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외교학석사학위논문

Inequality, Middle-Class Illusion, and
Redistribution: A Behavioral Model of
Redistributive Preferences

불평등, 중산층 환상, 그리고 재분배:
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박 선 영

Inequality, Middle-Class Illusion, and Redistribution: A Behavioral Model of Redistributive Preferences

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Abstract

Inequality, Middle-Class Illusion, and Redistribution: A Behavioral Model of Redistributive Preferences

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Why does support for redistribution remain constant even with mounting economic inequality? Why does self-interest fail to fully explain individuals' redistributive preferences? Exploring the General Social Survey (GSS) data from 1983 to 2014, I found that most people except the rich perceive their relative standings in the society to be slightly better than the average regardless of their income, wealth, education level, among other factors.

I call this consistent bias “Middle-Class Illusion” and explain it with a theory of social psychology, “Better-than-Average-Effect (Alicke, 1985).” Incorporating this bias, I modified the classical Meltzer-Richard model to a behavioral model of redistributive preferences. Then, I empirically test this theory using GSS data. To examine the sole effect of status perception on redistributive preferences, I control a suite of objective socio-economic variables using covariate balancing propensity score methods (Fong, Hazlett and Imai, 2017). The result shows that one increase in the subjective status perception (on a scale of 1-10) has a greater effect on redistributive preferences than a 70% increase in family income. And the effects of subjectivity are especially large in the lowest income deciles while they are small and not statistically significant in the highest income deciles. With these findings, I explain why support for redistribution is lower than expected and is insensitive to changes inequalities.

Keywords: Redistributive Preferences, Inequality, Class Illusion, Meltzer-Richard Model, Better-than-Average Effect

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Chapter 1

Introduction

1.1 Research Question

In most developed countries, economic inequality has risen since the 1970s. According to the Meltzer and Richard model (Meltzer and Richard, 1981), when income is more concentrated to a small portion of a population, it is rational for the majority of citizens to show stronger support for redistribution. However, many studies repeatedly report that this conjecture is not empirically supported (Bartels, 2008; Kenworthy and McCall, 2008; Kelly and Enns, 2010; McCall, 2013; Solt et al., 2017).¹ In reality, it is generally hard to find correspondence between indicators of economic self-interests (such as income and wealth) and preference for redistribution (Gilens, 1999; Jost et al., 2003).

¹There has been a controversy as to whether the Meltzer-Richard model is empirically supported (McCall and Kenworthy, 2009; Johnston and Newman, 2015; Newman, Johnston and Lown, 2015). But the current consensus seems to be that the empirical support is at best weak and limited. As this issue is not the main focus of my paper, I proceed based on the consensus.

Previous research explaining this counter-intuitive phenomenon resorts to moderating variables such as institutions (Iversen and Soskice, 2006; Huber and Stanig, 2011) and social factors (Gilens, 1999; McCarty, Poole and Rosenthal, 2006; Lupu and Pontusson, 2011; Morgan and Kelly, 2017; Alt and Iversen, 2017). Although these studies improved our knowledge about the roles of moderating variables, few studies attempted to directly question how economic self-interests are *perceived* by people when shaping redistributive preferences. In this paper, I will tackle this issue using recent advances in social psychology.²

1.2 Research Methods

According to a theory of social psychology, people perceive themselves to be better than the average in diverse desirable aspects regardless of their objective characteristics (Alicke, 1985; Moore and Kim, 2003). This is called “Better-than-Average Effect (BTAE).” Evidence of this tendency has proven consistent, to the extent that it is now called “one of social

²Recently, several studies suspected the roles of bounded rationality in a similar vein (Bartels, 2008; McCall and Kenworthy, 2009; Norton and Ariely, 2011; Cruces, Perez-Truglia and Tetaz, 2013; Norton, 2013; Newman, Johnston and Lown, 2015). See Hauser and Norton (2017) for the review. But unlike their arguments showing how the perception of self-interest is influenced by local environment or personal networks, I argue that there is a bias in perception which is universal across local environment and personal networks.

psychology’s staple findings (Guenther and Alicke, 2010).”

Using descriptive analysis, I first demonstrate that this BTAE also applies to individuals’ perception of relative socio-economic status. With the GSS data from 1983 to 2014, I found that most people, except the rich, perceive their relative standing in the society to be slightly better than the average regardless of their income, wealth, and education level, to name a few. I further illustrate that this bias is consistent across partisanship, time periods, and regions of different local inequality (both at the county and census tract levels). I call this consistent bias “(Upper) Middle-Class Illusion.”

Incorporating this illusion, I modify the classical Meltzer-Richard model to a behavioral model of preference for redistribution. In the Meltzer-Richard framework, people compare their own permanent incomes with the mean permanent income of a society to determine preference for redistribution. But this argument is based on a strong assumption that people can estimate and compare the two accurately. I relieve this assumption simply by substituting objective comparison with subjective comparison under the middle-class illusion. And I illustrate that with this modification, we can explain lower support for redistribution than the expectation

of the Meltzer-Richard model. This approach also explains why support for redistribution remains insensitive to changing inequalities.

Afterwards, I empirically test whether redistributive preferences are affected more by subjectivity than objectivity. Using covariate balancing propensity score methods, I first show that one increase in the subjective status perception (on a scale of 1-10) has a greater effect on redistributive preferences than a 70% increase in family income. Then, I show that this effect is especially large among the low income while small and not statistically significant in the highest income deciles.

1.3 Outline

The rest of the paper is organized as follows. Chapter 2 summarizes the classical Meltzer-Richard model and the theory of BTAE. In chapter 3, using the GSS data, I demonstrate that people have “middle class illusion,” which can be well-explained by the theory of BTAE. I also show that people in the highest two income decile are not subject to the “middle class illusion.” Then, I revise the Meltzer-Richard model under the existence of middle-class illusion. I illustrate that this revision can provide suitable explanation of empirical patterns which have been considered contradictory

to the Meltzer-Richard model. In chapter 4, I empirically test whether redistributive preferences are affected more by subjective status perception than objective wealth and income. I confirm that and shows that the effect of status perception is especially large for the low income. These findings explain why support for redistribution is low: People with high incomes notice they are higher in status and oppose redistribution not to bear the cost. But others, especially the low income, support or oppose redistribution according to their status perception, which is a perception frequently subject to the middle-class illusion. I also presents three remarkable heterogeneities of middle class illusion and its effect across subgroups.

