities in Denmark. Each letter contained a unique link to a customized internet platform, which enables Statistics Denmark to link the experimental data to administrative data. The first screen on the online platform informed the participants about the experiment, the use of data, and how they were to be paid money depending on their choices in the experiment. Participants were asked to give consent and continue to the experiment by clicking on a button on the screen. Payment was done through MobilePay, a Danish app used for immediate money transfers. 23% of the invitees participated in the experiment, which is in line with other studies inviting a random sample to participate in experiments and surveys (8, 32, 33).

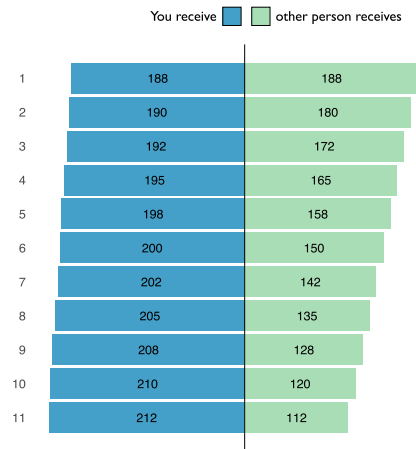
The experiment follows previous research (13, 14) by eliciting inequality aversion along two dimensions: aversion to advantageous inequality and aversion to disadvantageous inequality. People are averse to advantageous inequality if they are willing to give up some of their own payoff to reduce the gap between themselves and a person who has less than them. An example from the experiment is illustrated in Fig. 1A. It shows the payoff of a decision maker on the x-axis and the payoff of another person on the y-axis. Both payoffs are measured in Danish kroner (DKK). At point A, the two persons receive the same payoff equal to DKK 188, while at point B, the decision maker receives DKK 212 and the other person receives DKK 112. A selfish person, who focuses only on own outcomes, would prefer allocation B which gives the highest payoff to the decision maker. In contrast, a person who is sufficiently averse to advantageous inequality would prefer allocation A. Such a person is willing to give up DKK 24 by choosing B instead of A, which allocates DKK 76 more to the other person with the end result that they both get DKK 188.

People are averse to disadvantageous inequality if they are willing to give up some of their own payoff to decrease the payoff of a person who has more than themselves such that the gap between them is reduced. This is also illustrated in Fig. 1A. At point C, the decision maker receives DKK 212 which is less than the DKK 264 received by the other person. A selfish person would prefer this allocation to allocation A, which only gives DKK 188 to the decision maker. In contrast, a person who is sufficiently averse to disadvantageous inequality would prefer point A. Such a person is willing to forgo DKK 24 if this implies that the other person receives DKK 76 less, in which case they both receive DKK 188.

The experiment included a number of choice tasks to elicit inequality aversion. At the beginning of the experiment, the participants were informed that one of their decisions would be randomly selected for pay-out at the end of the experiment. In each choice task, the participant was presented with 11 different allocations of money between themselves and another person and the participant had to decide, which allocation they preferred. The other person was a randomly selected participant from the same population and the two people would never know each others' identity. Fig. 1B is a screenshot from the experiment and shows an example of a choice task used for eliciting aversion to advantageous inequality. Allocation 1 is an equal distribution with DKK 188 to each of the two participants (similar to point A in Fig. 1A), while allocation 11 allocates DKK 212 to the participant and DKK 112 to the unknown participant (similar to point B in Fig. 1A). The remaining allocations are equally spaced out between allocations 1 and 11 (corresponding to the possibility of choosing different allocations on the line segment between points A and B in Fig. 1A). The closer the participant's choice is to allocation 1, the more aversion to advantageous inequality the participant displays, measured by how much the participant is willing to sacrifice of own payoff to achieve more equality. Similarly, the experiment included choice



A Example of possible choices



B Screenshot from the experiment

Fig. 1. Decision choices in the experiment. Panel A provides an example of possible choices in the experiment. Panel B gives an example of a screen shot shown to the participants.

situations in the domain of disadvantageous inequality to elicit the participant's willingness to sacrifice own payoff to achieve more equality in the domain of disadvantageous inequality.

Each participant was presented with 20 different choice tasks in a random order. The payoffs and the resulting inequality between the participant and the other person were systematically varied across the different choice tasks (the full set of choice tasks is shown in *SI Appendix, Table S1*). The task was explained in an animated video and participants had to complete a trial session before they could begin the experiment. In the experiment, we also elicited time and risk preferences using standard experimental tasks (32, 33).

