

Is redistribution to remedy inequality inhibited by distrust of government?

Income inequality denotes the dispersion of income across households, conventionally measured by the Gini coefficient or the income share of top earners. Redistribution is the principal fiscal remedy: the state reduces this dispersion below the level markets would produce, through progressive taxation, cash transfers, and in-kind provision. This essay concerns income rather than wealth inequality, since these instruments mainly operate on income flows; wealth lies beyond its scope.

In principle, inequality should correct itself. As inequality rises, the median income falls further below the mean, and the Meltzer–Richard model shows that the net benefit to the median individual from redistribution grows with this gap (Fig. 1).¹ The majority should therefore vote for redistribution, the government should act, and inequality should be remedied. Call this the self-correction hypothesis.

$$NB = t \cdot (y_{\text{mean}} - y)$$

Where:

- NB = **Net Benefit** (Net financial gain or loss)
- t = **Tax Rate** (Flat income tax rate as a decimal)
- y_{mean} = **Average Income** (Societal mean pre-tax income)
- y = **Personal Income** (Individual pre-tax income)

Fig. 1: The Net Benefit Equation of the Meltzer–Richard Model

In practice the hypothesis fails. The United States has seen a steady rise in the Gini coefficient both before and after taxes and transfers (Fig. 2), and the same holds across much of the OECD, where rising inequality has produced no corresponding rise in redistributive demand.² Something interrupts this mechanism.

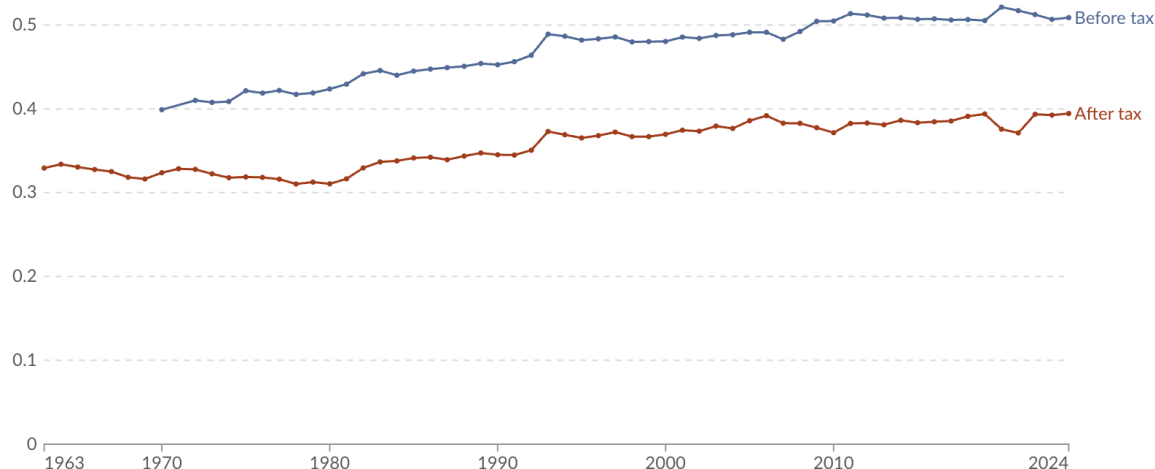


Fig. 2: United States Gini Coefficient Before and After Taxes

Kuziemko, Norton, Saez and Stantcheva (KNSS) identify one interruption experimentally: distrust in government constrains support for redistribution.³ Government distrust here means disbelief in the state's redistributive machinery; trust of this kind derives mainly from the performance of output institutions, the agencies that collect and deliver.⁴

Yet a bare "yes" to the question would be uninteresting: many things inhibit redistribution. The real question is one of role. Is distrust one obstacle among several, or the binding constraint — the one that yields to no direct policy instrument, only to the delivered redistribution it obstructs? This essay argues the latter: distrust is not the sole cause of redistribution's failure, but it is the one that locks the failure in place.

