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Research Report

When everyone thinks they're middle-class: (Mis-)Perceptions of inequality and why they matter for social policy

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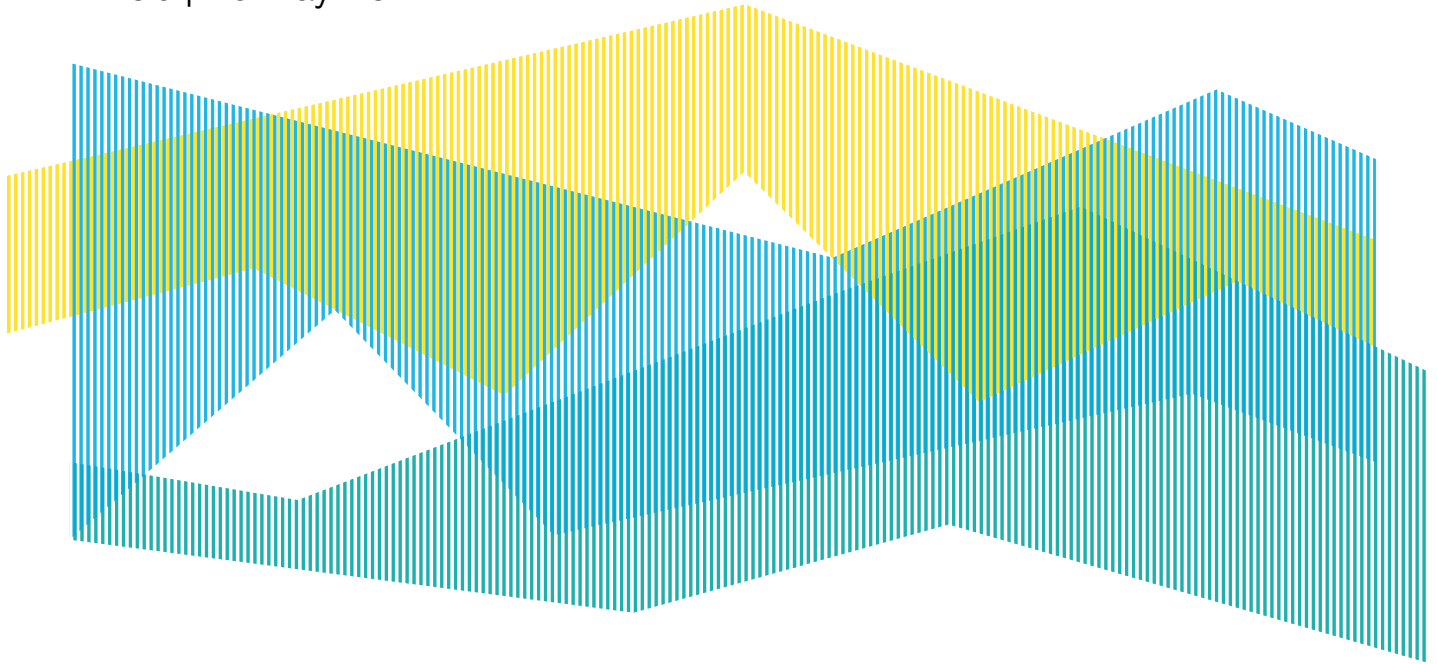
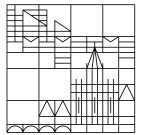
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Inequality Barometer – Inequality and Social Mobility

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When everyone thinks they're middle-class: (Mis-)Perceptions of inequality and why they matter for social policy

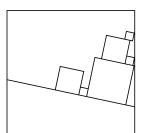
Abstract

Current levels of social and economic inequalities are an enduring challenge for policymakers concerned with sustaining high levels of prosperity and social mobility. Understanding which types of inequalities people in Germany regard as important is crucial. Using survey data, this paper presents evidence that misperceptions about inequality among the German population are common. Inequality is perceived as a problem and most respondents would prefer a more egalitarian society. However, people still underestimate the extent of inequality in important ways. This suggests that there is the potential for a policy agenda that emphasizes progressive and egalitarian policies. For such policies to gain public support, they should be tied to information on specific aspects of inequality.



