

United in Our Delusion

By David Cay Johnston

David Cay Johnston is a former tax reporter for *The New York Times* and teaches at Syracuse University Law School. He has written two books about taxes, *Free Lunch* and *Perfectly Legal*.

A clever survey of 5,522 Americans by two behavioral scientists reveals remarkable, near-unanimous agreement on an issue central to our tax debate. But will we benefit from this discovery of widely shared values?

Before reading on, please get out a pen or pencil so you can write down the answer to this question:

What percentage of wealth in America is owned by the poorest 40 percent? Wealth, or net worth, means all property of value, from cash to art to stocks and bonds to homes, minus debts.

Answer: I estimate that _____ percent of wealth belongs to the bottom 40 percent of Americans.

We'll get to the answer, but first, an explanation of the reasons for my question.

Americans are in a fury about taxes, or so the headlines tell us, with Tea Partiers convinced our president is a socialist wealth redistributor who plots to take from the productive to give to the indolent, tax-eating, illegally resident, and non-white.

Angry voters are eager to throw out incumbents wholesale in favor of new leaders who promise to slash their taxes, we are told on the broadcast news shows every day.

At the same time, numerous polls that did not make the headlines show that large majorities favor the president's proposal to retain the Bush-era tax cuts on the first \$200,000 or \$250,000 of taxable income.

When it comes to how wealth is distributed in America, we probably hold radically different views depending on our political affiliation, age, income, and gender, right?

Taxes are central to wealth distribution, or redistribution, as we hear endlessly this election cycle. So it would make sense that people who voted for George W. Bush in 2004 think very differently about the ideal distribution of wealth than people who

voted for Sen. John Kerry. People who make a lot hold very different ideas than people who make a lot less, right?

Wrong. We don't think differently. In fact, Americans think very much alike on wealth distribution. Amazingly alike.

High-income or low, Republican or Democrat, young or old, male or female, Bush voters or Kerry voters, Americans are united in what they believe is the ideal distribution of wealth. And they are just as united about what they imagine to be the distribution of wealth in America.

The problem is that neither the ideals we broadly share, nor our estimated distributions of wealth today, bear much relationship to reality.

And therein lies the explanation for how our nation became caught up in such a contentious, nasty, sometimes threatening, and potentially violent debate about tax policy. When it comes to wealth and taxes, the vast majority of Americans are modern Know-Nothings. The disconnect between belief and reality is being exploited by those who laugh all the way to the bank with their tax savings and the burdens they have subtly shifted off themselves and onto the rest of us.

The ideal wealth distribution chosen by the 5,522 people who took the online survey has the top fifth of Americans owning between 30 percent and 40 percent of the wealth.

That means Americans believe the ideal distribution of wealth is that of Sweden. Moreover, 90 percent of Republicans share that belief. (Actually, 90.2 percent, as the survey coauthor, Prof. Daniel Ariely of Duke University, noted when we met to discuss his work.)

The survey sample, with more than 10 times the 504 people often used in polls, is robust and credible. (For the report, see *Doc 2010-21608*.)

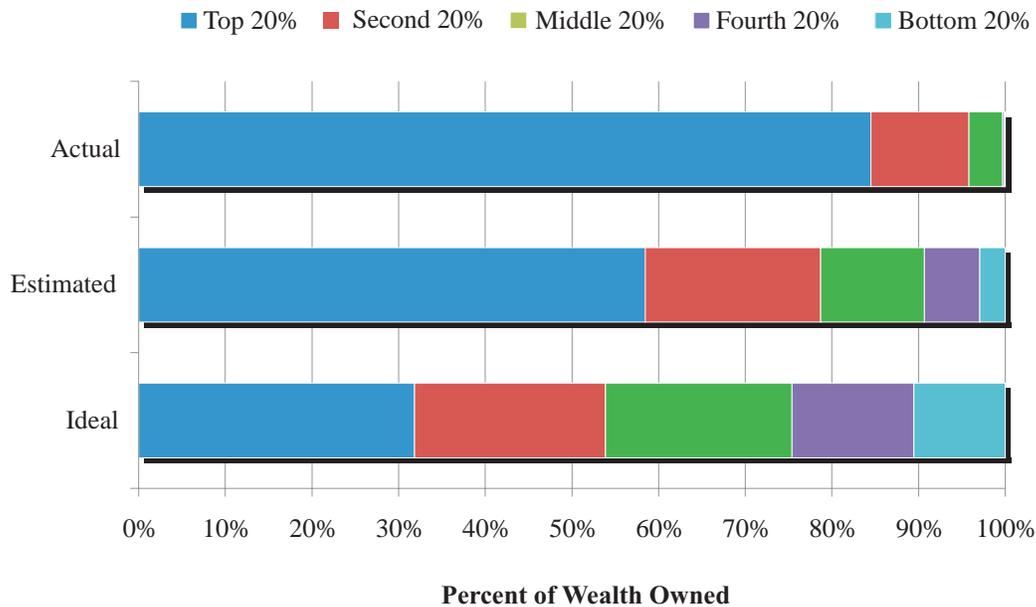
The genius in the survey was to avoid questions using loaded terms like "estate tax" and "death tax."