The mechanism runs as a chain: public support forms, the government acts on it, and output institutions deliver the result. Failure in redistribution traces to failure in one of these links.

In a perfect democracy the middle link holds automatically: parties are vote-maximisers, so if the median voter supports redistribution, they adopt it to remain in power.

In practice this link is weakened by elite capture: the divergence of enacted policy from majority preference, systematically toward the preferences of the economically advantaged. Gilens and Page document the pattern across 1,779 US policy questions between 1981 and 2002: once elite preferences are controlled for, the estimated influence of median-income preferences on policy adoption falls to a statistically insignificant near-zero — a standardised coefficient of 0.03, against 0.76 for economic elites.⁵ The financing of politics supplies the mechanism. In Australia, public funding covers only around a quarter of party income, and the top 5% of donors have contributed 76% of all disclosed donations since 1998 — 82% in the most recent data.⁶ With critical funding concentrated in wealthy hands, policy skews toward donor preference regardless of public demand. Legislators' own interests diverge similarly: the median United States senator

is roughly seventy times wealthier than the median household.⁷ The link fails, and redistributive support is dampened across parties.

Capture, however, has a direct instrument. If public funding for parties rises far enough to displace private donations, donors' leverage falls with it; and since total party revenue is a small fraction of government revenue, the cost to fiscal flexibility is negligible.

Even once policy passes, redistribution weakens if output institutions cannot execute: eligible individuals fail to claim, eligibility carries transaction costs, delivery suffers delay and error, and stigma attaches to claiming. Much of this yields to administrative instruments. In Bhargava and Manoli's IRS field experiment, reminder notices, simplified claiming and salient benefit amounts each raised take-up of the Earned Income Tax Credit — whose take-up runs at 78–80% — with complexity depressing response most among the poorest filers; stigma-reduction messages, notably, moved nothing.⁸

One component of delivery, however, does not yield. Redistribution's revenue comes from taxation, and observed evasion is far below what a rational calculus predicts: audit rates across the OECD run at 1–2%, with penalties of 10–20% of evaded tax — parameters under which the canonical Allingham–Sandmo model, calibrated at moderate risk aversion, implies compliance of roughly 13% (Fig. 3).⁹ Yet 85% of US tax liability is paid voluntarily, a figure stable for a quarter-century.¹⁰ The gap is tax morale: an intrinsic motivation to pay, sustained by a felt obligation to a state believed to deliver and by the social norm that others comply.¹¹ Distrust corrodes both — the obligation directly, and the norm as evasion spreads, since the norm holds only while compliance is believed general. Enforcement substitutes only partially: costly, incomplete, and, by treating citizens as suspects, liable to deepen the distrust it compensates for. Distrust also suppresses take-up on the spending side, since claiming a benefit requires trusting the institution that grants it — which simplification alone cannot remove. A distrusted state struggles to source the revenue and place the transfers redistribution requires, after the policy has passed.

$$E[r] = 1 - p(1 + f)$$

Where:

- $E[r]$ = **Expected Return** (Expected gain per dollar of tax evaded)
- p = **Audit Probability** (Chance that evasion is detected)
- f = **Fine Rate** (Penalty as a share of the evaded tax)

With $p \approx 0.01$ – 0.02 and $f \approx 0.1$ – 0.2 : $E[r] \approx 0.97$ – 0.99 per dollar evaded

Predicted compliance ($\gamma=3$) $\approx$ **13%**

Observed US compliance **85%**

Fig. 3: The Tax Morale Gap in the Allingham–Sandmo Model

Now to the first link: the formation of public support itself. Support depends on two variables — the information the public holds about inequality, and trust in the machinery that would remedy it. These are distinct, operating through different evidential channels: a belief about inequality updates on a single credible statistic, while a belief about the machinery accumulates from years of observed institutional performance. One can know the facts and still doubt the fix — precisely what KNSS observe. Their information treatment sharply raised concern about inequality and more than doubled support for the estate tax — an instrument whose appeal does not depend on believing the proceeds will be well delivered — while leaving support for broader transfer instruments nearly unmoved, with low trust in government partially explaining the gap.³ Concern is not the bottleneck; belief in the machinery is.