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Introduction and overview

Concerns about inequality are widespread in Germany and high on the political agenda: people are increasingly worried about growing economic and social disparities.¹ Besides income inequality, their worries encompass whether there are enough opportunities to get ahead in life independent of parental background and concerns about there being insufficient social mobility. This is tied to concerns about the future, in particular the worry that the younger generation will have less opportunities than their parents did. Concerns about inequality and the future are especially acute against the backdrop of the unfolding social and economic consequences of the COVID-19 pandemic. Increasingly, people in Germany, in particular young people, state that they are worried about the future.² Even though inequality trends are less worrisome in Germany than in other countries, in particular the United States, there is empirical evidence that there is a high degree of wealth inequality and increasing wage polarization in Germany, which are likely to be significantly reinforced by the COVID-19 pandemic.³ Accordingly, inequality as a topic is likely to be one of the major concerns in the election year 2021.

If the public perceives inequality to be an important problem one might expect to see increasing public demand for decisive policy measures to counteract it. Yet policy responses remain limited. One reason for this could be that while people worry about inequality and social mobility, it is difficult for them to grasp the actual extent of it.⁴ This is likely to be partly due to the complex and multifaceted nature of inequality as a whole. Yet it is also likely to be related to the biases people are subject to and the way they draw information from their surroundings as well as to politically motivated framing of problems by the political elite.⁵

Perceptions (and misperceptions) of inequality matter, however: The extent to which people perceive inequality to be a problem is likely to strongly influence their policy preferences and ultimately political behaviour when voting. For example, if people underestimate the level of income inequality they are less likely to support policies that aim to redistribute or mitigate inequality. Consequently, it is important to understand how people actually perceive inequality, including how they perceive the different aspects and types of inequality.

In this policy paper, we describe how people in Germany see different facets of inequality and social mobility and outline the implications of (mis-)perceptions of inequality with regard to policy attitudes and vote choices.

¹ See, for example, Niehues, J., Stockhausen, M., Peichl, A., Bartels, C., Bossler, M., Fitzenberger, B., Seidlitz, A., Kuhn, M., Baldenius, T., Kohl, S. and Schularick, M. (2020). Ungleichheit unter der Lupe – neue politische Antworten auf ein bekanntes Thema. ifo Schnelldienst, 73(02):03–26.

² See, for example, the recent study by the Bertelsmann Stiftung: <https://www.bertelsmann-stiftung.de/de/unsere-projekte/gesellschaftlicher-zusammenhalt/projektnachrichten/zusammenhalt-in-zeiten-von-corona-die-stabile-basis-droht-zu-broeckeln>.

³ Cf. Schröder, C., Bartels, C., Göbler, K., Grabka, M.M. and König, J. (2020). MillionärInnen unter dem Mikroskop: Datenlücke bei sehr hohen Vermögen geschlossen-Konzentration höher als bisher ausgewiesen. DIW Wochenbericht, 87(29):511–521; Niehues et al. (2020).

⁴ See, for example, Karadja, M., Mollerstrom, J. and Seim, D. (2017). Richer (and Holier) Than Thou? The Effect of Relative Income Improvements on Demand for Redistribution. The Review of Economics and Statistics, 99(2):201–212; Cruces, G., Perez-Truglia, R. and Tetaz, M. (2013). Biased Perceptions of Income Distribution and Preferences for Redistribution: Evidence from a Survey Experiment. Journal of Public Economics, 98:100–112; Engelhardt, C. and Wagener, A. (2018). What do Germans Think and Know About Income Inequality? A Survey Experiment. Socio-Economic Review, 16(4):743–767.

⁵ See, for example, Clark, A.E. and Senik, C. (2010). Who Compares to Whom? The Anatomy of Income Comparisons in Europe. The Economic Journal, 120(544):573–594.