We use two methods to summarize the participants' inequality aversion based on the choice data from the experiment. The nonparametric method computes for each choice situation how much the respondent is willing to sacrifice of own payoff relative to the maximum possible in the domain of advantageous inequality and in the domain of disadvantageous inequality. Then we compute the average sacrifice ratio of the person for each domain. Afterward, we rank people on a 1 to 100 scale within their birth-cohort. This corresponds to their percentile positions in the distribution of elicited advantageous and disadvantageous inequality aversion within their cohort. The structural method estimates each participant's aversion to advantageous and disadvantageous inequality using a parametric model with a Fehr-Schmidt utility function (the estimation is explained in *SI Appendix, SI Text*) and then uses these parametric estimates to rank people within birth-cohort on a 1 to 100 scale within each domain. The two methods give almost identical results. The next section shows the results from using the nonparametric method. *SI Appendix, Table S3*, columns (3) and (8) display results from using the structural method.

After the experimental elicitation of preferences, participants completed a short survey, where respondents were asked about their support for public redistribution, i.e., whether they agreed with the statement "The government should do more to reduce differences in income levels". 55% of respondents agreed with the statement (responded 4 to 7 on a 1 to 7 Likert scale). This is in line with OECD survey evidence showing that 6 out of 10 OECD citizens state that they believe their government should do more to reduce income differences between rich and poor (9). Our focus is on how this support for redistribution relates to the underlying inequality aversion of people. We also asked respondents about their views on the underlying cause of inequality, which is well known to be a strong predictor of demand for redistribution (39), and therefore a potential confounder.

We link the experimental data to various administrative records of the individuals using social security numbers. This includes information on charitable donations from the Danish Tax Agency. This information is third-party reported by government-approved charitable organization, that receive the

donations and the information cannot be changed by the taxpayers on their tax returns (see *SI Appendix, SI Text* for more details). 21% of the sample donate to charity. This is in line with survey responses in the European Social Survey where about 25% of Danes in this age group report having donated to charity, which places Denmark in the upper-middle group of European countries (*SI Appendix, Fig. S2*). To best capture altruistic private redistribution of people, we focus on their donations to humanitarian aid in our main analysis, but the conclusions are similar if considering all charitable donations (*SI Appendix, SI Text and Table S4*). The administrative records also provide detailed third-party reported background information on the individuals, for example, about their income, wealth, and education, which enable us to control for a rich set of potential confounders (more details are provided in *SI Appendix, SI Text*). *SI Appendix, Table S2* shows summary statistics for those who participated in the experiment and the random sample of people invited to participate. Similar to other studies inviting a random sample to participate (8, 32, 33), the participants have somewhat more education and higher incomes compared to nonparticipants. The conclusions from our analysis are unchanged if we reweight our sample to be representative of the general population using propensity scores estimated on observable characteristics (*SI Appendix, Table S3*, columns 2 and 7).

Empirical Results

Fig. 2 provides nonparametric evidence on the bivariate relationships between each of the two types of inequality aversion and each of the two types of support for redistribution. The horizontal axes in the graphs show the percentile positions of the individuals in the distribution of elicited inequality aversion of their cohort. We do this separately for advantageous inequality aversion, used on the horizontal axis in panels A and B, and disadvantageous inequality aversion, used on the horizontal axis in panels C and D. The outcome in panels A and C is the indicator for supporting public redistribution, while the outcome in panels B and D is the indicator of private redistribution, i.e., that the individual donated to humanitarian aid. All four diagrams show a strong and almost linear relationship with a statistically significant slope ($P < 1\%$). Moving from the bottom to the top in the distribution of advantageous inequality aversion is associated with a 13.9 percentage point increase in the support for public redistribution and an 8.9 percentage point increase in private redistribution. Similarly, going from the bottom to the top in the distribution of disadvantageous inequality aversion is associated with an increase

