surveys of consumers UNIVERSITY OF MICHIGAN
Monitoring trends for over 70 years

Subject: Impact on economy from reducing inequality January 10, 2020
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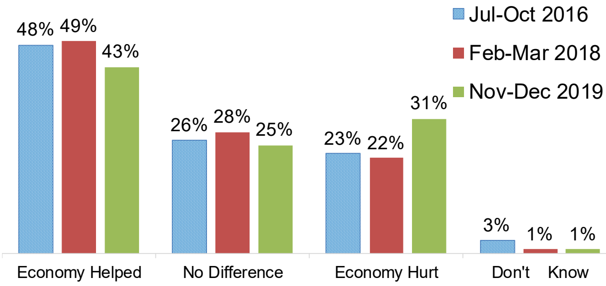
Consumers were asked whether they thought reducing income inequality by increasing taxes on the wealthy would improve or worsen overall conditions in the economy. The objective of the question was strictly limited to the potential impact on economic growth prospects, not on the overall desirability of reducing inequality. The questions were first asked in 2016, prior to the national election, and repeated in 2018 and 2019. As shown in the chart at right, compared with the minor changes recorded between 2016 and 2018, consumers were slightly less likely to expect that reductions in income inequality would benefit economic growth in 2019. The 2019 balance of opinions (%help-%hurt) fell to 12 from 27 recorded in 2018, a large decline. The 2019 decline likely reflects consumers' judgements about the more detailed proposals to raise taxes to reduce inequality advanced by Democrats in the primary election debates. Nonetheless, reducing inequality is still more likely to be favored by consumers.

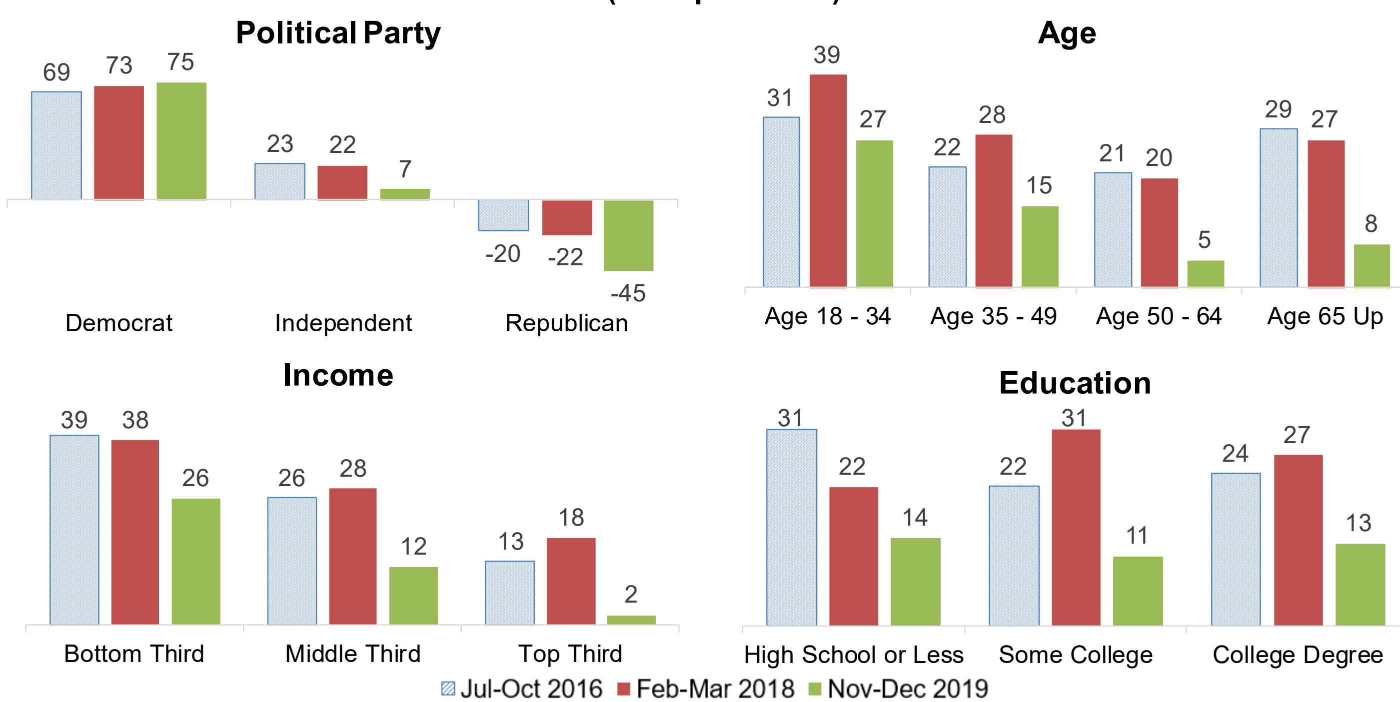
Economy Helped or Hurt by Higher Taxes on the Wealthy to Reduce Inequality?



The charts below indicate how views about reducing inequality have shifted among socio-economic groups, including political party affiliation. The data indicate that favorable opinions among Democrats inched upward, while the entire increase in unfavorable opinions about this proposed policy was primarily among Republicans, although Independents also held more unfavorable views in 2019. While the significant shift toward a negative impact on the economy among Republicans could simply reflect partisanship, the shift toward a more negative influence on the economy from this policy was obtained in every age, income, and education subgroup. While it is still true that consumers with household incomes in the bottom third held more favorable opinions than those in the upper two-thirds, the decline from 2018 to 2019 amounted to 12 percentage points for the bottom third and 16 points for the middle and the top third. Across age subgroups the falloff was from 12 points for those under 35 to 19 points for those aged 65 or older. Across education subgroups there was little difference in the 2019 assessments, with the largest decline from 2018 of 20 points for with some college without obtaining a four year degree.

Since most people are likely to view the current degree of income inequality as unacceptable, there are at least three possible explanations. First, the information reaching consumers from the presidential candidates was not clearly communicated; it was the resulting uncertainty that caused the shift. Second, the proposals were correctly heard and consumers disagreed with the details. Third, even if it would lower growth prospects, the majority of consumers may still support reducing inequality.

Economy Helped or Hurt by Higher Taxes on the Wealthy to Reduce Inequality? (%Help - %Hurt)



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