Our Data

The data we analyze stems from the first wave of the survey project "Inequality Barometer", which we conducted at the Cluster of Excellence "The Politics of Inequality" at the University of Konstanz. The survey was implemented by a professional survey company (Kantar) in the fall of 2020 via an online access panel, covering about 6,000 respondents distributed across the whole of Germany. The survey is representative of the German adult resident population.

A bias towards the middle: underestimating privilege and poverty

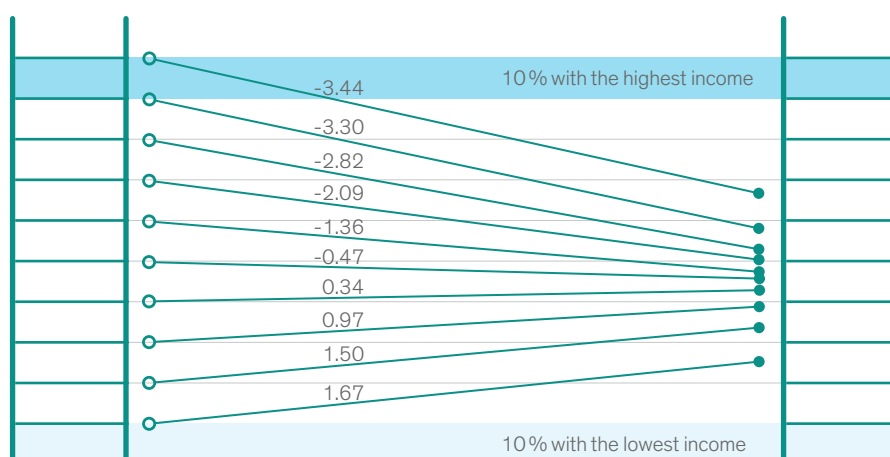
We study (mis-)perception of inequality from different angles and perspectives. A first way to measure how people perceive inequality is to ask them to locate themselves in the distribution of incomes and then compare these self-assessed placements with the actual distribution of incomes. In the survey, we visualize the income distribution as a ladder with 10 rungs and ask people to place themselves on this ladder. The analysis shows that, compared to their actual income, respondents showed a considerable bias towards the middle: many more thought they were closer to the middle in terms of relative income than they actually were. This implies that those who are, in fact, lower on the ladder tend to overestimate their relative income position and those on top of the distribution tend to underestimate their relative placement. This means that respondents with lower incomes have a positive bias, while those with higher incomes have a negative bias. This is depicted in Figure 1.

Figure 1: Self-placement on the income ladder compared with actual income

Explanation: the left figure displays the actual position on the income ladder in our sample, the right figure shows where people with different incomes tend to place themselves.

Numbers show by how many deciles (10-percent steps) respondents misperceive their own relative position on the income ladder.

- Actual income
- Perceived income



Respondents with higher incomes are more likely to be mistaken about where they are placed and their bias tends to be larger, as shown in Figure 1. Accordingly, the tendency of the rich to underestimate their income position is more pronounced. This suggests that people tend to underestimate the level of inequality that exists when comparing their income with that of others. This phenomenon has also been documented in other OECD countries and it can be partly explained by the fact that the income level that people consider as a minimum threshold for being middle class tends to be substantially lower for poorer people and noticeably higher for richer people.⁶ It is also likely to be related to exactly who people compare themselves to: namely, people with whom they interact regularly and share characteristics.⁷

People in Germany overestimate income inequality, yet wealth inequality matters, too

In the next step, we compare perceptions about income inequality with perceptions of inequality in other dimensions – wealth inequality, health, political participation and education. In order to get an idea of how people perceive inequality independently of their own position we asked respondents to what extent they think the difference in income is between the 10 percent with the highest and the 10 percent with the lowest income. There were five possible responses: “no difference”, “very small”, “rather small”, “rather large”, and “very large”. Our results show that an overwhelming

⁶ Cf. OECD (2019), Under Pressure: The Squeezed Middle Class, OECD Publishing, Paris.