Instead those surveyed were shown pie charts and asked what they thought was the ideal distribution of wealth and what they estimated to be the wealth distribution in America. They were not told that one of the pie charts was Sweden's actual wealth distribution, but people gravitated to it like moths to a flame.

What did those surveyed think was the actual distribution of wealth in America?

Figure 1.

The actual United States wealth distribution plotted against the estimated and ideal distributions across all respondents. In the "Actual" line the bottom two quintiles are not visible because the lowest quintile owns 0.1 percent of all wealth and the second lowest quintile owns 0.2 percent.



Source: Norton and Ariely Survey.

They estimated that the top fifth of Americans owns about 60 percent of the wealth.

The reality? Eighty-five percent.

So what about the bottom 120 million of us? Those surveyed said that ideally, the bottom 40 percent would own 20 to 25 percent of all wealth. When asked to estimate the share of wealth actually owned, the collective guesses were between 8 and 10 percent.

Reality: 0.3 percent.

That means Americans think ideally the poorest 120 million Americans should own somewhere between every fourth and fifth dollar of net worth, when in fact they own every 333rd dollar.

John Rawls, the 20th-century philosopher who posed the question about what kind of a world you would like to be born into, influenced the test design. Rawls asked people to think about designing a world in which they had a random chance of being born into any segment. Put that way, most people want the poor to be a lot less poor than they actually are, just in case they are born into the bottom of the economic pile.

So how did you do on the test? What did you write down?

If your guess was on the money — congratulations! And if you missed by a wide margin —

anything above 1 percent — don't feel too bad. Prof. Ariely and his coauthor, Michael Norton of Harvard Business School, surveyed two dozen academic economists to check their findings. The pros got it wrong, too, although they did better than the random sample of Americans. The economists estimated the poorest two quintiles owned about 2 percent of wealth, seven times their actual share.

The survey is another example of how scholars not formally trained as economists are showing major flaws in our official economic dogma, neo-classical economics. Instead of assuming everyone is rational and that politically loaded terms like "tax" do not influence what people say, the behavioral economists are trying to understand what goes on inside our heads and hearts when it comes to money.

Ariely holds twin doctoral degrees in cognitive psychology and business. For the 10 years that I have known him, he has consistently identified what trained economists missed, showing blind spots that, like cataracts, cloud the knowledge we derive through the economic lens of neoclassicism.

Ariely sees the world differently because when he was an 18-year-old Israeli soldier, a flare accidentally went off, nearly burning him to death. For months he was motionless in a hospital bed with

nothing to do but watch. The first time his feeding tube was replaced with food, he found chewing to be disgusting. The first time he had to take a bath, he did not remember how to get in, settle down, or wash. Today, how people react to seeing his mild facial scars or shaking his mangled hand tells more about them than about him.

Experiences like that help you develop an outsider's eye, just as I find it useful to imagine myself as a cosmic journalist dropped here from another planet who is trying to figure out our ways.

Ariely financed the survey with money he made giving speeches. He spent half on his family and half on research, because no one was funding his behavioral economics experiments and surveys until recently.

To participate in Ariely's latest survey on wealth, go to <http://bit.ly/d2WSRg>. I'll report the results in a future column.

Mark Mellman, a top Republican pollster, told a radio audience last week that he thought the poll results showed how American culture is innately interested in fairness. Like Ariely, Mellman was most intrigued by the fact that those surveyed got the ownership share of the middle quintile about right in their estimates of actual distribution. Where people got it wrong was at the top and bottom.

Things were not always this way. Wealth has been piling up at the top, and what little there was at the bottom has been slipping away.