The two variables yield four states (Fig. 4). Only one — full information without distrust — produces support at the warranted level. The table shows the structure of the claim the KNSS evidence supports: information moves support only within the range trust permits.

	Trust	Distrust
Full information	Support at the warranted level	Support below the warranted level
Imperfect information	Above or below, by direction of misperception	Support below the warranted level

Fig. 4: Support for redistribution across information and trust states

Information, moreover, has suppliers external to the state — media, statistical agencies, academic releases — and KNSS's own experiment confirms the channel is live: supplied facts sharply moved beliefs. One might object that information is itself filtered through distrust of its sources. But the objection concedes the structure of the argument: whatever friction distrust adds, information retains a lever that can be pulled from outside government. Trust does not.

Take stock. Capture yields to public funding, friction to simplification, ignorance to external information — each lever can be pulled without first resolving distrust. Distrust alone has no lever of its own. Because it is a belief about what the machinery does rather than what it says, rhetoric cannot revise it durably; only performance can. Its sole instrument is the delivered redistribution it obstructs. Whether distrust is the binding constraint therefore reduces to a single question: can a distrusted government deliver anyway?

Distrust is endogenous with redistribution and inequality. When inequality rises and redistribution fails, trust in government falls; falling trust suppresses both the demand for redistribution and the morale that funds it; redistribution fails further, and trust falls again. Each arrow of the loop is identified: gross inequality causally lowers trust, and historical trust levels predict the size of the welfare states countries sustain today.¹² KNSS find the loop operating within a single survey: the same information that raised concern about inequality cut by nearly a fifth the share of respondents trusting government most of the time.³ The co-movement is visible at the scale of Fig. 2 — over the decades the American Gini rose, the share trusting Washington to do what is right most of the time fell from 77% to 17%.¹³ The loop runs in both directions, yielding two self-reinforcing equilibria: a high-trust, high-redistribution state, and a low-trust, low-redistribution state known as a social trap (Fig. 5).¹⁴ The question becomes: how does a society caught in the bad equilibrium escape?

