



# How to Finance a Crisis? Explaining Tax Preferences during the COVID- 19 Pandemic

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B. Share of the top 10%

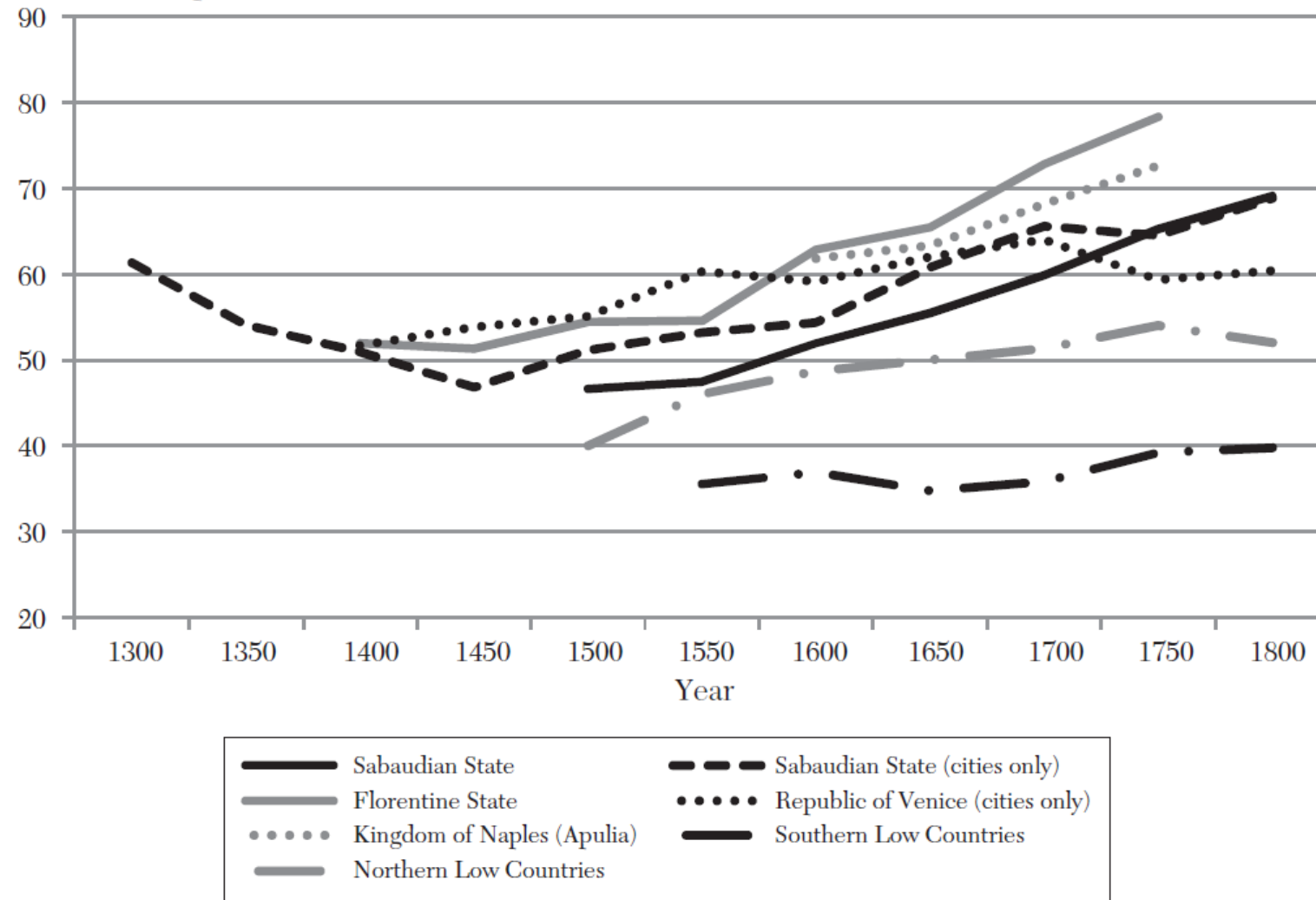


Figure 2. Long-Term Trends in Economic Inequality in Italy and the Low Countries, 1300–1800

# Research Question

Do concerns for

1. own relative deprivation (self-interest),
2. general inequality (other-regarding pref.),
3. fairness of inequality (normative)

affect individual tax preferences (progressivity and type)?

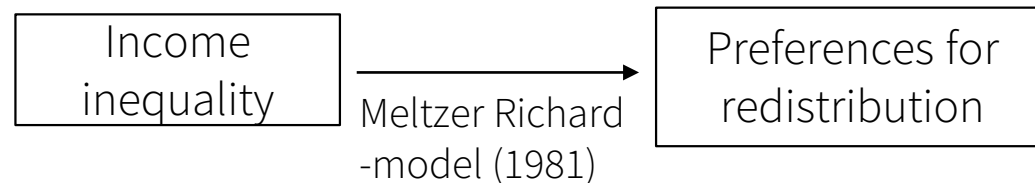
# Explaining Redistribution Preferences

## 1. Perceptions

- Limited information and biased perceptions shape self-interest behaviour (Cruces et al. 2013)

## 2. Justice

- Other-regarding concerns for social cohesion (Dimick, Rueda, and Stegmüller 2018)
- Legitimacy and justice beliefs shape self-interested behavior (Ahrens 2021)



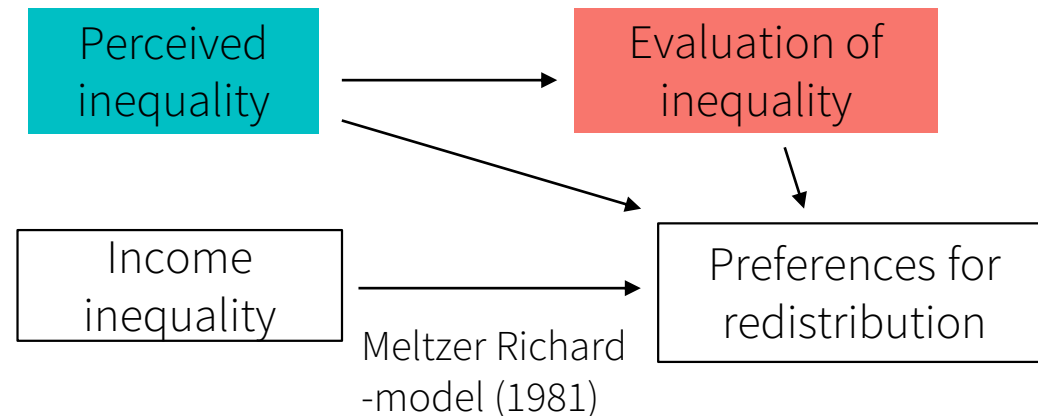
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# Empirical evidence and the role of crises