In the conclusion part, I discuss why some people are free from the BTAE and have different status perception. I also suggest three future avenues of research. First, heterogeneous effects of status perception can be studied. Even if the pattern of the middle-class illusion is consistently shown across subgroups, I found that effects of this biased status perception are surprisingly different across subgroups. Future research can further examine the underpinnings of this heterogeneity. Second, I suggest a better way of testing my theory using a customized survey or survey experiments. Third, I describe how this research can be extended to ex-

plain cross-country differences in support for redistribution, by tapping on differences of class illusion.

Chapter 2

The Meltzer-Richard Model and the Better-than-Average Effect

2.1 The Meltzer-Richard Model

The Meltzer-Richard model (Meltzer and Richard, 1981) is a classical rational-choice model that explains support for redistribution. To avoid unnecessary complication, I briefly restate a simpler version of the model in Persson and Tabellini (2000). Consider an economy producing a single commodity. Individuals work, consume, and vote for a redistributive policy. This policy is based on a proportional income tax and a lump-sum transfer. Let the preference of the i^{th} individual

$$w^i = c^i + V(x^i),$$

where c denotes consumption, x leisure, and V a concave utility function. Assume that each individual is subject to two constraints: (1) The private

budget constraint,

$$c^i \leq (1 - \tau)l^i + f, \quad (1)$$

where τ is the income tax rate, l^i individual labor supply, and f a lump sum transfer. The real wage is unity. (2) The time constraints,

$$x^i + l^i \leq 1 + e^i, \quad (2)$$

where e^i captures different efficient time or endowment across individuals, which is the source of inequality.

This endowment signifies different socio-economic resources of each person that can be used in the labor market to materialize different permanent incomes. This interpretation of endowment is different from the original model in two aspects. First, I focus on *permanent income* rather than current income. The original model is static and focuses on current income. I relieve this constraint slightly to make it more realistic. In other words, I assume that individual preferences for consumption and redistribution are based on the judgment of general earnings, not current earnings. Second, this permanent income is assumed to be *estimated* by each individual taking into account their diverse economic and social traits. The economic traits of individuals include employment status, occupa-

tion, years of education, among other factors. The social traits include gender, race, and age, which are correlated with returns in labor markets. Note that the purpose of these modifications is to make connections with a realistic psychological theory. In brief, this endowment is *an expected permanent income* estimated by each individual considering their *socio-economic resources or status*. From now on, instead of the abstract concept of the endowment, I will use the intuitive concepts of expected permanent income or socio-economic status when appropriate.

The result of the Meltzer-Richard model can be formally stated as below. Here, due to the space constraint, I only state the result without a detailed derivation:¹

$$\tau^i = \frac{e^i - e}{L_\tau(\tau^i)} = \frac{d^i}{L_\tau(\tau^i)} \quad (3)$$

where τ^i is the optimal tax rate for individual i , e^i expected permanent income of individual i , e the mean permanent income of the society, and d^i the distance between the individual i and the mean.² The bottom line is that in order to decide preference for redistribution, τ^i , people compare their own permanent income, e^i , with the mean permanent income of the

¹For the full derivation, see Persson and Tabellini (2000, 118-123).

²Note that $L_\tau < 0$ as it represents deadweight loss. If the tax, τ , goes higher, the trade-off is that the tax base gets smaller, which results in a smaller benefit for individual i . This trade-off is embedded in the model with $L_\tau < 0$.

society, e . If the income of an individual is expected to be smaller than the mean ($e^i < e$ or $d^i < 0$), he supports redistribution ($\tau^i > 0$).

This Meltzer-Richard model expects higher support for redistribution when income inequality rises. It can be seen by observing how rising inequality affects the preference of the median voter. For the median voter, the upper subscript i changes to m .

$$\tau^m = \frac{e^m - e}{L_\tau(\tau^m)} = \frac{d^m}{L_\tau(\tau^m)} \quad (4)$$

If the median voter expects himself to be below the mean ($e^m < e$ or $d^m < 0$), the median voter and people below the median (i.e. the majority) support redistribution ($\tau^i > 0$ for $i = 1, \dots, m$). This is usually the case in developed countries as the income distribution is skewed to the right ($e^m < e$). When income inequality increases, the mean becomes even larger than the median ($e^m < e < e'$). Then, the median voter and the majority below demand higher redistribution.

But this intuitive expectation of the Meltzer-Richard model is not supported by empirical evidence. I find the problem in the strong assumption on the cognitive ability of people. The model assumes that people are aware of the mean endowment, e , and can compare it correctly with their own one, e^i . But first, it is hard to estimate one's permanent income

accurately. Moreover, it is extremely idealistic to think that people can estimate the mean of the society accurately considering the amount of information they need to pay attention and process (Druckman and Lupia, 2016).

2.2 The Better-than-Average Effect

There is a theory in social psychology that can be used to revise this strong assumption of the Meltzer-Richard model: Better-than-Average Effect (BTAE). According to this theory, people have a tendency to believe they are above the average in diverse desirable aspects (Moore and Kim, 2003). There is a huge literature on this effect to the extent that it is called “one of social psychology’s staple findings (Guenther and Alicke, 2010).” The accumulated evidence in psychology shows that this tendency is universal among people (Cross, 1977) and general across issues from the ability to drive a car to the chance of earning money in stock markets (Alicke, 1985; Daniel, Hirshleifer and Subrahmanyam, 1998).

This effect may also influence how people estimate their permanent income or socio-economic status. According to a theory explaining the BTAE (Guenther and Alicke, 2010), people use “idiosyncratic and self-

serving standards to interpret the meaning of traits” for self-enhancement (Klar, 2002). This motivated reasoning is likely to happen when people contemplate on their permanent income or socio-economic status. If people perceive their relative standing to be better than the average, preferences for redistribution can be lower than reasonably expected by objective status.

Moreover, according to the psychological studies, this potential BTAE may not be affected by the changing inequality levels. First, people are found not to make a separate judgment of the society and themselves to form a belief about their relative standing. Usually, an individual directly forms a belief about their relative standing in a certain biased way. According to the Moore (2007), “it is possible that comparative judgments are not always preceded by absolute evaluations, and that people can hold beliefs about their relative standing without having a clear sense of the absolute evaluations underlying it.” This means that individuals might not make absolute judgments on their permanent income, e^i , and the mean of the society, e . Their belief may be directly formed at d^i , the relative distance of themselves from the mean. This is important because it is through e that the changing levels of inequality affects d^i and consequently, τ^i , op-

timal tax rate. If the BTAE directly biases d^i , there is no role that can be played by e .

