The Redistributive Consequences of Segregation

Abstract for Momentum18: Klasse

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Evidence shows that our social interactions increasingly tend to be with people similar to ourselves (see for instance Bishop and Cushing (2008) and Atkinson et al. (2004)). However, we often fail to realize how selective our perspectives on society are.

There are important reasons why we should be worried about this tendency towards increased social segregation: To begin with, it can contribute to the division and polarisation of societies and endanger social cohesion, because it hinders mutual understanding (as expressed in the votes for Donald Trump and Brexit, but also in the Austrian presidential elections of 2016 and the parliamentary elections of 2017).

Segregation also plays an important role in societies' levels of economic inequality. Firstly, due to "network effects": rich people prosper not only because of their own high income, but also thanks to their affluent neighbourhoods and important connections. Similarly, much poorer people may be at a disadvantage not only because of their low incomes, but because of their often-deprived surroundings, inferior schools and lack of influential contacts. The 2017 Grenfell Tower fire in the UK seems a classic example of such residential segregation, where inhabitants' concerns about fire safety were ignored because the people affected were not deemed "important" enough.

In this article I want to focus a second, indirect way in which segregation can affect inequality: social segregation can heighten misperceptions about the state of society, and thus affect citizens' support for certain policies such as income redistribution and expansion of the welfare state. This can lead to an increase in (post-tax) income inequality.

Studies show that people at both ends of the income distribution tend to underestimate income and wealth inequality, and think they are closer to the middle of the income distribution than they actually are (see for instance Norton and Ariely (2011), Cruces et al. (2013), Fessler et al. (2016)).

In this article I will highlight the role of segregation in these misperceptions. I will report the results of quantitative surveys I conducted in the US and the UK (and which will hopefully soon be extended to other European countries), which indicate that people's biases are strongly connected to their degree of socio-economic segregation: People with very homogenous social circles, who interact mainly with people similar to themselves in terms of economic circumstances or education, tend to be more biased about the shape of the income distribution than people with diverse social contacts. Perhaps, since they are less aware how different people outside their circle are, they are inclined to conclude that most people are like them. This encourages richer people to think the poor are not as poor as they actually are, while poorer people don't realise how rich the rich are - segregation makes everybody in society underestimate inequality levels.

I will then introduce (the outlines of) a theoretical Political Economy model about voting for redistribution in which the above described misperceptions imply that poor people tend to want less redistribution than if they were unbiased. For the rich, too, the most likely effect is that demand for redistribution will be lower than without these misperceptions, again leading to higher post-tax inequality.

The full implications of this phenomenon become clear once we note that segregation and inequality tend to move jointly: several studies for the US show that both income inequality and segregation have increased in most metropolitan areas over the past 40 years (Forman and Koch (2012)). It seems that inequality at the top has increased, with the rich increasingly segregating away from the rest, while "middle-class neighbourhoods" have shrunk (Fry and Taylor (2012)).

The fact that segregation is connected to misperceptions has important implications for demand for redistribution in times of rising inequality. For example, if inequality increases but society becomes more segregated at the same time, then people might fail to notice this increase – or the extent of it – meaning their support for redistributive policies doesn't increase accordingly.

I will argue that in the extreme, these misperceptions could even lead to people thinking that inequality has *decreased,* because their social circle has become more homogenous than before. As a result, these people would in fact seek less redistribution than before the increase in inequality. This mechanism could help to explain why we often observe periods of increasing income inequality that are not accompanied by a parallel rise in demand for redistribution (for example, in the US between 1975 and 2008, when income inequality was on the rise while support for redistributive policies remained constant or even decreased slightly).

In the end I will conclude my article by mentioning potential policy measures that could help reduce segregation. At the rich end, spatial segregation seems to be mainly self-imposed via gated communities, security guards, private transport and private schools. At the poor end, meanwhile, it is often a direct consequence of low purchasing power: housing costs and corresponding neighbourhood school quality are big drivers of social segregation. Policies such as improved public transport, residential planning and public schooling can therefore be useful in increasing socio-economic diversity. I also point out that there is now a new "virtual" dimension of social segregation arising from the increased propagation of social media (echo chambers, filter bubbles).

References

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