## Empirical evidence

- Inequality information does (not) change tax preferences (Ciani et al. 2021)
- Higher inequality levels can lead to greater inequality tolerance (Mijs 2019; Trump 2018)

## Underlying reasons

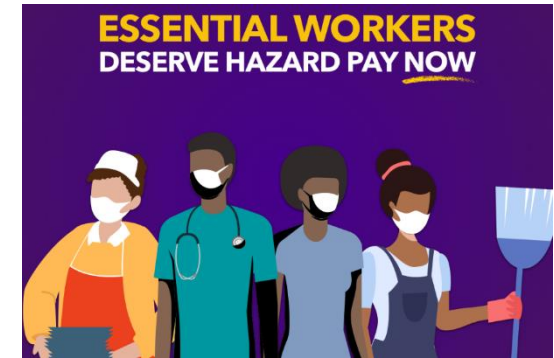
- 'Status quo' mindset shapes justice ideals (Homans 1973)
- Small changes in inequality may go unnoticed (Haak and Sieweke 2018; Trump 2017)

## Norm-Challenging Conditions

- Pandemic highlights external factors, which may spark calls for increased redistribution (Limberg 2019; Scheve and Stasavage 2016)

# The Pandemic as a catalysator of inequality perceptions and tax support

- Essential and frontline workers → predominantly from lower income strata & profited less by governmental programmes such as short-time work
- COVID-19 highlighted wealth inequalities → wealth as an insurance against negative consequences of the pandemic and governmental mitigation measures
- Calls for redistribute measures and new forms of taxes
  - "I am in favor of a rigorous contribution from heirs worth millions and billions" (Vice Chancellor Kogler, April 2020)
  - "A progressive European wealth tax to fund the European COVID response" (Landais, Saez, and Zucman 2020)
  - "Is it time for a UK wealth tax?" (Advani, Chamberlain, Summers 2020)



<https://www.csueu.org/news/archive/tell-ca-leaders-recognize-essential-workers-now>  
<https://www.ereceptionist.co.uk/blog/working-from-home-with-children-a-guide-for-parents>  
<https://www.thetimes.co.uk/article/imf-wants-pandemic-wealth-tax-xp3h9nhng>

# Hypotheses: How to Finance a Crisis?

## Relative income (Self-interest)

- H1: Feeling relatively poorer → favoring more progressive taxes

## General inequality (Inequality concerns)

- H2a: Expecting more inequality due to COVID-19 → favoring more progressive taxes;
- H2b: Expecting more inequality due to COVID-19 → favoring more wealth related taxes relative to income taxes

## Fairness beliefs

- Meritocracy H3a: Increasing disbelief in the meritocratic nature of differences in economic success → support for progressive taxes
- Meritocracy H3a: Increasing disbelief in the meritocratic nature of differences in economic success → support for income taxes compared to wealth taxes



# Longitudinal Tax Module

Data: Austrian Corona Panel Project (ACPP) (Kittel et al. 2020)

- Online access panel, quota-based sampling
- 1,500 respondents, 35 waves → 4
- Analytical sample: 1028 individuals, 2974 observations, 17844 tax evaluations



## DV: Tax preferences

- Tax type (income, wealth, inheritance)
- Relative degree of progressivity

## IV: Perception and Fairness

- Subjective relative income position (SRIP)
- Perceived pandemic inequality effect
- Belief in meritocracy

# Question Battery in Style of a Vignette Design

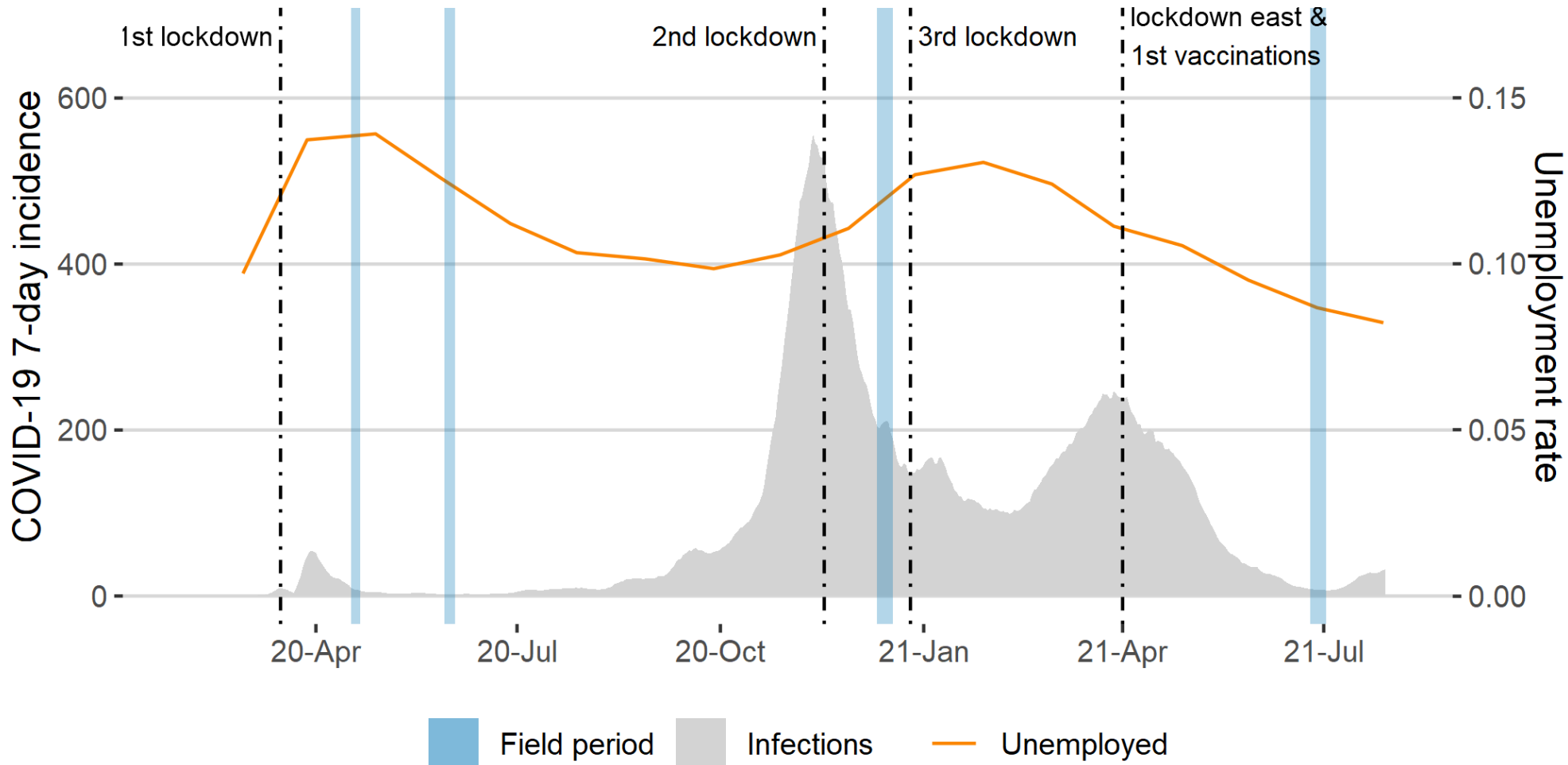
The following **taxes** could be introduced to **finance the Corona crisis**. They would each bring the state the **same amount of revenue**, **differ in which parts of the population are burdened**.