During the 1950s and 1960s, the income — not wealth, but income — of the bottom 90 percent grew at twice the rate of those at the top. For the last 30 years, the income growth has all been in the top 10 percent and has been heavily weighted to the top tenth of 1 percent. Big incomes and low taxes help wealth pile up at the top, while stagnant to falling wages and steady or slightly reduced taxes push down the bottom.

So why are so many Americans passive in the face of years of stagnating wages, reduced benefits, and mounting anxiety about whether work will run out before retirement benefits kick in? Why are the better-than-average-income Tea Partiers kicking up a fuss and not the actual poor, the 120 million Americans who own a small fraction of 1 percent of our wealth?

Ariely sees this as a form of learned helplessness.

What's that? "Imagine you have two dogs in two rooms," he said. "One dog hears a bell followed by an electric shock. This dog has a switch he can press with his paw that stops the shock, and he learns to press it when he hears the bell."

The other dog does not hear any bell to signal that the shock is coming and has no switch to turn it off.

"So now you move the two dogs and put them in two new rooms where they can move from one side of the room to the other over a low partition," Ariely explained. "One of the sides of the new room gives from time to time electrical shocks, but if the dog jumps over the partition to the other side of the room, he can escape the shock. When the shock comes, the first dog quickly learns to jump from one side of the room to the other, but the second dog just lies there and whimpers. This is learned helplessness, because when you cannot make a connection between cause and effect, you become depressed and just take it."

Ariely's theory fits with what my unemployed brother discovered. Eric went out on his own last week among his blue-collar friends in rural Oregon to talk about the severe lack of jobs there, the low wages without fringe benefits for those who do find work, and their concerns about the future.

"The people I live with and work with and talk to work at McDonald's or as security guards or on a road crew — they are high school graduates thinking only about paying their bills and have no idea about politics in this country," Eric told me.

"If you try to engage these people about the state of the economy, just in passing, they have no idea, and they don't care," Eric wrote. "They know bad things have happened to them, they know they can barely pay their bills. They are scared, but they don't know why things have gotten so bad, and they don't know how to find out anything. That's what scares me — they don't want to find out, because they say knowing won't change anything. They say what they know doesn't matter because they can't do anything about it."

Eric detects a seething anger beneath the surface that the right charismatic figure could ignite. He said when he thinks about this, his thoughts turn to another aspect of the culture he lives in, a macho mix of hatred of taxes and romantic notions about guns, which many of his friends own. "David, do the people you know, the people you talk to, and who read your column, do they understand how scary this is, what could happen?" he asks.

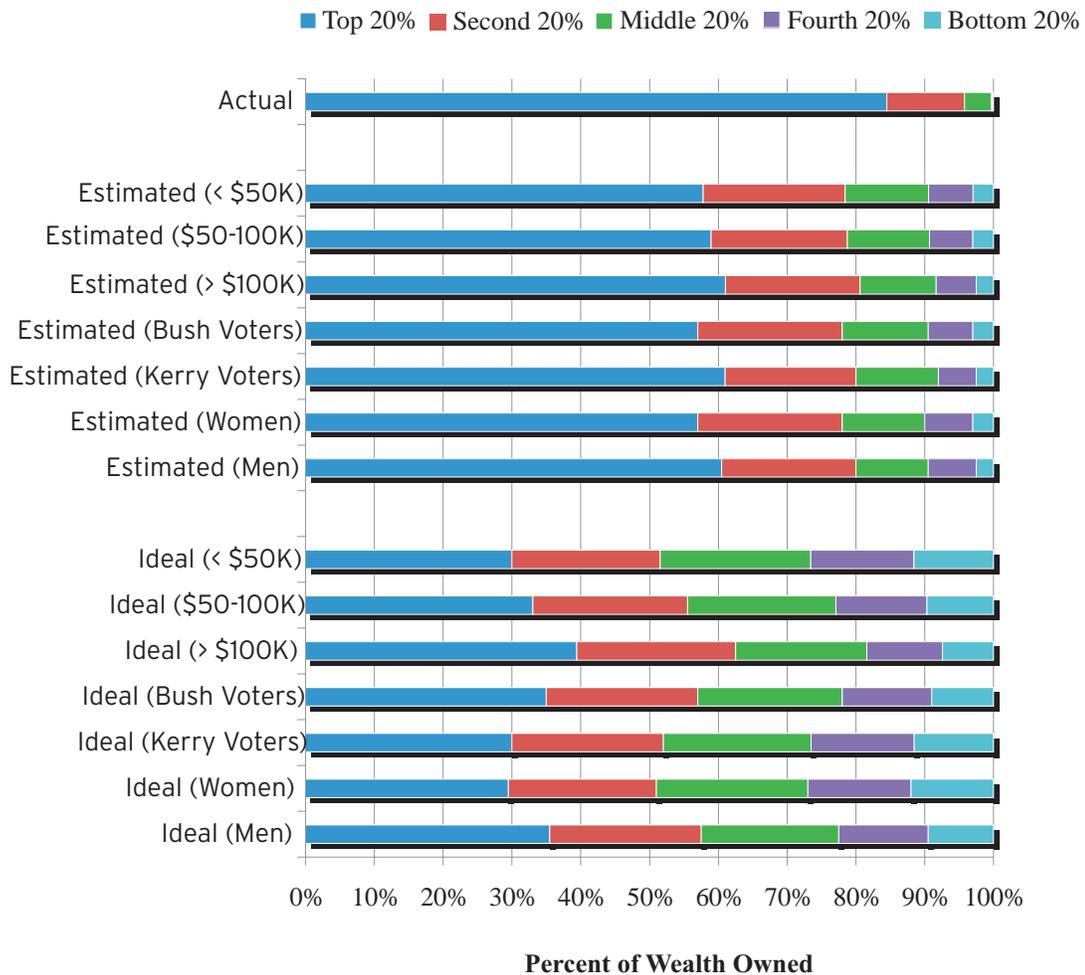
My question is whether we are doing anything to calm the situation and to build a society that not only aligns with our ideals, but that promotes the twin interests of stability and economic growth that benefit all.