⁷ Cf. Clark and Senik (2010).

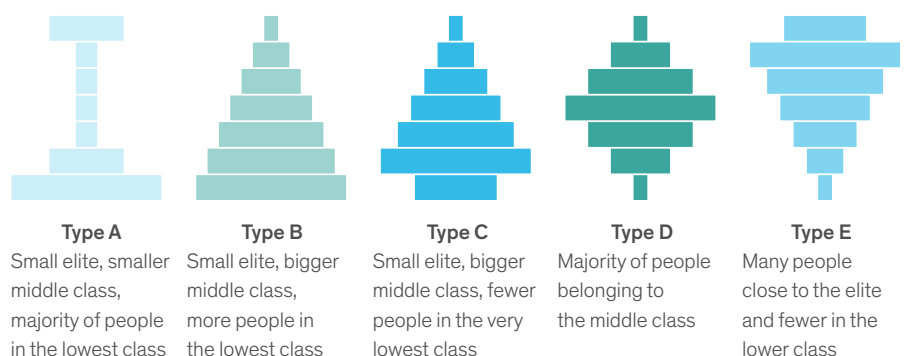
majority of respondents (72.6 percent) think that the difference in income is very large. This measure clearly illustrates that people are aware of inequality when comparing the top earners with the poorest 10 percent.

However, income is only one facet of economic inequality. Wealth, such as property and various other assets, also contributes greatly to economic inequality, and in fact the distribution of wealth is much more unequal than the distribution of incomes, in both Germany and other countries.⁸ We asked respondents the same questions as set out above, but with regard to how large they think the difference is between the wealthiest 10 percent and the least wealthy 10 percent of the population. Again, a majority (65.7 percent) thinks that the difference is very large. Yet, the proportion of respondents who selected this answer was lower than when they were asked to consider income disparity (72.6 percent). Hence, overall, income inequality is perceived to be larger than wealth inequality. This is a clear misperception – wealth inequality is about three times larger in Germany than income inequality. The Gini-coefficient⁹ – the standard measure of inequality – is considerably higher for wealth than it is for income: it was around 0.3 for income and close to 0.8 for wealth in Germany in 2017.¹⁰ In fact, wealth inequality is substantially higher in Germany than in other countries and recent new data on top income shares has revealed that it is even greater than previously thought.¹¹ The political implication of this finding is that people severely underestimate the extent of wealth inequality in Germany, which is likely to reduce average support for measures such as increasing inheritance taxation and introducing a wealth tax.

Inequality in German society: how it is perceived and what people wish for

A third way of studying people's perceptions of inequality is to ask them what they think society looks like overall. In order to do this, we showed respondents five potential shapes of society (see Figure 2) and asked them to indicate both what German society currently looks like and what kind of distribution they would want in an ideal world.

Figure 2: Types of income distribution in society



⁸ Cf. Pfeffer and Waitkus, The Wealth Inequality of Nations. Forthcoming in the American Sociological Review.

⁹ The Gini coefficient ranges from 0, minimum, to 1, maximum inequality.

¹⁰ See Armuts- und Reichtumsbericht from the Federal Ministry of Labor and Social Affairs: <https://www.armuts-und-reichtumsbericht.de/DE/Indikatoren/Gesellschaft/Vermögensverteilung/vermogensverteilung.html> and <https://www.armuts-und-reichtumsbericht.de/DE/Indikatoren/Gesellschaft/Einkommensverteilung/einkommensverteilung.html>.

¹¹ See Schröder et al. (2020).

¹² See, for example, OECD (2019).

¹³ The question refers to social strata in general rather than income directly. Yet income is likely to be one of the main factors considered.