Please indicate whether you are **for or against the introduction** of the respective tax.

- | [Tax type]                           | [Tax Progressivity]   |                        |
|--------------------------------------|---|------------------------|
| a. An <b>additional income tax</b> , | which taxes a large part of the income <b>slightly higher</b> .       | $\tau_{i,t}^{inh,all}$ |
| b. A <b>wealth tax</b> ,             | which taxes a large part of the assets <b>slightly higher</b> .       | $\tau_{i,t}^{wea,all}$ |
| c. An <b>inheritance tax</b> ,       | which taxes a large part of the inheritances <b>slightly higher</b> . | $\tau_{i,t}^{inc,all}$ |
| d. An <b>additional income tax</b> , | which taxes high incomes <b>much higher</b> .                         | $\tau_{i,t}^{inc,top}$ |
| e. A <b>wealth tax</b> ,             | which taxes high wealth <b>much higher</b> .                          | $\tau_{i,t}^{wea,top}$ |
| f. An <b>inheritance tax</b> ,       | which taxes high inheritances <b>much higher</b> .                    | $\tau_{i,t}^{inh,top}$ |

-5 “totally against” - 5 “fully in favour”

# Field Periods and the Austrian Case



# Identification Strategy

- Causal estimands: Do perceptions and beliefs affect tax preferences?

- (POLS) & 2-FE regressions

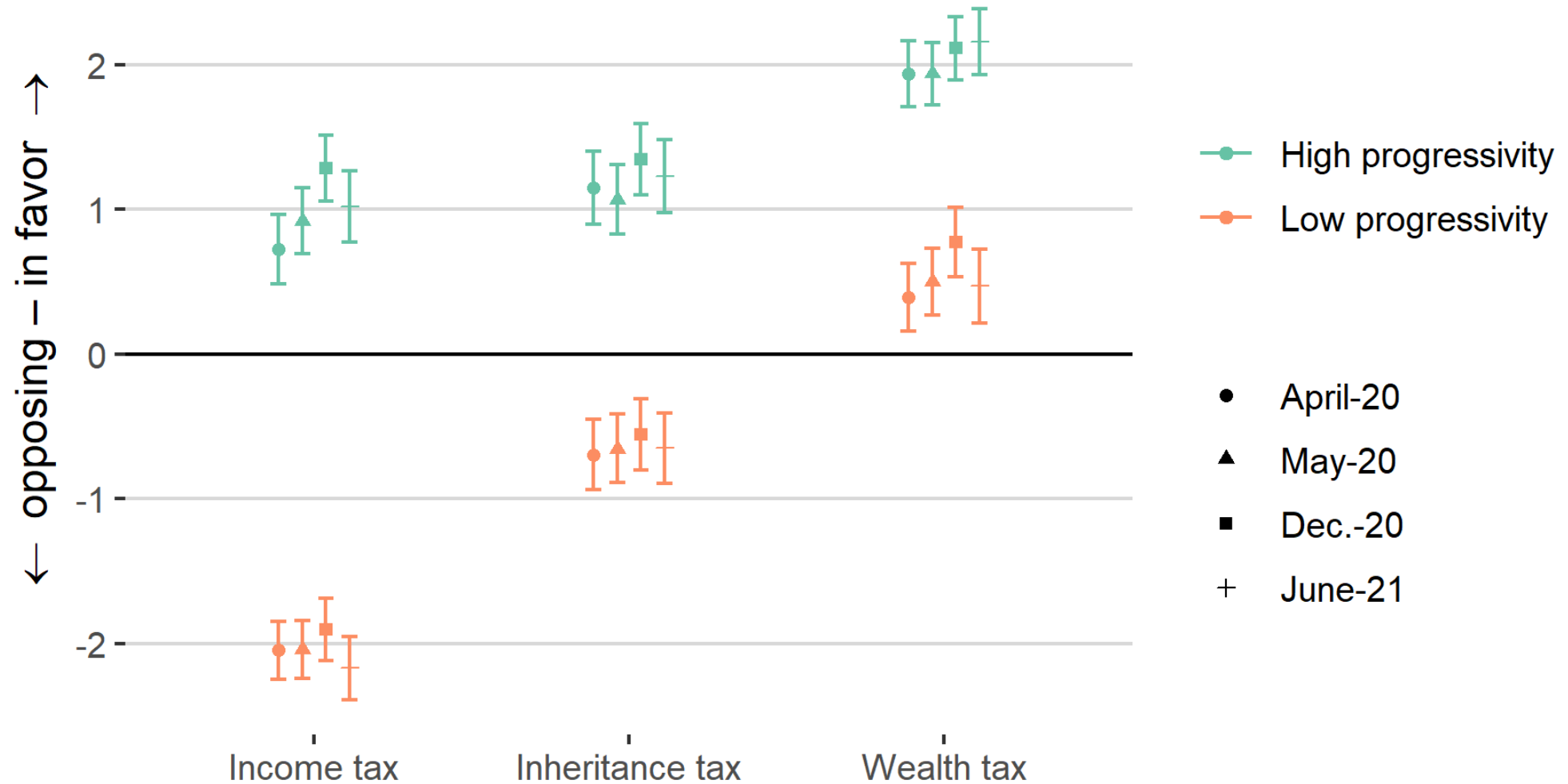
$$TaxProgressivity_{it} = \alpha_i + \gamma_t + \beta_1 SRIP_{it} + \beta_2 PandemicInequality_{it} + \beta_3 Meritocracy_{it} + \boldsymbol{\beta}' \mathbf{X}_{it} + \varepsilon_{it},$$