What 120 million Americans think, and how they are doing economically, matters. It matters because we are one nation, easily divided. It matters unless you believe Cain was right to deny his duty to Abel.

The interests doling out money for Tea Party events have hired consultants who are superbly talented at exploiting this politically toxic amalgam of helplessness and lack of knowledge about taxes.

Figure 2.

Below is the actual United States wealth distribution plotted against the estimated and ideal distributions of respondents of different income levels, political affiliations, and genders. Note that in the "Actual" line the bottom two quintiles are not visible because the lowest quintile owns 0.1 percent of all wealth and the second lowest quintile owns 0.2 percent.



Source: Norton and Ariely Survey.

Add in the racist elements drawn to the Tea Party, and the armed militias whose numbers *Time* magazine says have tripled since President Obama's election, and there is reason to worry. Doubt that? Google this: Timothy McVeigh hero.

Ariely sees the ideas of Milton Friedman, the late Nobel laureate in economics, as a major source of the thinking underlying this brooding malaise. I agree and see Ronald Reagan as the popularizer of Friedman's smug ideas.

"Friedman ideology has deeply influenced our beliefs," Ariely said. "Even Obama's statements

show this in how he talks about taxes. Americans have this general belief now that government is bad, taxes are bad."

These ideas are easier to market than dandruff shampoo. Taxes, bad. Government, bad. Tax cuts, good. Less government, better.

It is much harder to explain that without taxes there is no wealth, that without taxes there is no civilization, that without taxes criminals take life and property with no redress except violence.

Americans with enough money to buy premium cable television channels saw this tussle between

brutish anarchy and supportive communities in the series adapted from Ken Follett's novel *Pillars of the Earth*. How many viewers connected the concepts to America today?

My previous column, documenting how incomes fell by \$2.7 trillion during George W. Bush's presidency, drew thousands of responses on the Internet. E-mails and posts showed how reflexively millions of people react to the words tax, income, and wealth. (For the prior column, see *Tax Notes*, Sept. 27, 2010, p. 1409, *Doc 2010-20557*, or *2010 TNT 186-21*.)

Taking their cue from Friedman, even if they do not know who he is or why they believe as they do, many people spout as unchallengeable truth that high taxes are the source of our economic woes, that the Bush tax cuts made us all better off. Hundreds wrote that anything that means less tax money going to Washington is good, missing the fact that less income is bad for them.

As a nation we now know, thanks to Ariely and Norton, that we are united in our ideals about wealth distribution. We share an important value about how the fruits of our society should be spread. Now we need to debate the effects our tax rules have on wealth distribution piling up at the top and draining from the bottom. We need a debate based on facts that appeals to our better natures.

We will probably get past the efforts to use taxes to inflame rebellion just fine. It is unlikely that we will be torn apart by someone mixing fertilizer and diesel, two useful products never intended to be combined into one, unless the demagogues and the oligarchs promoting tax hatred give away matches as Tea Party favors.

Your thoughts? E-mail me at JohnstonsTake@tax.org.