Furthermore, when people are explicitly asked about their absolute judgments of themselves and society, they adjust their judgments in a way to maintain their belief in their relative prestige. For example, it was found that manipulating people's belief about others affects their belief about themselves to the extent they can maintain the belief about relative prestige. Thus, even when the information on inequality becomes salient, people can maintain a biased belief about their status. In other words, if there is a BTAE in the perception of socio-economic status, it may not be sensitive to the changes of economic reality.

Chapter 3

The Middle-Class Illusion

3.1 From the Better-than-Average Effect to Middle-Class Illusion

Figure 1. Measurement of Subjective Socio-economic Status

TOP 10
9
8
7
6
5
4
3
2
BOTTOM 1

Note. To measure how people perceive their relative standing in the society, I use MacArthur Scale: “In our society, there are groups which tend to be towards the top and those that are toward the bottom. Here we have a scale that runs from top to bottom. Where would you put yourself on this scale?” This question has been asked in diverse surveys including General Social Survey and International Social Survey Program.

Using the GSS data from 1983 to 2014, I first show that there is a BTAE in the perception of relative socio-economic status. To measure how people perceive their relative standing in the society, I use a survey question with

the MacArthur scale:¹

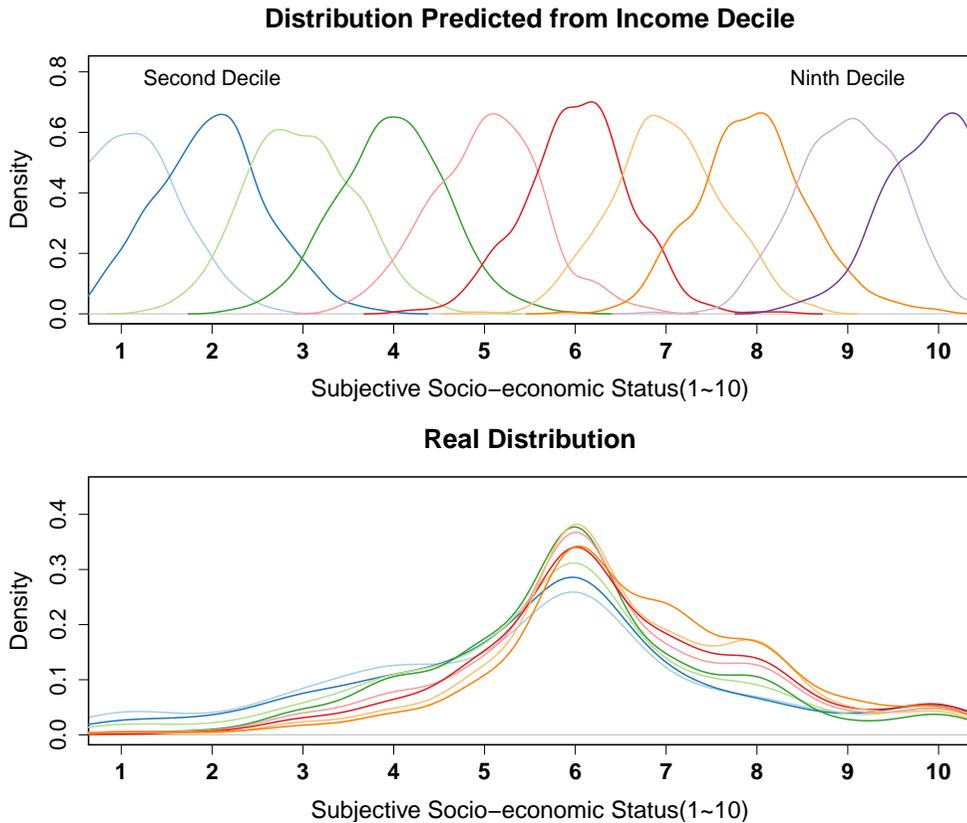
“In our society, there are groups which tend to be towards the top and those that are toward the bottom. Here we have a scale that runs from top to bottom (Figure 1).² Where would you put yourself on this scale?”

Using this variable measuring relative status perception, the BTAE was detected with a simple approach: The respondents of the survey in 2014 were divided into ten groups based on their income decile, the most salient objective status variable. And I examined how distributions of relative status perception vary among the groups. For each group, the distribution of status perception is represented by one line in Figure 2. A reasonable expectation is that in a higher income decile, perceived status should be higher (Figure 2, the upper plot). At least, if people perceive their relative socio-economic standing in the society with moderate accuracy, distributions should be different across groups to some extent.

¹On the theoretical foundation of the concept, subjective socio-economic status, in psychology, see Kraus, Piff and Keltner (2009) or Destin, Rheinschmidt-Same and Richeson (2017). On the reliability of MacArthur scale, see Giatti et al. (2012).

²In the original question, the bottom is denoted 10 and the top is denoted 1. For ease of presentation and interpretation, I reversed the order before conducting the analysis.

Figure 2. **Distribution of Status Perception: (Upper) Middle-Class Illusion**



Note. The respondents of GSS in 2014 were divided into 10 income groups according to their income decile. For each group, the distribution of status perception is represented by one line. A reasonable prediction is that in a higher income decile, perceived status should be higher (*above*). However, the status perception of individuals in different income deciles are strikingly similar, all centered at 6 (*below*). In other words, most people think they are slightly above the average, regardless of their actual incomes. Only the distributions of the two highest income deciles were noticeably higher than the rest. (Those two lines were omitted to emphasize similarity.)

However, perceptions in all income deciles are strikingly similar centering at 6 (Figure 2, the lower plot). Only the distributions of two highest income deciles were noticeably different, which were removed in the plot to emphasize similarity. In other words, most people except the rich think they are slightly above the average regardless of their actual income. This pattern is consistently shown even when the respondents are divided into 10 groups according to other variables signifying objective status: wealth, occupational prestige score, or mean prestige score of family members (the spouse and parents). This pattern is also invariant across years and across various subgroups of race, sex, partisanship, and people living with different local inequality (both at the county and census tract levels).