We found that people perceive inequality in Germany as a whole to be quite high. When asked what society in Germany looks like currently, most respondents picked figures displaying very unequal societies, notably type A and type B (see Figure 2). This shows that more than 50 percent of respondents think that the largest group in Germany is the group with the lowest incomes. Compared to actual income data from Germany,¹² respondents overestimated the share of the lowest income groups, even though they consider themselves to be members of the middle class (as we found above).¹³

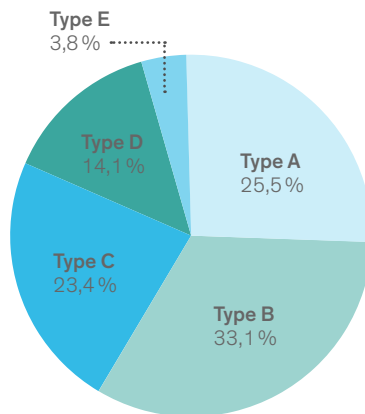
Figure 3: Perception and expectation of the shape of society

- A: Small elite, smaller middle class, majority of people in the lowest class
- B: Small elite, bigger middle class, more people in the lowest class
- C: Small elite, bigger middle class, fewer people in the very lowest class
- D: Majority of people belonging to the middle class
- E: Many people close to the elite and fewer in the lower class

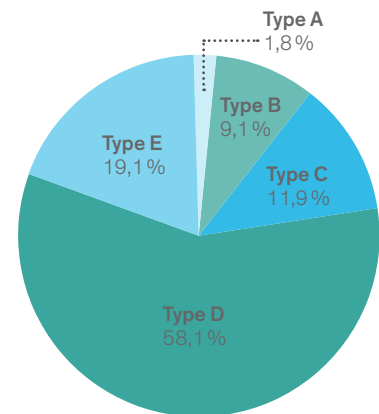
The left-hand pie chart shows responses to the question what general type (see Figure 2) German society actually most looks like.

The right-hand pie chart shows the responses to the question what type it should ideally look like.

Perception of actual society



Expectation of ideal society



When asked what the income distribution in Germany should look like, most respondents chose a figure with a much larger middle class (type D or type E). Thus, there is quite a strong mismatch between what respondents perceive the current state of German society to be and how they would like it to be. On average, people in Germany prefer a substantially more equal society. Almost half of the respondents differed in what they think German society actually looks like and what they think it should look like – hence we find a large potential for a policy agenda that emphasizes redistributive, progressive and egalitarian policies.

Comparing these results with our finding that respondents showed a considerable bias towards the middle concerning their own income position in society, a certain contrast in our findings becomes evident: on the one hand, respondents tended to overestimate the degree of inequality there is in society as a whole (they were more pessimistic), while on the other hand they tended to underestimate inequality when asked about their own income position. While this may seem paradoxical, it likely indicates that respondents' abstract perception of the degree of inequality in society does not translate into what they infer from their own income level and that of people around them. This may imply that while people see inequality in general as a problem, they have difficulty in relating this to actual income levels and their own situation.

An imperative for political action: the prospects of young people moving up the social ladder are perceived to be bleak

East and West

Comparing mobility experiences and inequality perceptions of respondents from East and West Germany, we find that people living in East Germany are less likely to have experienced upward mobility and more likely to have experienced downward mobility than respondents from West Germany, which is to be expected. Further, on average, people in East Germany place themselves – as well as their parents – on a lower step on the income ladder. At the same time, they are more pessimistic regarding the chances for upward social mobility. Overall, our survey therefore confirms the commonly held view that perceptions of upward social mobility are less optimistic in East Germany than in West Germany.

Whether people consider inequality to be too high and whether they see a need for this to be changed is likely to be related to their belief that things will get better in the future, either for themselves or for their children. If people think there is the possibility for those in poorer segments of society to move upwards to higher income levels, in particular from one generation to the next (upward social mobility), they may consider existing inequality to be less problematic and potentially even necessary to set economic incentives.