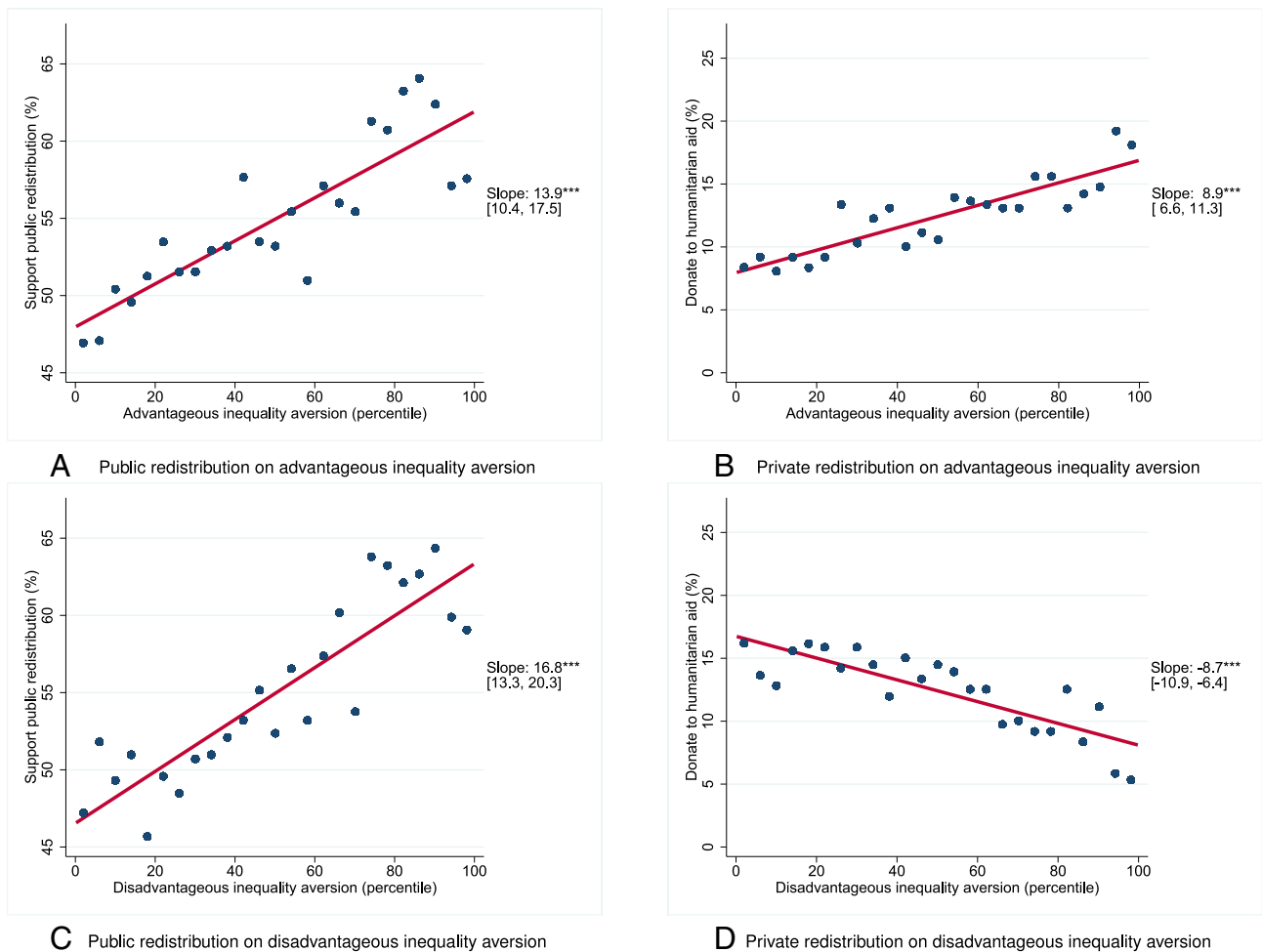


Fig. 2. Association between inequality aversion and support for redistribution. Panels *A* and *B* show the effect of advantageous inequality aversion. Panels *C* and *D* indicate the effects of disadvantageous inequality aversion. Each panel shows a binned scatter plot (blue dots) where the bins on the horizontal axis are divided into 25 equally sized groups with approx. 360 observations in each bin and the position on the vertical axis is the average outcome within the bin. A regression line estimated on the microdata is overlaid (red). 95% CIs are based on robust SEs. * $(P < 0.10)$, ** $(P < 0.05)$, *** $(P < 0.01)$.

in the support for public redistribution of 16.8 percentage points. However, the association between disadvantageous inequality aversion and private redistribution has the opposite sign, as predicted by theory. This association is negative with an 8.7 percentage point decline in private redistribution when going from the bottom to the top in the distribution of disadvantageous inequality aversion.