This phenomenon can be called the “(Upper) Middle-Class Illusion.” This seems to be a cognitive bias, which is universal across people resulted from the Better-than-Average Effect. This cannot be attributable to social desirability bias because the scale is from 1 to 10. If people feel pressured to choose the middle, they can choose between 3 and 8 or more conservatively between 4, 5, and 6 according to their actual status. The fact that the majority chose 6 (not even 5) is something deserves our attention. Also, this cannot be a result of the preference for certain political ideology as

both Republicans and Democrats show exactly the same pattern of bias.

Before proceed, the definition of *illusion* should be clarified. Even though I use the word “illusion,” I do not assume there exist some objective or true status each individual belongs to. As socio-economic status is inherently multidimensional and unobservable, it is fundamentally hard to define and measure a person’s status. But I use the word “illusion,” as this pattern of status perception is hardly explained by any objective variable related to socio-economic status. It is evident that there is some *gap* between objectivity and subjectivity. Also, as all subjectivity is centered around 6, there seems to be an apparent *bias* toward the place slightly above the average. To concisely summarise this gap and bias, I use the phrase “Middle-Class Illusion.”

It is important to note that only the perceptions of one or two highest groups in each objective variable (income, wealth, and prestige scores) were noticeably different centering at higher values such as 7 and spread between 6 and 9.³ This means that only those who are clearly different from the most of the population can notice that their status is higher.

³When checking the existence of the middle-class illusion in subsamples, I divided respondents into 5 groups according to each objective status variable. And most of the time, only one highest group showed a higher distribution.

Those with the highest status, therefore, are free from the middle-class illusion.

3.2 The Revised Meltzer-Richard Model under the Middle-Class Illusion

Based on this finding, the result of the Meltzer-Richard model can be revised as follows. To separate objective quantities from subjective quantities, I added lower subscripts; o and s . The original result of the model is denoted with the lower subscript, o , which signifies “objective”:

$$\tau_o^i = \frac{e^i - e_o}{L_\tau(\tau^i)} = \frac{d_o^i}{L_\tau(\tau^i)} \quad (5)$$

Unlike the original model, I relieve the assumption that people can make an objective comparison. Specifically, people are assumed to make a subjective comparison as below. The lower subscript, s , signifies “subjective”:

$$\tau_s^i = \frac{e^i - e_s^i}{L_\tau(\tau^i)} = \frac{d_s^i}{L_\tau(\tau^i)} \quad (6)$$

where e_s^i is the mean permanent income of the society *in an individual i 's perception*. For simpler explication, I assume people can at least estimate their own permanent income with reasonable accuracy. Thus, there is no lower subscript to e^i . I argue that the revised result in (6) is the mechanism in which people determine redistributive preferences.

Before proceeding further to compare predictions based on (5) and (6), the meaning of “average” in the BTAE should be clarified. With the BTAE and the resulting middle-class illusion, people perceive themselves to be slightly *above the average*. This average is interpreted as the “median” in this paper. This is because, considering the shape of MacArthur scale running from 1 to 10, the self-identification to be 6 is likely to mean “I am in the 6th decile,” which is above the median. Note that assuming the average to be the median rather than the mean is a more conservative approach. If people believe they are higher than the mean, the optimal tax rate, τ_s^i , immediately becomes negative and people dislike redistribution. Then, there are no more things to demonstrate to explain lower support for redistribution than originally expected by the Meltzer-Richard model.

Now I compare predictions of the original result in (5) and the revised result in (6). First, let’s assume that people at least know that the mean income, e_o , has usually been placed in 7th decile in the U.S. As many people believe their e^i to be in 6th decile, people would think that e_o is just above e^i . In other words,

$$e_s^i \approx e^i + c \tag{7}$$

for each i , where e_s^i is the mean permanent income of the society *in an*

individual i's perception and c signifies some small constant. With this idiosyncratic and self-serving e_s^i ,

$$d_s^i = e^i - e_s^i \approx -c. \quad (8)$$

In other words, d_s^i is a small constant, $-c$, regardless of objective status, e^i . Also, note that this $-c$ is not related to the objective mean, e_o , which is affected by changing inequality. Second, a more realistic assumption can be that individuals only know the fact that the mean income is higher than the median income ($e^m < e_s^i$). Then, as people think they are slightly higher than the median ($e^m < e^i$), they may perceive themselves to be indifferentiable from the mean ($e_s^i \approx e^i$). Then,

$$d_s^i = e^i - e_s^i \approx 0, \quad (9)$$

again regardless of e_o and e^i . In either case, the important result is that

$$|d_s^i| < |d_o^i| \quad (10)$$

for the majority of people below the median. In other words, people perceive themselves to be closer to the mean than reality. This leads to

$$\tau_s^i < \tau_o^i, \quad (11)$$

lower optimal tax rates and lower support for redistribution.

This theoretical conjecture is summarised in Figure 3. In this plot, we compare the objective distribution of income and the distribution of perception. The boundary between gray and white areas is the mean income, e_o or e_s . Two means are placed at the same line to work as an anchor to put two different distributions of objectivity and subjectivity in the same plot.⁴ The blue line represents the actual distribution of income, which is skewed to the right as in most developed countries.⁵ With the middle-class illusion, however, the distribution of perception is much less skewed as the red line does.⁶ Note that for those with the highest status, red and blue lines are similar. Dotted lines represent the median voter in each distribution. We can see that the median voter perceives his permanent income (red dotted line) to be closer to the mean than the reality (blue dotted line) (i.e. $d_s^m < d_o^m$).

⁴Note that the x-axis cannot be denoted because the real mean income of the society, e_o , and the subjective mean income of the society, e_s , are different. Moreover, e_s is actually idiosyncratic to each individual, being e_s^i . For the simple proposition, presume that all e_s^i are also placed at the same line, the boundary between the gray and white areas.

⁵The blue line was drawn using the income data in 2014 GSS.