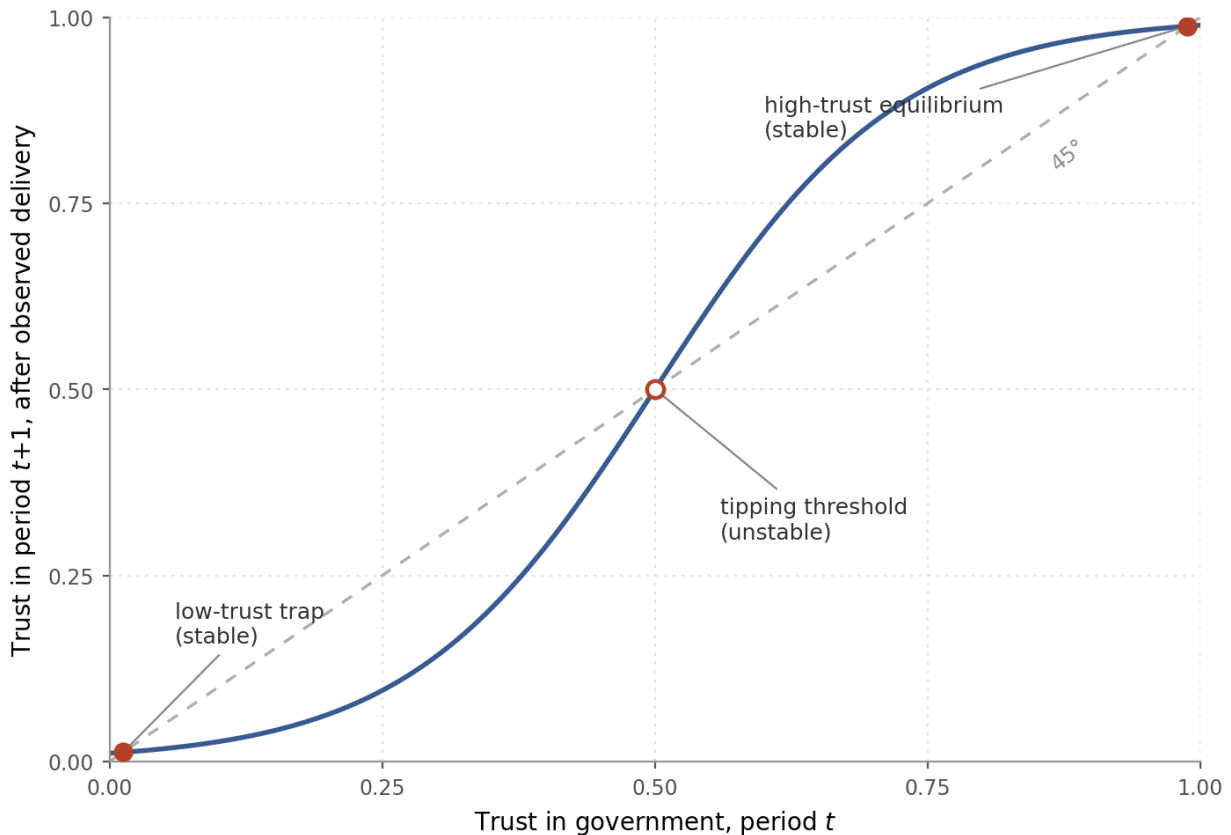


Fig. 5: The social trap. Below the threshold, delivery failures confirm distrust and trust decays toward the low equilibrium; escape requires crossing the threshold in a single move.

Rhetoric, as above, cannot do it. Escape requires the government to deliver redistribution ahead of public support. Assume, for the sake of contradiction, that a government attempts this.

For delivery to revise distrust, it must clear conditions that compound. It must be universal: delivery reaching only some groups is read by the rest as confirmation of capture rather than competence. It must be attributable: Mettler's "submerged state" shows how comprehensively existing redistribution fails this test — majorities of beneficiaries of tax-channelled programmes, and around 44% of Social Security recipients, report never having used a government social programme.¹⁵ A benefit whose origin is invisible changes lives without changing beliefs. It must be immediate and tangible, since priors are revised only by evidence that is felt; benefits that are delayed, diffuse, or arrive through prices never register as evidence at all. It must arrive at scale and simultaneously, since small or sequential programmes are individually explicable as exceptions — luck, a good administrator, an election-year gesture. And it must be believed to survive, since a programme retrenchable at the next election is evidence about one government, not about the state. The only commitment device available is Pierson's policy

feedback: programmes that create their own defending constituencies.¹⁶ Feedback works — but slowly.

What unfolds is a race between backlash and policy feedback, and backlash starts with the advantage. The conditions that make delivery credible also make it expensive and provocative: universality and scale maximise the revenue requirement, while visibility presents the bill to those who pay it — raised from a tax base whose morale distrust has already depressed, for a policy running ahead of support, which depresses it further. Feedback is slow: constituencies take years to form and material effects years to be felt. Backlash is immediate. The American healthcare experience supplies the race's timings. The party that passed the Affordable Care Act lost 63 House seats within eight months, with 45% of voters describing their ballot as a message of opposition to the law; the Act's favourability did not cross 50% until mid-2017 — the same summer entrenchment finally defeated repeal.¹⁷ Feedback won after seven years; backlash won after eight months. A government facing re-election within a few years does not survive the interval, and any programme not yet entrenched falls with it — failing survivability. But vote-maximising parties do not choose strategies that predictably end in defeat. The assumption contradicts the premise; delivery ahead of support does not occur.