Individuals who are averse to advantageous inequality tend to also be averse to disadvantageous inequality (see *SI Appendix, Fig. S3*, which also shows correlations with other explanatory variables). This makes it important to account for both preferences at the same time. Therefore, we turn to multivariate regression analysis. Table 1 reports the results from estimations of multivariate probit models. Each coefficient reflects the estimated marginal effects of a change in a variable for given values of the other independent variables. Columns (1) and (5) show that both types of inequality preferences continue to be strongly associated with support for public and private redistribution when going from the bivariate analysis to the multivariate analysis and with marginal effects that are of the same magnitude as the slopes in Fig. 2. In columns (2) and (6), we include the income position of the individual in the regressions. According to standard theory, where preferences only depend on own outcomes, demand for public redistribution is decreasing in people's income position relative to others (41, 42), which has received strong empirical support (8, 27, 28). This

is also the case in column (2) showing that the support for public redistribution decreases by 30.8 percentage points when moving from the bottom to the top in the income distribution. More importantly, the coefficients on the inequality preference parameters are still strongly significant and large: they are about 1/3 of the coefficient on income position. Column (6) shows that private donations are increasing in income in line with previous findings (43). The inclusion of income has only small effects on the inequality aversion coefficients, which are not statistically different in magnitude from the income coefficient. In columns (3) and (7), we further control for socioeconomic status and cognitive abilities by including wealth, education length, and school GPA. This has almost no impact on the coefficients on inequality preferences in the prediction of public redistribution where the coefficients are still 1/3 of the income coefficient. The inequality preference coefficients decrease somewhat in magnitude in the regressions of private redistribution, but not relative to the magnitude of the income coefficient. In columns (4) and (8), we add survey evidence on people's beliefs about the causes of income inequality, known to be important for the demand for redistribution (39). We also add elicited values of standard economic preference parameters known to be important in other contexts (32, 33). Finally, we include demographic controls (age, gender, immigrant status, marital status, and family size) and municipality fixed effects. Including all these controls reduces the two coefficients of interest a little in the prediction of

public redistribution and has nearly no impact in the prediction of private redistribution. Across all specifications, the inequality preference coefficients are around 1/3 of the income coefficient when it comes to demand for public redistribution and of similar magnitude as the income coefficient when it comes to private redistribution.

Sensitivity Analyses and Robustness Checks. In *SI Appendix, Table S3*, we report the results from making various changes to the probit regression analysis in Table 1. We focus on changes to the baseline specifications in columns (4) and (8) of Table 1 that include the full set of controls. Columns (1) and (6) of *SI Appendix, Table S3* show the results from estimating a linear probability model instead of a probit model. In the analysis of public redistribution (column 1), the coefficients on advantageous and disadvantageous inequality aversion fall a bit, but so do the other coefficients in the regression implying that the inequality aversion coefficients are still more than 1/3 the coefficient on income. For private redistribution (column 6), the coefficients are still of similar magnitude as the coefficient on income. The results in columns (2) and (7) of *SI Appendix, Table S3* show that the coefficients of interest only change a little when we control for selection into the experiment by accounting for observable differences between participants and nonparticipants using propensity score weighted regressions. We also observe only small changes to the coefficients of interest when we use a structural model to estimate the inequality aversion parameters of the respondents instead of using the simple nonparametric measures (columns 3 and 8). Columns (4) and (9) report the results from changing all variables that measure rank percentile position relative to others, including the variables of interest, to z-scores. This changes the magnitudes of the coefficients, but

the relative magnitudes are more or less unchanged. The same conclusion applies when we change the two outcome variables from dummy indicators to the respondents' position relative to others in support for public and private redistribution (columns 5 and 10).

In *SI Appendix, Table S4*, we analyze how much individuals donate to charity, conditional on giving (the intensive margin). The table also shows results for both extensive and intensive margins when we include all charitable giving, instead of only to humanitarian aid. In all these analyses, the two inequality aversion coefficients are significant with the expected signs and with the same order of magnitude as the income coefficient. In *SI Appendix, Table S5*, we include information about socioeconomic status of parents (education, income, and wealth) among the control variables. We only have parental information for individuals up to age 55. Therefore, we first estimate the main specification for the subsample of individuals up to age 55 (columns 1 and 3). Adding the parental information has almost no effect on the coefficients of interest (columns 2 and 4).