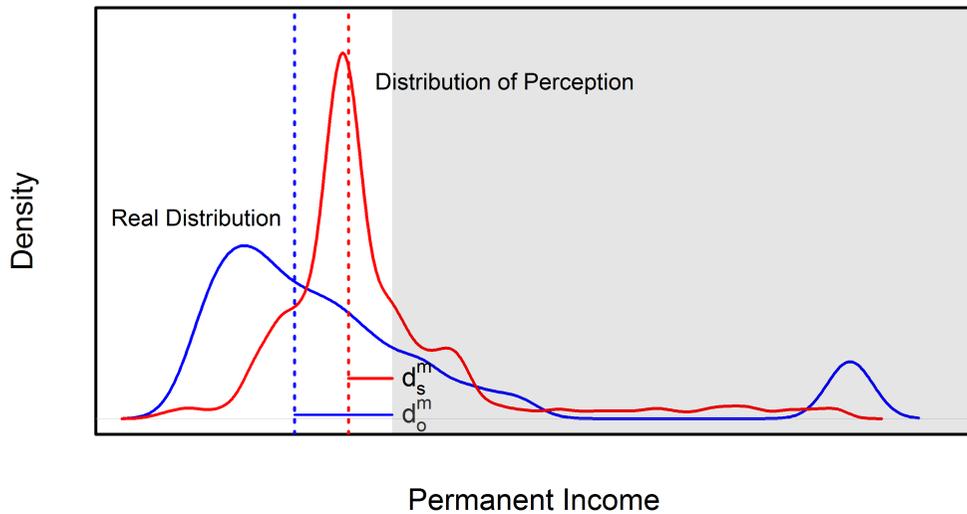
⁶Even if Figure 3 is a theoretical plot, the red line was drawn using GSS data in 2014. For example, for a respondent who perceives oneself to be 5 in terms of subjective status, I assigned a random income between the 40 percentile and 50 percentile of real income distribution in 2014. But note that what is idiosyncratic to each individual is actually e_s not e^i .

This can explain two empirical patterns. First, in the subjective world, the optimal tax rate for many people can be smaller than expected in the counterfactual objective world. This is because a subjective distance from the mean is smaller than the objective one. Second, preference for redistribution, τ_s^i , may not increase even when inequality increases. Unlike e_o , which is affected by inequality levels, e_s^i is not related to inequality and idiosyncratic to each individual. It is adjusted to each individual so that each can maintain the perception of relative prestige. Thus, even if d_o^i increases with increasing inequality, d_s^i may not be responsive to the inequality.

If we casually relieve the assumption of proportional tax and lump sum transfer, the psychology of voters with the middle-class illusion can be supposed as follows: people believe that their income is slightly above the median income. Thus, they believe they are not the beneficiary of redistribution. And they think they will take a fair amount of tax burden in a progressive tax system. As their status is lower than their perception and they manage to make their ends meet in the reality, they can think that the government is pushing themselves to pay an unbearable amount of taxes. Accordingly, they oppose redistribution or be lukewarm to the

policy at best.

Figure 3. Real and Perceived Distance from the Mean Permanent Income



Note. In most developed countries, distribution of income is skewed to the right (*blue line*). However, with the middle-class illusion, the distribution of perception can be much less skewed (*red line*). Dotted lines represent the median income in each distribution and the boundary between gray and white areas is the mean income. Thus, with illusion, the median voter's perceived distance from the mean income, d_s^m , can be much smaller than the median voter's actual distance from it, d_o^m . If support for redistribution is determined by perceived distance from the mean, this can explain why there has been lower support for redistribution than the original expectation of the Meltzer-Richard model.

Chapter 4

Empirical Methods: Covariate Balancing Propensity Score

In this paper, I validate my core argument that redistributive preference is affected more by subjectivity than objectivity, as a first step to provide an empirical support for the theory proposed above. I begin by showing that subjective perception of relative socio-economic status explains redistributive preference even after controlling objective variables related to socio-economic status. Here, the perception of relative socio-economic status can be considered as a proxy of d_s^i . Then, I compare the effect of status perception with the effect of the most salient objective status variable, family income, to argue that subjectivity matters more than objectivity.

To rigorously measure the effect of subjective status using observational data, I mimic experimental settings. If it is possible to conduct an experiment, a researcher may randomly assign the treatment variable, subjective status, to respondents. Then, across the groups having different

subjective status, the distributions of covariates will be the same. Therefore, if the researcher observes lower redistributive preferences in groups with higher subjective status, it can be attributed to the sole effect of subjective status. However, it is impossible to randomly assign status perception to respondents in reality.

Therefore, I balance the distributions of all objective status variables and potential confounders using weighting. I weight observations to make those distributions of covariates the same across groups of different subjective status. The weights used here is inverse propensity scores estimated with data. I use the covariate balancing propensity score method with the R package CBPS (Imai and Ratkovic, 2014; Fong, Hazlett and Imai, 2017) because this method allows balancing across continuous treatment variables.

There were two restrictions to this approach. First, the estimated model is linear even if the dependent variable is ordinal. This is because covariates are hard to be balanced in a non-linear model such as the ordinal Logit. But this restriction is mild because the response variable is 1 to 7 scale. Second, there are respondents who are excluded from analysis: respondents who reported their relative standing to be 1-2 in the bottom

or 9-10 in the top. The purpose is to guarantee the overlap of all covariates between groups of different subjective status (i.e. to prevent the use of extreme counterfactuals). For the respondents reporting 3-8 in status perception, at least the ranges of all covariates overlap.

Even with these restrictions, I take an approach to directly control diverse variables that affect objective status rather than making one variable representing it. This is because of two reasons. First, as I mentioned in section 3.1, it is hard to define what is objective or true status each individual belongs to. Second, even we define it in some way, it is hard to reliably measure it. There are techniques such as Principal Component Analysis (PCA). But what PCA extracts is hard to interpret in terms of meaning and scale. Also, PCA discards information in each variable. By directly controlling multidimensional covariates, I exploit the most information in data. But note that even when PCA is used, the result is similar.

The data is GSS in 2000, 2010, 2012, and 2014. And the dependent variable is the answer to the following question:

“Some people think that the government in Washington ought to reduce the income differences between the rich and the poor,

perhaps by raising the taxes of wealthy families or by giving income assistance to the poor. Others think that the government should not concern itself with reducing this income difference between the rich and the poor. Here is a card with a scale from 1 to 7. Think of a score of 1 as meaning that the government ought to reduce the income differences between rich and poor, and a score of 7 meaning that the government should not concern itself with reducing income differences. What score between 1 and 7 comes closest to the way you feel? (CIRCLE ONE)”

For ease of presentation and interpretation, I reversed the order of response before conducting the analysis. Thus, 7 means that the government should reduce the income differences between rich and poor while 1 means government should not concern about it.