$$TaxInheritance\ vs\ Income_{it} = \dots,$$

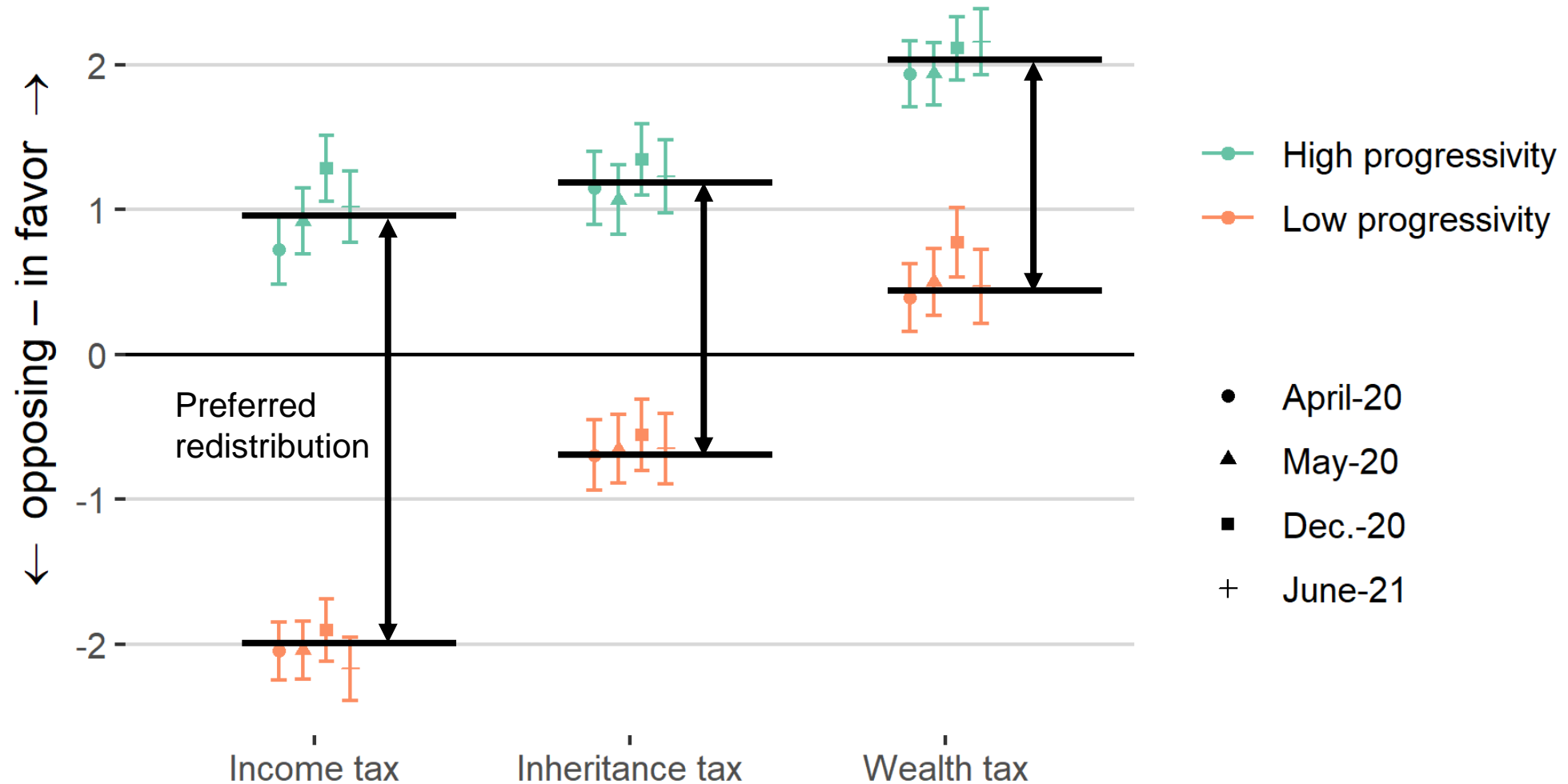
$$TaxWealth\ vs\ Income_{it} = \dots$$

- Person fixed effects  $\alpha_i$  and period fixed effects  $\gamma_t$
- Control variables  $\mathbf{X}_{it}$ : Perceived economic threats for Austria due to the pandemic, employment status, trust in public institutions, household income