In *SI Appendix, Table S6*, we split the sample into three equally sized income groups (low, middle, and high) and estimate the main specification for each income group for both public and private redistribution. All coefficients are significant and of the expected sign. We do not detect any systematic variation across the income groups. While our focus is on the support for public redistribution and private redistribution in the form of charitable giving, for completeness, *SI Appendix, Table S7* shows results for related attitudes elicited in the survey: whether the government should do more for specific groups such as the poor, the unemployed, the disabled, and those in financial trouble. People who dislike advantageous inequality are, *ceteris paribus*, more supportive of such public policies, while the coefficients on

Table 1. Estimates of the relationship between inequality aversion and support for redistribution

	Public redistribution				Private redistribution			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Advantageous inequality aversion	12.3*** (1.8)	12.3*** (1.9)	11.9*** (1.9)	9.8*** (1.9)	10.0*** (1.2)	10.1*** (1.2)	9.1*** (1.2)	7.9*** (1.1)
Disadvantageous inequality aversion	15.5*** (1.8)	11.0*** (1.9)	12.0*** (1.9)	9.6*** (2.0)	-9.9*** (1.2)	-8.7*** (1.2)	-5.7*** (1.2)	-5.6*** (1.2)
Income		-30.8*** (1.9)	-33.4*** (2.0)	-25.2*** (2.1)		7.3*** (1.2)	3.1** (1.2)	4.5*** (1.2)
Wealth			-5.6*** (1.9)	-5.0** (2.0)			-0.2 (1.2)	-0.1 (1.1)
Education length			10.3*** (2.0)	5.5** (2.1)			10.0*** (1.3)	6.7*** (1.2)
School GPA			0.5 (1.9)	-1.5 (2.0)			9.1*** (1.2)	7.1*** (1.2)
Belief about cause of income inequality				-41.6*** (2.0)				-7.3*** (1.2)
Patience				1.4 (1.9)				-0.1 (1.1)
Risk aversion				-0.1 (1.9)				-1.6 (1.1)
Demographic controls	No	No	No	Yes	No	No	No	Yes
Municipality FE	No	No	No	Yes	No	No	No	Yes
Observations	8,952	8,952	8,952	8,952	8,952	8,952	8,952	8,848

Note: The outcome in columns (1)–(4) is an indicator that equals one if the respondent was in support of more income redistribution. The baseline is 54.9%. In column (5)–(8), the outcome is an indicator that equals one if the individual donated to humanitarian aid in 2017. The baseline for donations is 12.4%. The coefficients show marginal effects. The coefficients are interpreted as the percentage point change in support for redistribution or donations to humanitarian aid when moving from the bottom to the top percentile in the distribution for each independent variable. Demographic controls include age, a dummy for gender, a dummy for being an immigrant, a dummy for marital status, and a dummy for having dependent children. Robust standard errors are shown in parentheses. * $(P < 0.10)$, ** $(P < 0.05)$, *** $(P < 0.01)$.

disadvantageous inequality aversion are statistically insignificant in most cases.

Concluding Remarks

Standard theory on support for redistribution and, more broadly, political economy assumes that individuals are motivated only by their own outcomes (41, 42, 44). Our empirical results show that it is possible to get better predictions of the support for redistribution by also accounting for inequality aversion of people (14). These results contribute to a nascent experimental and empirical literature providing evidence in favor of political economy theories that incorporate social preferences of citizens (8, 11–13, 22, 28).

Data, Materials, and Software Availability. The micro data set used in the paper combines experimental data and register data merged together by Statistics Denmark using social security numbers. Data and programs used for the analysis are securely stored at Statistics Denmark with Project No. 704856. We conducted the analysis using Stata/MP 16.1 and R 3.6.2 through the secure internet interface of Statistics Denmark. The project received approval from the Danish Data Protection Agency (Agreement 2015-57-0125-0008), Statistics

Denmark, and the Internal Review Board at the Department of Economics, University of Copenhagen. The use and storage of individual-level data adhere to the European Union's General Data Protection Regulation. Further, due to privacy rules, the data may not be transferred to computers outside Statistics Denmark. Researchers seeking access to this data must apply through Statistics Denmark, either as affiliated with a Danish institution approved by Statistics Denmark or in collaboration with researchers affiliated with such Danish institutions. We are ready to assist with this process in any way possible.

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