The objective status variables that I balance are family income, an interaction of family income with local inequality at the county level, occupational prestige score of the respondent, mean occupational prestige score of family members, years of education, employment status, house ownership, sex, age, and race. The potential confounders that I balance are

attendance to religious events, prejudice on the black,¹ perceived mobility from parents, perceived future mobility, year fixed effects, and region fixed effects.

¹The prejudice on the Black was calculated using 4 related variables in the GSS data.

Chapter 5

Results

5.1 Main Results

The result in Table 1 shows that subjective status has a statistically significant and large effect on redistributive preference.¹ Note that before obtaining doubly robust estimates (Robins, Rotnitzky and Zhao, 1994), I balanced the distributions of all objective variables and confounders above using inverse propensity score weighting. Interpreted in the original scale, the result means that if a respondent perceives himself to be one unit higher in status (on a scale of 1-10), he is likely to oppose redistribution further by 0.5 (on a scale of 1-7). This size is larger than the effect of 70% increase in family income estimated using the same covariates.

Interestingly, the weights used in the analysis shows that subjective

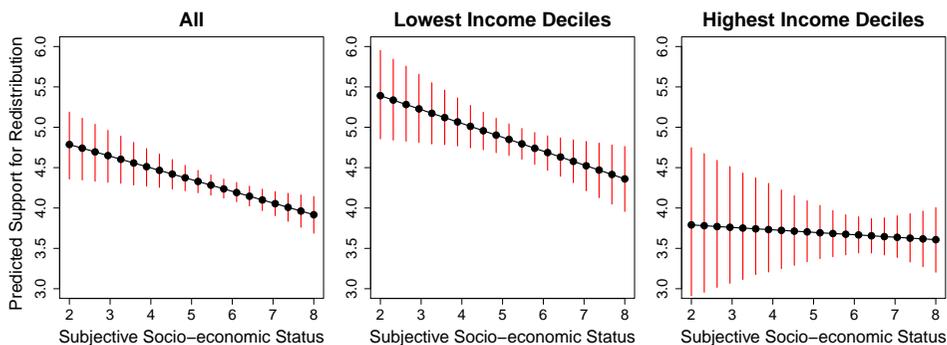
¹The sample size used in the final analysis is 1105 as the regression uses a large set of covariates and at least one of them are missed in many observations. Even when we impute those covariates with the multiple imputation and use the whole sample for the analysis, the result is the same.

Table 1. **Effect of Status Perception on Preference for Redistribution**

Subjective Socio-Economic Status	−0.266*** (0.095)
Family Income (Log)	−0.052 (0.086)
Family Income: Local Inequality	−0.073 (0.064)
Sex: Female	0.221* (0.131)
Age (Log)	−0.164** (0.073)
Years of Education (Log)	−0.309*** (0.059)
Occupational Prestige Score(OPS)	0.134** (0.068)
Mean OPS of Family Members	−0.047 (0.064)
Stable Employment	−0.124 (0.132)
House Ownership	−0.518*** (0.159)
Perceived Mobility from Parents	−0.015 (0.068)
Perceived Future Mobility	−0.103 (0.068)
Race: Black	0.700*** (0.175)
Race: Others	0.208 (0.216)
Prejudice on the Black	−0.553* (0.325)
Attendance to Religious Event	−0.100 (0.066)
Year and Region Fixed Effects	Yes
Intercept	Yes
N	1105

status is quite independent of objective status. The estimated inverse propensity scores are almost identical across individuals. In other words, individuals with different socio-economic characteristics have similar propensities to form any status perception. This means that status perception is actually not much correlated with objective variables and confounders that are linked to redistributive preference.

Figure 4. **Predicted Effects of Status Perception: Heterogeneity across Income Groups**



Note. The first panel (*left*) shows that if a person perceives himself to be higher in status, even when other things are constant, he is more likely to oppose redistribution. This effect is even larger in the lowest three income deciles (*center*). In contrast, the effect of subjectivity is smaller and not statistically significant in the highest three income deciles (*right*). This finding explains why support for redistribution is low: People with high incomes notice they are higher in status and oppose redistribution not to bear the cost. But others, especially the low income, support or oppose redistribution according to their status perception, which is a perception frequently subject to the middle-class illusion.

Figure 4 illustrates that the effect of subjectivity is especially large in the lowest three income deciles. The first panel (*left*) shows that if a

person perceives himself to be higher in status, even when other things are constant, he is more likely to oppose redistribution. This effect is even larger in the lowest three income deciles (*center*). In contrast, the effect of subjectivity is smaller and not statistically significant in the highest three income deciles (*right*). This is likely to be due to the lack of the middle-class illusion in the highest deciles. As I demonstrated above, people with highest resources perceive their status to be higher than others.

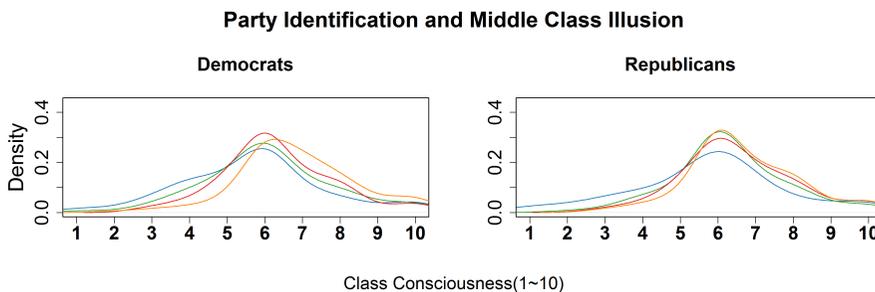
This finding explains why support for redistribution is low: People with high incomes notice they are higher in status and oppose redistribution not to bear the cost. But others, especially the low income, support or oppose redistribution according to their status perception, which is a perception frequently subject to the middle-class illusion.

5.2 Defense to the Accusation of Motivated Reasoning: Homogeneity across Partisanship

Some people might argue that the causation can be in the reverse direction: People who do not like redistribution think they are not the beneficiaries of the redistributive programs. To check whether it is reasonable to suspect this motivated reasoning, I sub-divided the sample into two groups based on the respondents' partisanship. Then, I plotted the distribution of status

perception in each group. Figure 5 shows the result: There are similar patterns of the middle class illusion among Democrats and Republicans. This shows that the status perception is not systematically correlated to the partisanship which is highly related to redistributive preferences. It seems that we can reject the accusation of motivated reasoning.