# Austrians prefer high over low progressive taxation

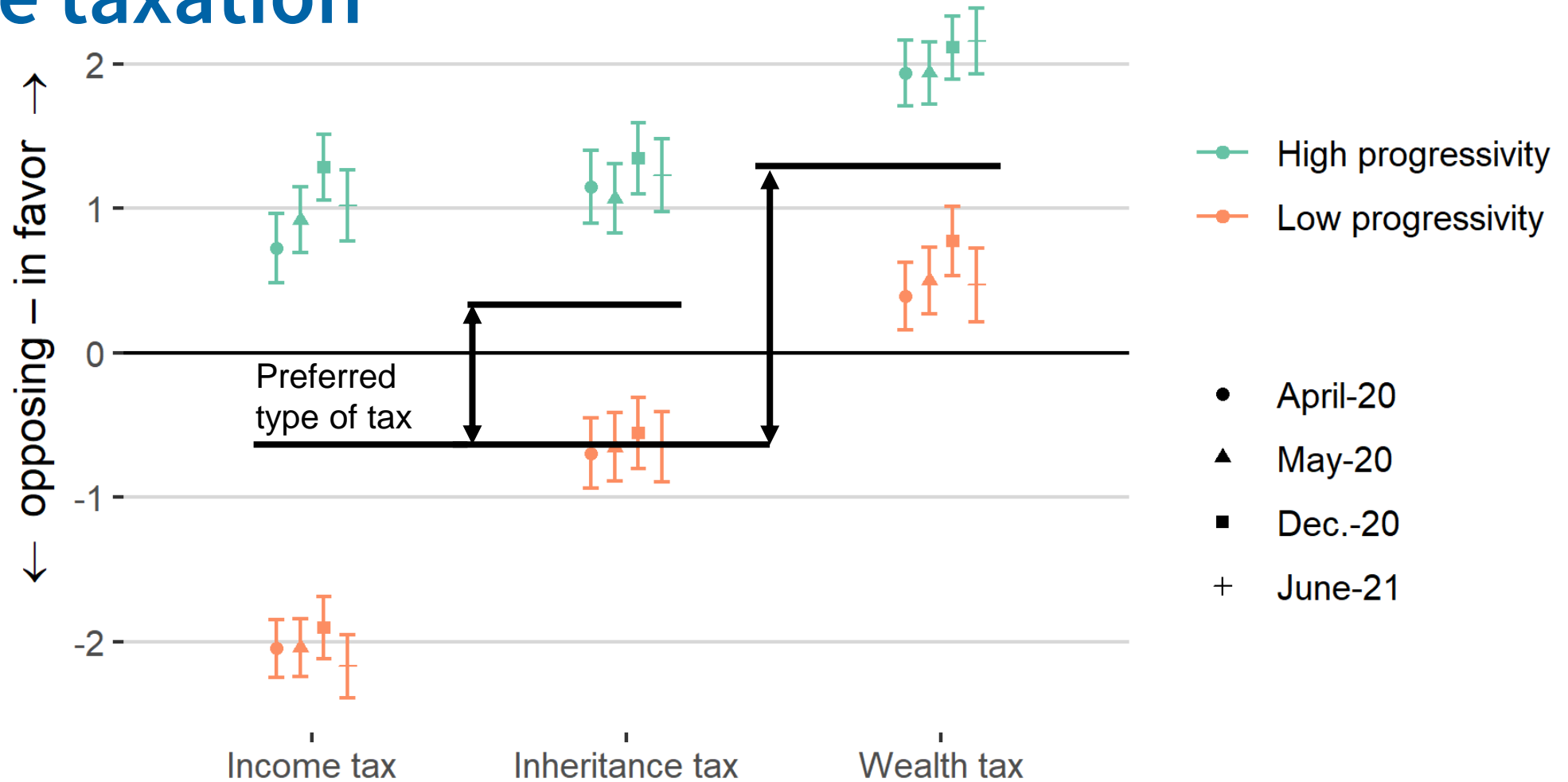


# Austrians prefer high over low progressive taxation



$$prog_{i,t} = ((\tau_{i,t}^{inc,top} - \tau_{i,t}^{inc,all}) + (\tau_{i,t}^{inh,top} - \tau_{i,t}^{inh,all}) + (\tau_{i,t}^{wea,top} - \tau_{i,t}^{wea,all}))$$

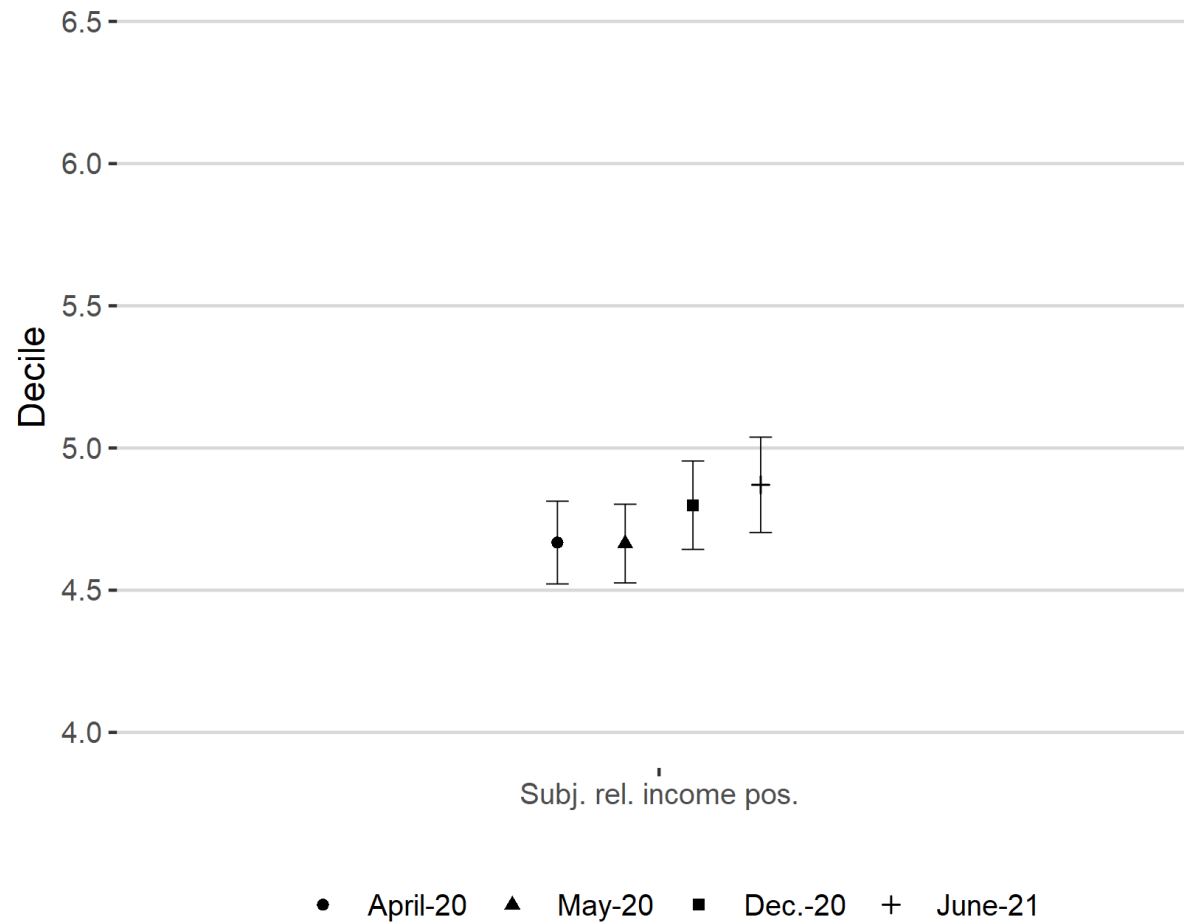
# Austrians prefer inheritance and wealth over income taxation



$$inh_{i,t} = (\tau_{i,t}^{inh,top} + \tau_{i,t}^{inh,all})/2 - (\tau_{i,t}^{inc,top} + \tau_{i,t}^{inc,all})/2$$