In our study we also looked at how people perceive their own experience of mobility. As well as asking respondents to place themselves on the income ladder, we also asked them to do so for their parents at approximately the same age. By comparing the two responses, we get an idea of how respondents feel their income situation has changed compared to the situation of their parents when they were at a similar point in life. Almost half of our respondents have experienced

Over- and underestimated inequality

We found that respondents with lower incomes and lower levels of education appear to be more optimistic than those with higher incomes and levels of education. Compared with other respondents, they perceive income and wealth inequality in society to be lower. This is the case for all dimensions of inequality, but is most pronounced for inequality in income and wealth. Further, they are more optimistic about the chances of upward social mobility in society. This is an important finding because, to put it bluntly, it indicates that those at the bottom of the income and education scales overestimate their ability to move up (underestimate inequality), which could reduce overall levels of support for a more ambitious redistributive policy agenda.

upward mobility, a third have experienced downward mobility, and the remaining 20 percent see themselves in the same decile as their parents were at their age. Respondents in younger age groups were somewhat more likely to state that they have perceived downward mobility. Overall, a minority of respondents had experienced downward mobility (subjectively perceived). However, one's own experienced mobility lies in the past. Perceptions regarding mobility today and with respect to society in general may be quite different.

Our study suggests that people in Germany are pessimistic regarding the current chances for upward social mobility in society as a whole. We asked respondents about the chances of children from families in the lowest 20 percent income quintile to either stay in the same income group or move up to higher ones. In this regard, respondents in Germany are less optimistic than respondents in other European countries or the US:¹⁴ Respondents expect only an average 7.62 percent of children from the lowest income families to move up to the highest income quintile. The percentage that is expected to remain in the lowest income group is 37.7 percent. In comparison, the respective figures are 11.7 percent and 32.2 percent in the US.¹⁵

Summarizing the perceptions of social mobility: Even though the majority of respondents think they themselves have moved upward on the income distribution scale or have stayed on a similar level compared to their parents, the perception of social mobility in society today is bleaker (Figure 4).

Figure 4: Social mobility of the lowest income group

We asked different groups of respondents about the prospects of children from the lowest income quintile (lowest 20 percent) to remain in the lowest or move to a higher income group.

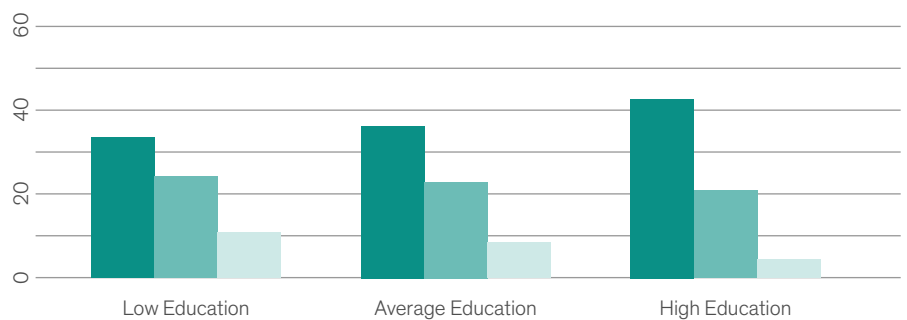
Responses were sorted according to the respondents' education (top chart) and income status (bottom chart).

Average responses to the question:

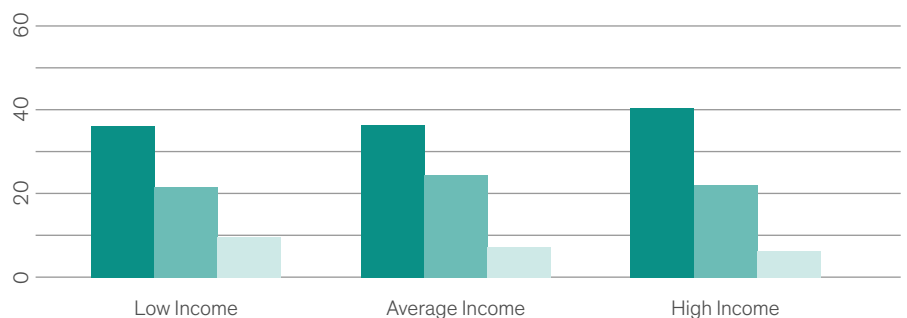
"What percentage of children from the lowest income group will grow up to be in..."