Figure 5. **Homogeneity of Middle Class Illusion across Partisanship**



Note. There are similar patterns of the middle class illusion among Democrats and Republicans. This shows that the status perception is not systematically correlated to the partisanship which is highly related to redistributive preferences.

Interestingly, contrary to the similar patterns of illusion, the effect of status perception is quite different across partisanship as shown in Table 2. If a Republican believes he is higher in socio-economic status, he is much more likely to reject redistributive policies. In contrast, when a Democrat perceives himself to be higher in status, it does not affect his support for redistribution to a statistically significant amount. This can

be because Democrats more consistently support redistribution based on their conviction regardless of their perception of self-interests. The causal mechanism of this heterogeneity is worth being studied in the future.

Table 2. **Heterogeneous Effect of Status Perception across Partisanship**

	Support for Redistribution	
	Republicans	Democrats
Subjective Socio-Economic Status	-2.060***	-0.723
Objective Socio-Economic Status	Yes	Yes
Confounders	Yes	Yes
Year Fixed Effects	Yes	Yes
Region Fixed Effects	Yes	Yes

***p < .01; **p < .05; *p < .1

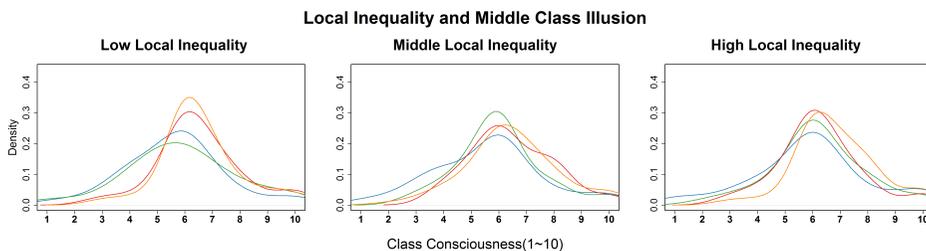
5.3 Potential Route of Natural Correction of the Middle Class Illusion?: Heterogeneity across Local Inequality

Can the middle class illusion be corrected? There is some experimental evidence that if we provide respondents with detailed information about their status or the level of inequality, they correct their false belief about their status or the society (Brown-Iannuzzi et al., 2015; Cruces, Perez-Truglia and Tetaz, 2013). But in real daily life, people have limited amount of attention and they are exposed to explosive amount of information to process simultaneously (Druckman and Lupia, 2016). Can people naturally

correct their perception on their status when the information on their socio-economic status becomes naturally more salient? Newman, Johnston and Lown (2015) argue that if people are exposed to higher inequality, the false class consciousness can be corrected and people’s preferences can be more aligned to their material interests.

To see whether this is also true with our data, I divided the sample into three groups based on the local inequality level in the county the respondent reside.² Then, I draw the distribution of status perception in each group (Figure 6). Interestingly, there are middle class illusion in all inequality levels but it seems to be more serious in a county with higher local inequality. This pattern should be explained in the future research as well.

Figure 6. Heterogeneity of Middle Class Illusion across Local Inequality



Note. There are middle class illusion in all inequality levels but it seems to be more serious in a county with higher local inequality.

²I also checked at the census tract level and got the same result.

5.4 The Correction of the Middle Class Illusion by Organizational Mobilization: Heterogeneity across Union Membership

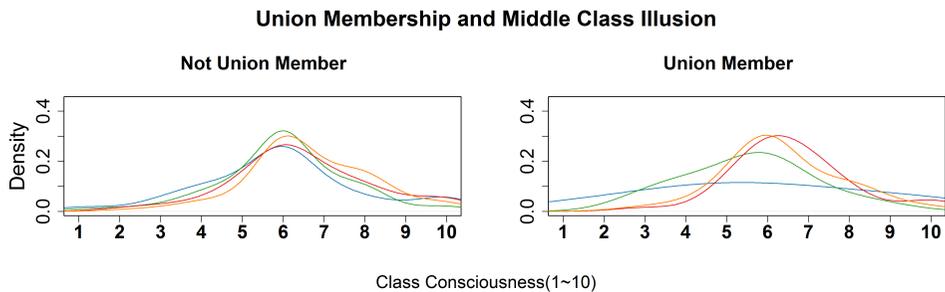
After replicating and criticizing the analysis of Newman, Johnston and Lown (2015), Solt et al. (2017) concluded that:

“The Newman et al.(2015) claim that class consciousness is spontaneously generated [...] by high levels of income inequality [...]If it were true, advocates for greater redistribution could remain subdued, secure in the knowledge that the votes for their preferred policies would soon materialize. [...] no support for this claim, on the other hand, if change is to occur, it will only result from concerted effort, from the difficult and much-constrained work of organization and mobilization. Those who favor a more egalitarian society have no grounds for complacency.”

As Solt et al. (2017) predicted, can at least “organization and mobilization” correct middle class illusion? As I also have data on union membership, I tested whether the union, the standard example of the “organization” that mobilize people based on socio-economic class, can

correct the middle class illusion, a type of false class consciousness. Thus, I divided the sample into two groups based on their union membership. Then, I plotted the distribution of status perception in each group. The Figure 7 shows that union members clearly have less middle class illusion than non-union members. In other words, union members' status perceptions are not subject to the middle-class illusion, unlike non-members. Their status perceptions correspond well to their income and wealth. This might be truly the effect of organizational mobilization. In other words, union members are likely to be educated to pay more attention to their socio-economic status and this seems to be effective.

Figure 7. **Heterogeneity of Middle Class Illusion across Union membership**



Note. Union members' status perceptions are not subject to the middle-class illusion, unlike non-members. Their status perceptions correspond well to their income and wealth.

In addition, for union members, subjective status perceptions did not

have a statistically significant effect on redistributive preference (Table 3). This is reasonable as we control for objective socio-economic status variables. If union members' subjective status are well aligned with their objective status variables, the statistical significance of subjective status can be lost. Note that the size of coefficient itself is smaller for union members. This effect of union membership on middle class illusion can also be a subject of further research.