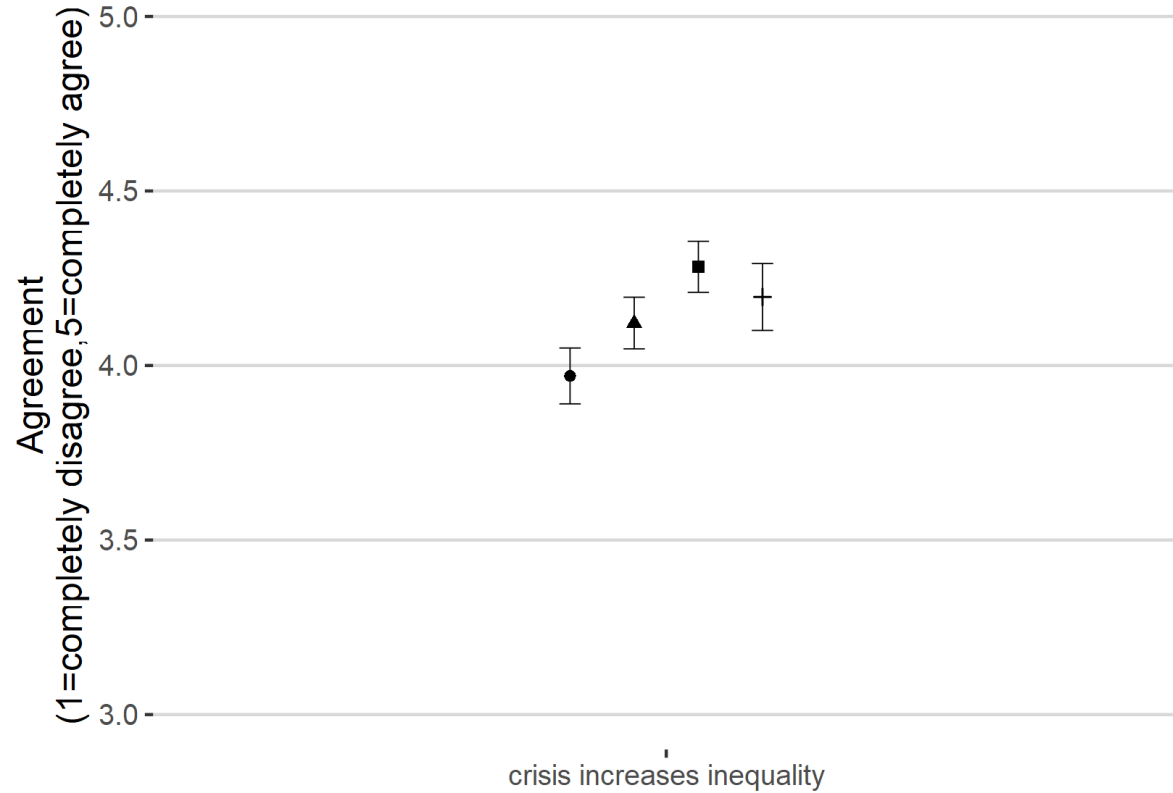
$$wea_{i,t} = (\tau_{i,t}^{wea,top} + \tau_{i,t}^{wea,all})/2 - (\tau_{i,t}^{inc,top} + \tau_{i,t}^{inc,all})/2$$