- "...the lowest income group (bottom 20 percent)?"
- "...the middle income group (middle 20 percent)?"
- "...the highest income group (top 20 percent)?"

Perception of social mobility, by education groups



Perception of social mobility, by income groups



¹⁴ See Alesina, A., Stantcheva, S. and Teso, E. (2018). Intergenerational Earnings Mobility and Preferences for Redistribution. *American Economic Review*, 108(2): 521–554.

¹⁵ Cf. Alesina et al. (2018).

Policy implications

Our findings have a number of important implications for the debate on inequality and social mobility in Germany. Broadly speaking, our analysis shows that most people underestimate the extent of inequality in Germany in important ways. Although people think inequality in society in general is a problem, they appear to find it difficult to relate this to actual income levels, including to their own position. The extent of inequality among the German population appears to be underestimated when people view it from the perspective of their relative position on the income distribution ladder. The less well-off tend to overestimate their relative income position, whereas the better-off underestimate theirs. Further, the extent of wealth inequality is underestimated – although in fact it is substantially higher than income inequality in Germany.

The political implication is clear: if the less well-off overestimate their income relative to the population in general, they may fail to grasp the extent to which they would benefit from more redistributive policies. Thus, misperceptions, especially among the less well-off, may lead to lower support for measures to reduce inequality, and our analysis shows that there is a large potential to be tapped by political actors for egalitarian and progressive policies. To allow for more informed voting and ultimately policy decisions, the public debate about inequality in society needs to intensify and be fueled with more information about the actual extent of inequality in Germany.

In particular, the role of wealth inequality should be made even clearer to the general population. More and better information on how income inequality is related to disparities in other dimensions is also needed. In addition, our results imply there is a need for more information, not only on the extent of inequality as a whole, but also on how this relates to concrete life situations, in particular for less privileged parts of society. One cause of people misperceiving their relative income is that they often compare themselves only with people who are similar to themselves, so it is of considerable importance to create public spaces in which people interact more widely.

Recommendations

Summing up, we arrive at three main results to inform our recommendations for political action:

- Germans perceive income inequality to be a significant problem
- Germans overestimate income inequality, yet wealth inequality matters
- Respondents consider the prospect of moving up the social ladder to be bleak

Policy recommendations: addressing inequality in Germany

The results show that there is a large potential for a policy agenda that emphasizes redistributive, progressive and egalitarian policies. Inequality is seen as a general problem and a more egalitarian society is preferred by a majority of citizens.

Yet, important specific aspects of inequality are underestimated. The true extent of income and wealth inequality are significantly misperceived. Consequently, several measures are needed to change the perception and discussion on inequality:

- 1. Better informed public debates are crucial to raise public awareness of the importance of wealth inequality.** People need to be able to better relate abstract notions of inequality to their concrete situation.
- 2. Public spaces in which people from different backgrounds interact should be promoted and created** in order to broaden people's perceptions on inequality and provide new reference points for individual comparison.
- 3. It is imperative for political parties to offer a vision and policy agenda that addresses how to strengthen equality of opportunity and increase prospects for upward mobility,** given the bleak view of respondents on social mobility. This need is particularly acute in the midst of a pandemic and in the face of the challenge to transform Germany and Europe into a carbon-free society and economy.

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Imprint

The Politics of Inequality Perceptions, Participation and Policies

is an interdisciplinary Cluster of Excellence at the University of Konstanz within the framework of the Excellence Strategy of the federal and state governments. The gap separating the poor from the rich, the worldwide rise of populism, the division of burdens in the fight against climate change, unfairly distributed access to education – many current debates are as much about inequality as they are about other issues. These topics pose highly complex questions, yet scientifically grounded answers are still few and far between. This is where we come in to investigate “The Politics of Inequality”: the political causes and consequences of inequality.

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