Table 3. Heterogeneous Effects of Status Perception across Union membership

	Support for Redistribution	
	Union Members	Not Union Members
Subjective Socio-Economic Status	-0.905	-1.200**
Objective Socio-Economic Status	Yes	Yes
Confounders	Yes	Yes
Year Fixed Effects	Yes	Yes
Region Fixed Effects	Yes	Yes

***p < .01; **p < .05; *p < .1

Chapter 6

Conclusion and Discussions

6.1 Conclusion

The public opinion on redistribution has been the subject of many scholarly debates in American politics and comparative politics. To explain the reason why redistributive preferences do not correspond economic self-interest, previous studies have focused on the role of moderating variables. I take a more direct approach based on the notion of bounded rationality. My findings are twofold. First, most individuals, except the rich, are subject to the middle-class illusion. This is well explained by a theory in social psychology, the Better-than-Average Effect. Second, status perception under this illusion affects redistributive preference more than objective income. And this effect is large for the low income while small and not statistically significant for the high income. These findings explain why support for redistribution is lower than expected and insensitive to

increasing inequality.

6.2 The Factors that Determine Status Perception

Some might question why some people are free from the middle-class illusion and have different status perception. In the last empirical analysis, I exploited the individual difference in status perception across Americans to find the effect of subjective status on redistributive preference. The difference in status perception signals that even if the middle-class illusion is a general rule, there are people who escape from the illusion.

I can suggest some preliminary answers. Basically, even if there is a cognitive bias, it can be reasonably assumed to be a probabilistic bias, not a deterministic one. According to the data, the status perception does seem to be quasi-random. First, the distribution of status perception is not different across income, wealth, sex, partisanship, occupational prestige, or local inequality. All subgroups showed the middle-class illusion. Second, the balancing of about 20 variables was achieved using almost identical weights across individuals. This means status perception is unrelated to diverse variables.

Still, the determinants of status perception should be studied in the fu-

ture research.¹ As I mentioned in the section 5.4, there is a variable that I found to be systematically correlated with status perception: union membership. Union members' status perceptions are not subject to the middle-class illusion, unlike non-members. Their status perceptions correspond well to their income and wealth. This might be the effect of organizational mobilization. Thus, for union members, subjective status perceptions did not have a statistically significant effect on redistributive preference. This can be makings of a new research.

6.3 Future Directions

In the future, this research can also be extended in three ways. First, the heterogeneous effects of subjective status perception can be studied further. Even if the pattern of the middle-class illusion is consistent across subgroups, the effects of this biased status perception are different across subgroups (not shown in the paper due to the space constraint). Briefly speaking, if a respondent is Republican, White, Southerner, or living in a county with low inequality, his preference for redistribution is more likely to be affected by subjective status. In contrast, if a respondent is

¹There are recent studies on this in social psychology such as Destin, Rheinschmidt-Same and Richeson (2017).

Democrats, Black, living in a county with high inequality, his preference for redistribution is not significantly affected by subjective status. Future research may delve more into the reasons and consequences of these heterogeneities.

Second, the behavioral theory above can be more rigorously tested by conducting a customized survey or survey experiments. In this research, the only available variable was the perception of relative socio-economic status. Thus, it was used as a proxy of d_s^i . But we can directly measure e^i and e_s^i to measure d_s^i accurately. For example, we can ask “In your expectation, what is the total income of your remaining life?” (e^i) and “What is the mean total income of the people in the society?” (e_s^i). Then, it can also be checked whether the mean of society, e_s^i , is idiosyncratic for each individual according to their expectations of own permanent income, e^i . And we can also see whether people change their perception of e^i when they are given diverse objective information related to mean permanent income in the society in order to maintain their belief in relative prestige.

Lastly, this research can be extended to explain cross-country differences in support for redistribution. For example, the patterns of class illusion can be different across countries according to political rhetorics that

are frequently employed by politicians. In the U.S., the “middle class” is a buzz-word that resonates in each election. But in South Korea, for instance, the equivalent status is occupied by the word, “lower class (seomin)”. This lower class is appreciated to have desirable characteristics representing the nation and embodying the spirit of the nation. Thus, people might perceive themselves to be in the lower middle class rather than upper middle class. There is also evidence that lots of wealthy Koreans consider themselves to be in this lower middle class. Accordingly, I want to first explore whether there is heterogeneity in class illusion across countries. Then, it can be tested whether this heterogeneous class illusion can explain different support for redistribution.

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국문초록

왜 경제적 불평등이 증가함에도 재분배 정책에 대한 지지는 증가하지 않는가? 왜 경제적 이익은 개인의 재분배 정책에 대한 선호를 잘 설명하지 못하는가? 본 연구는 1983년에서 2014년의 미국 일반 사회 조사(General Social Survey) 데이터를 활용하여 부자들을 제외한 대부분의 사람들이 자신의 사회경제적 지위가 평균 이상이라고 착각한다는 것을 보여준다. 이러한 착각은 개인의 소득, 부, 교육 수준 등과 무관하게 일관적으로 나타난다. 이를 중산층 환상이라고 명명하고, 사회 심리학의 "평균 이상 효과(Alicke, 1985)" 이론을 활용하여 설명하고자 한다. 본 연구는 이러한 편향을 포함하여 전통적인 멜처-리차드 모델을 수정한 재분배 선호 모델을 제시한다. 그 후, 이러한 모델이 타당성이 있는지 일반 사회 조사 데이터를 활용하여 검증한다. 자신의 지위에 대한 주관적인 인식이 재분배 선호에 유의미한 영향을 미친다는 것을 보이기 위하여, 다양한 객관적 사회경제적 지위와 관련된 변수를 공변수 균등화 경향성 점수 방법론(Covariate Balancing Propensity Score)을 활용하여 통제한다. 그 결과 자신의 사회경제적 지위가 10중에서 1이 올라간다고 생각할때마다 재분배 선호가 급격하게 떨어지는 것으로 밝혀졌다. 이는 개인의 가족 소득이 70% 증가할 때 재분배 선호가 감소하는

정도보다 감소 폭이 큰 것이다. 주관적 지위 인식이 재분배 선호에 미치는 영향은 소득이 낮을 수록 점점 더 커지는 반면, 소득이 높을 경우 아무런 영향을 미치지 않는 것으로 드러났다. 본 연구는 이러한 발견을 기반으로 왜 재분배에 대한 지지가 기존 모델에 대한 예측보다 낮고 불평등이 증가해도 변하지 않는지를 설명한다.

주요어: 재분배 선호, 불평등, 계층 환상, 멜처-리차드 모델

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