# Subjective relative income position



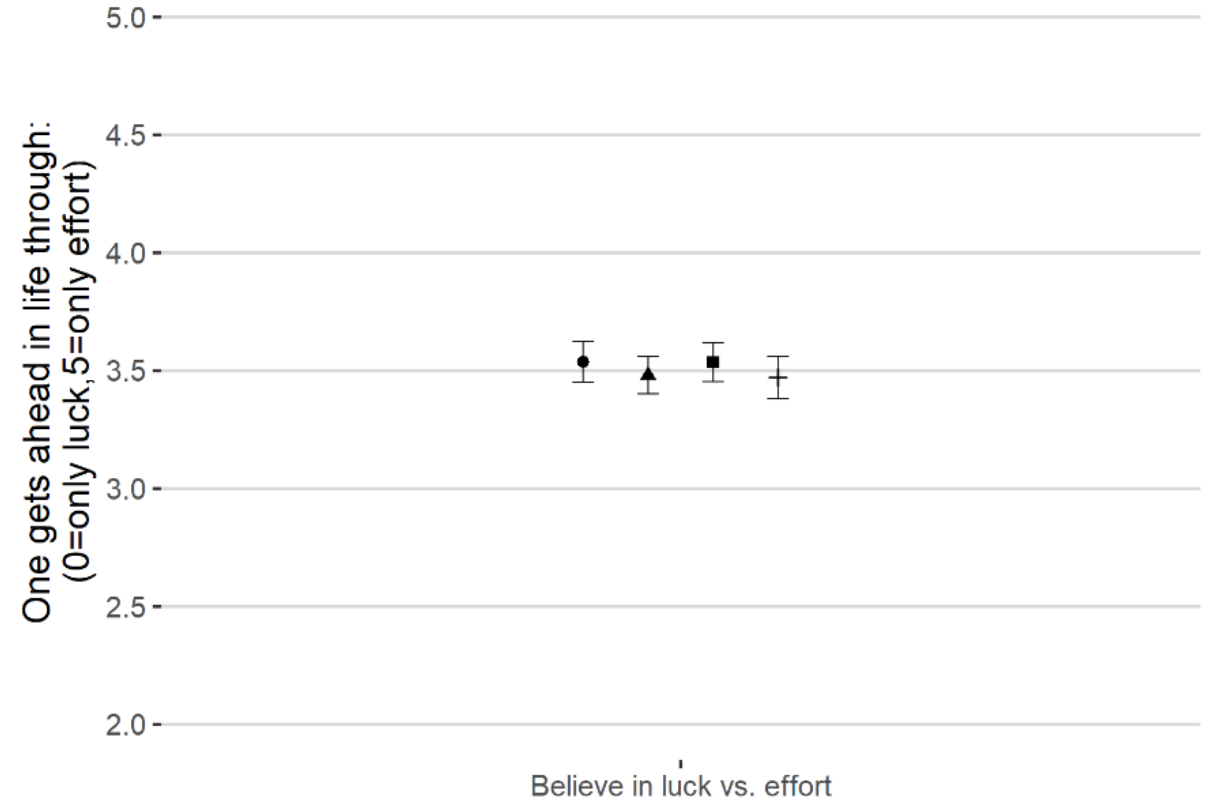


## Pandemic Inequality: 'The gap between rich and poor in Austria will increase in the future as a result of the crisis'



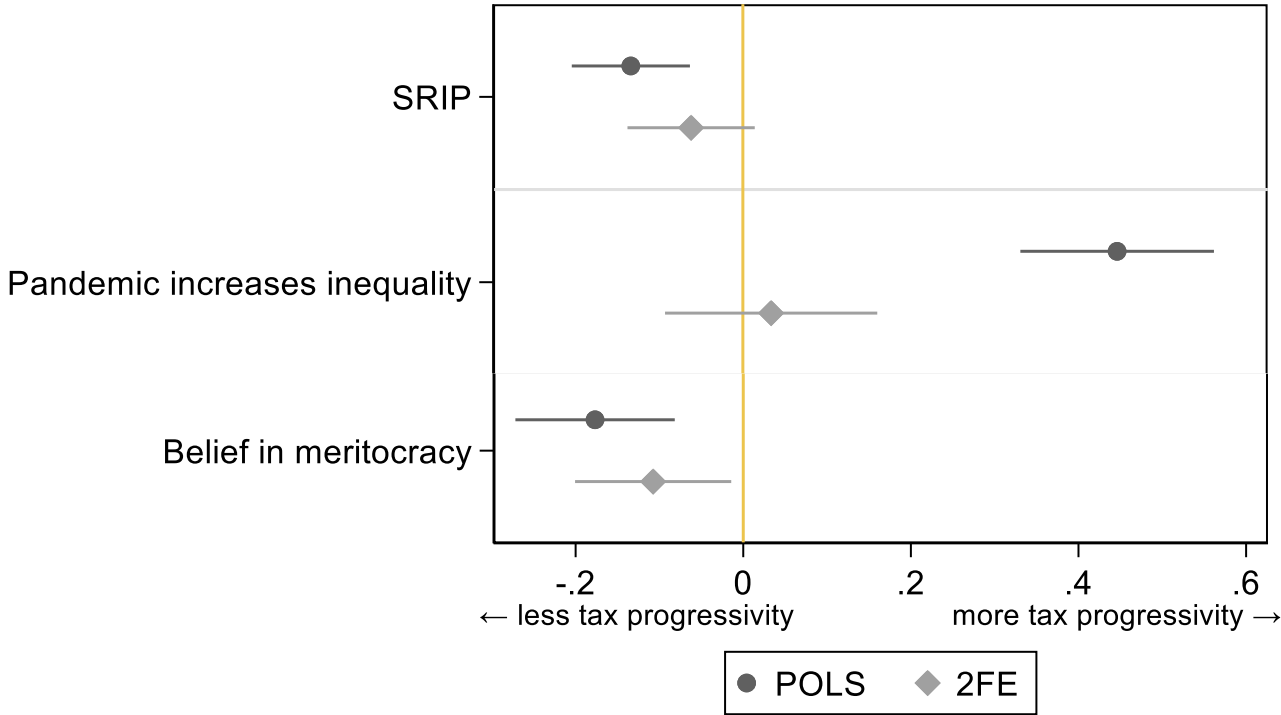
• April-20 ▲ May-20 ■ Dec.-20 + June-21

## Meritocracy Belief: 'Is luck or performance decisive for how economically successful people are in their lives?'



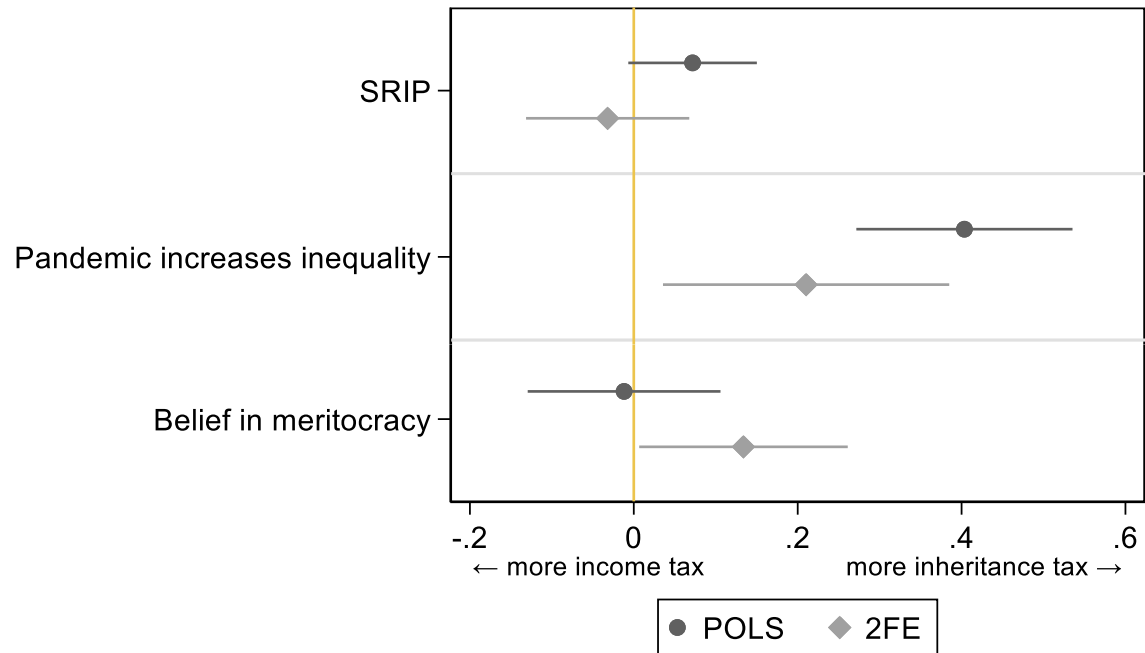
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# Meritocracy beliefs affect tax redistribution preferences

