Role of Behavior for Inequality

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Inequality often at the center of public debates

- How much inequality?
- Sources of inequality?
- Fairness of inequality?
- Effects of public policy?
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BEHAVIOR
- Work choices
- Savings choices
- Tax evasion

CIRCUMSTANCES
- Innate abilities
- Inheritance
- Tax system

INEQUALITY
- Richness
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Many outcomes
Income, wealth, health, risk of getting into financial trouble, crime propensities...

Many types of inequality
Inequality within generations and across generations, top income shares, gender inequality...

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BEHAVIOR
Work choices
Savings choices
Tax evasion

CIRCUMSTANCES
Innate abilities
Inheritance
Tax system

INEQUALITY
Richness
Approach

- **Experiments**
  - CEBI

- **Surveys**
  - CEBI

- **Leaks from offshore financial institutions**

- **Transaction data**
  - Danske Bank

- **Archival data**

- **Administrative data**
  - Statistics Denmark

- **Delinquency on loan**
  - Danish Tax agency (SKAT)
People

Many different fields: Public Economics, Labor Economics, Health Economics, Household Finance, Political Economy, Experimental Economics, Behavioral Economics, Microeconometrics, Structural Modelling...

+ many collaborators...
Wealth Inequality: Does Patience Play a Role?
Patient individuals are wealthier

Approach

Experimentally elicited preference parameters linked to administrative records on wealth + ...

Result

ASSOCIATION BETWEEN PATIENCE AND WEALTH

The graph shows the average position in the wealth distribution of three equally-sized patience groups of people over the years 2001-2015.
Wealth Inequality: Role of Tax Evasion?
Large evasion rate by the very wealthy

**Approach**

Leaks from offshore financial institutions linked to tax return records

**Result**

The graph shows the average tax evasion rate by percentile position of people in the wealth distribution. The overall average is 2.8% as illustrated by the red line.
Fighting Offshore Tax Evasion: Impact of Automatic Information Exchange?

Hjalte Fejerskov Boas (U of Copenhagen and CEBI)
Niels Johannesen (U of Copenhagen and CEBI)
Claus Thustrup Kreiner (U of Copenhagen and CEBI)
Lauge Larsen (U of Copenhagen and CEBI)
Gabriel Zucman (U of California, Berkeley)

May 2022
AIE improves tax compliance

**Approach**

CRS/FATCA reports +
Cross-border money transfers +
Tax return records +
Data from customized tax audits

**Result**

%-change in people who transfer >DKK 1 mill from foreign account to own account in DK (DiD estimate)
Perceptions about inequality and fairness of inequality?
People believe others are closer to themselves than they really are...

Approach

Survey data linked to administrative data on true income, income histories, reference groups, life shocks...

Result

What is the P50 income level of your cohort?

What is your income position within your co-workers?
Measuring Inequality in Life Expectancy:
Role of Income Mobility?
Inequality in life expectancy: Not as big as we thought but still rising

Approach

New method accounts for transitions across income classes. Empirical approach links income and mortality records for entire population over thirty years.

Result

The graph shows estimates of expected extra life years for high income 40-year old people compared to those with low income without accounting for income mobility (yellow dots) and when accounting for mobility (red dots).
**Child penalty on women**

- Impact of children on earnings of women and men.

**Badly informed about pension rules**

- Impact of information on beliefs about eligibility age.

**Financial trouble across generations**

- Case fatality rates for the US to other high-income countries.

- Monetary incentives increase vaccinations.

- Lower interest rates favor the rich.

- High health costs without better outcomes.
Role of behavior for questions about inequality?

- How much inequality?
- Sources of inequality?
- Fairness of inequality?
- Effects of public policy?