One objection remains. Pierson's retrenchment studies show mature welfare states resisting cuts even under hostile governments — and distrust plausibly helps, since a public that distrusts government also distrusts its stated reasons for cutting.¹⁸ If distrust protects redistribution wherever it already exists, how can it be redistribution's binding constraint? Because distrust is a status-quo amplifier: it taxes change in either direction. Change must be believed before it is supported, and belief is what distrust withholds. A distrustful public therefore defends the transfers it already receives — known quantities — while doubting expansion, which is a promise. But the question concerns movement from an unequal status quo toward a more redistributive one; and precisely where inequality is greatest and the remedy most needed, the status quo that distrust amplifies is the unequal one. The asymmetry is not a counterexample. It is the shape of the trap.

The circle closes. Every other obstacle yields to an instrument applied from outside; distrust yields only to delivered redistribution, and delivery ahead of support fails on the government's own electoral logic. What would cure distrust is the one thing distrust prevents — the failure locks itself in place. Distrust therefore fits the definition set at the outset exactly: it is the binding constraint, and it inhibits redistribution to remedy inequality.

Endnotes

1. Meltzer & Richard (1981).
2. Kenworthy & McCall (2008), documenting rising inequality without corresponding redistributive demand across several OECD countries.
3. Kuziemko, Norton, Saez & Stantcheva (2015). The estate-tax effect persisted at one-month follow-up. The trust finding: the information treatment reduced by nearly 20% the share of respondents reporting they trust government most of the time.
4. Rothstein (2005).
5. Gilens & Page (2014), Table 3, Model 4. The magnitude is contested (Bashir 2015; Enns 2015) owing to the high correlation between median and elite preferences; the direction of divergence toward elite preferences is not.
6. Centre for Public Integrity (2022; 2025), covering disclosed Commonwealth donations 1998–2021 and the 2022 update.
7. NOTUS/Spotlight PA analysis of Senate financial disclosures (2026): median senator net worth $\approx$ US\$4.4m against a Census median household figure, both excluding primary-residence equity.
8. Bhargava & Manoli (2015): experimental mailings to 35,050 filers who had left US\$26m of EITC unclaimed; simplification, reminders and benefit salience raised claiming, while stigma- and audit-fear-reduction treatments produced no effect. Take-up estimate: IRS (2020).
9. Allingham & Sandmo (1972); OECD audit and penalty parameters and the 13% calibration (Alm, McClelland & Schulze 1992, at relative risk aversion $\gamma = 3$) as reported in Luttmer & Singhal (2014).
10. IRS voluntary compliance rate, tax year 2022; stable at approximately 85% for roughly 25 years.
11. Luttmer & Singhal (2014); on compliance conditional on the belief that others comply, Levi's (1988) quasi-voluntary compliance.
12. Bergh & Bjørnskov (2014) — gross inequality lowers trust, in a structural model across 104 countries; Bergh & Bjørnskov (2011) — historical trust levels, instrumented with pre-modern variation, predict current welfare-state size.
13. Pew Research Center (2025): trust in the federal government to do what is right just about always or most of the time, 77% in 1964 to 17% in September 2025.
14. Rothstein (2005); Rothstein & Uslaner (2005). The two-equilibria structure is formalised in Aghion, Algan, Cahuc & Shleifer (2010).
15. Mettler (2011), reporting a 2008 Cornell Survey Research Institute poll.
16. Pierson (1994).
17. Seat loss and exit polling: 2010 US House elections, with 45% of voters describing their vote as a message of opposition to the ACA (NBC exit polling). Favourability first

exceeding 50%: KFF Health Tracking Poll, June 2017; the Senate's repeal attempt failed in July 2017.

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Data sources cited in endnotes: Pew Research Center, *Public Trust in Government: 1958–2025*; IRS voluntary compliance estimates; KFF Health Tracking Poll (2017); NOTUS/Spotlight PA Senate net-worth analysis (2026); Centre for Public Integrity donation-concentration updates.