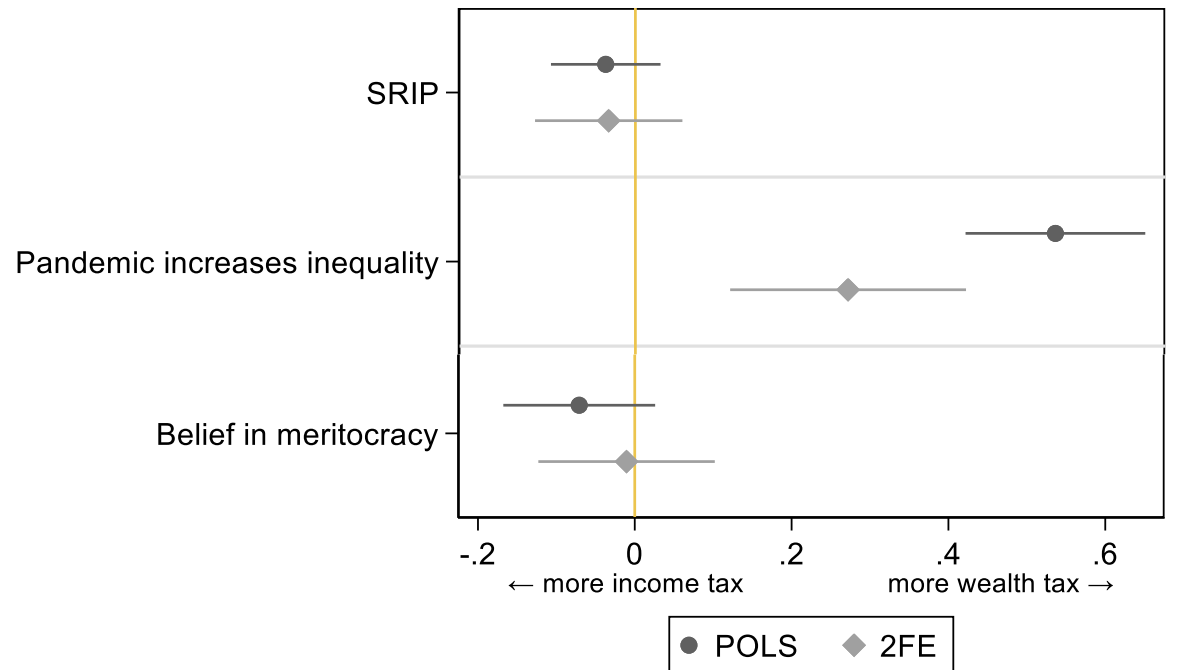


# Inequality perceptions essential for preferred tax types

## Inheritance vs. Income taxes



## Wealth vs. Income taxes

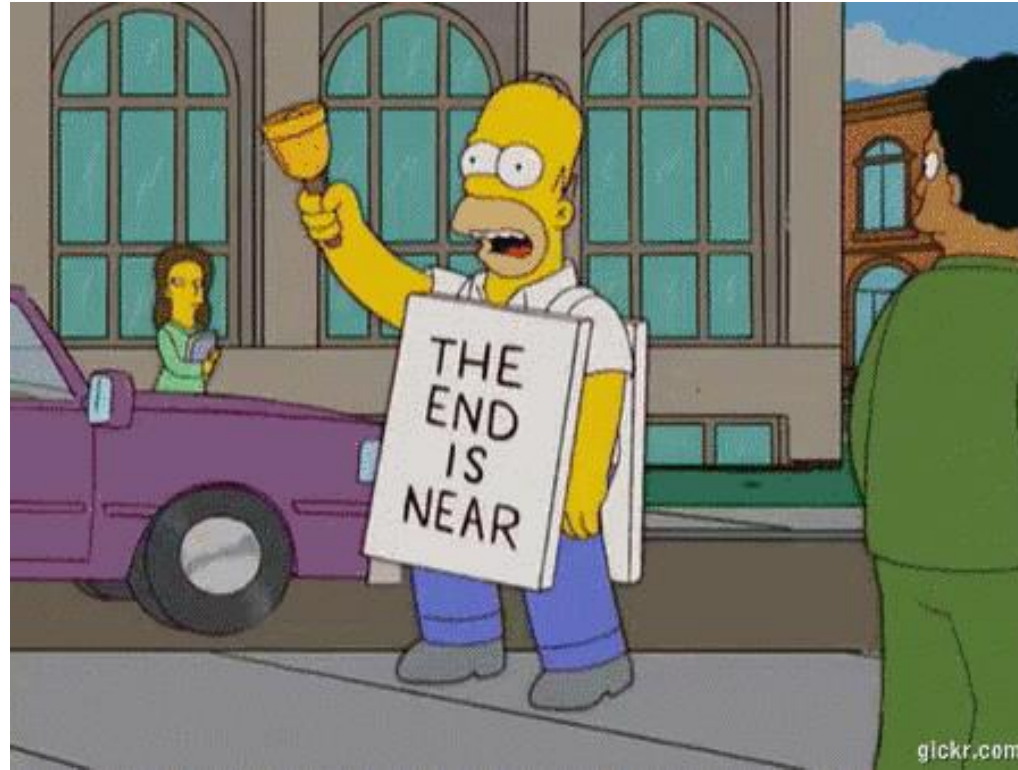


# Robustness checks

- Calculating a full model (using cross-level interactions to model the nested structure of “vignette dimensions” within individuals and waves)
- Controlling for objective household income
- Including a measure on the Inequality impact of the Lockdowns (governmental blame indicator)
- Adding post-COVID data (Feb-2023)

# Summary and Discussion

- Austrians prefer high progressive taxes over less progressive taxes and wealth taxes over inheritance and income taxes
- Subjective relative income positions (SRIP) and pandemic inequality beliefs don't affect tax preferences during the pandemic, only meritocracy beliefs do, Inequality concerns are a strong predictor of favouring “new” wealth related forms of taxation
- Limitations
  - No pre-pandemic data
  - Focus on how to tax not on whether to tax



*“in this world nothing can be said to be certain, except death and taxes .”*  
*(Benjamin Franklin 1836: 410)*

# Thank you for your attention!

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# Appendix



## Question wording – Tax Preferences

The following **taxes** could be introduced to **finance the Corona crisis**. They would each bring the state the **same amount of revenue**, differ in which parts of the population are burdened.

Please indicate whether you are **for or against the introduction** of the respective tax. (matrix question, randomized answer items)

- An additional income tax, which taxes a large part of the income slightly higher.
- A wealth tax, which taxes a large part of the assets slightly higher.
- An inheritance tax, which taxes a large part of the inheritances slightly higher.
- An additional income tax, which taxes high incomes much higher.
- A wealth tax, which taxes high wealth much higher.
- An inheritance tax, which taxes high inheritances much higher.

Matrix labels:

- *0 = totally against, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 = fully in favour*
- *don't know [88]*
- *no answer [99]*

## Question wording

- Please indicate **to what extent you agree** with the following **statements**: (matrix question, randomized response items)
  - All persons should contribute equally to the financing of the crisis.
  - The gap between rich and poor in Austria will increase in the future as a result of the crisis.
  - The introduction of new taxes is harmful to Austria as a business location.
  - The lockdown hit people with low incomes harder than those with high incomes.

*1 = completely agree..5= completely disagree*

*don't know/no answer*

- In Austria, the distribution of income is repeatedly discussed in public. If you take into account the **total net income of your household**, what do you **think is your income distribution**?

Please assign yourself to one of the categories from **1-10**, where **1** refers to the **lowest 10%** and **10** to the **highest 10%** of **household income** in Austria.

*1: lowest income decile (lowest 10% of income), 2, 3, 4, 5, 6, 7, 8, 9, 10: top income decile (highest 10% of income)*

*don't know/no answer*

- Is **luck or performance** decisive for how **economically successful** people are in their lives? (single mention)

*1 = Only luck, 2, 3, 4, 5, 6, 7 = Performance only*

*don't know*