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**Does Institutional Quality Affect Individuals' Perceptions of
Inequality? A cross-scalar perspective**

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Keywords

perception of inequality, institutional quality, Italy

Institutions play a fundamental role in shaping economic and social outcomes by defining the formal and informal rules governing interactions among individuals, firms, and public actors. A large body of research has consequently investigated the effects of institutional quality on economic development, innovation, entrepreneurship, well-being, and income distribution. Yet, while considerable attention has been devoted to the relationship between institutions and objective inequality, substantially less is known about whether institutional quality affects how inequality is subjectively perceived. This represents an important gap because individuals often have inaccurate representations of actual inequality, while their perceptions can be more consequential than objective indicators in shaping well-being, redistributive preferences, political attitudes, and social discontent.

This paper addresses this gap by investigating whether regional institutional quality shapes individuals' perceptions of inequality and, crucially, whether this relationship varies according to the geographical scale at which inequality is evaluated. Drawing on geographical approaches that conceptualise scale not merely as a territorial level but as an epistemological and socially constructed framework through which socio-economic realities are experienced and interpreted, we argue that perceptions of inequality are inherently scale-dependent. The geographical frame within which individuals assess

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society influences the disparities that become visible, the reference groups considered relevant, and the institutional environment against which distributive outcomes are evaluated. Consequently, the relationship between institutional quality and perceived inequality should not be assumed to remain constant across spatial scales.

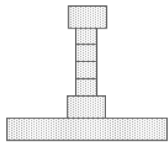
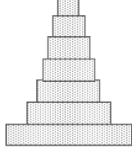
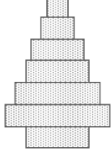
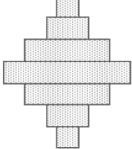
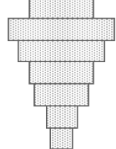
Italy provides a particularly suitable setting for examining this relationship because of its persistent territorial disparities in economic performance, living standards, income distribution, and institutional quality. We use original survey data collected between June and August 2021 from 1,301 Italian residents recruited through the Prolific platform. Quota sampling was applied for gender, age, and geographical residence, ensuring broad representation across demographic groups and an approximately balanced distribution between respondents living in Northern and Southern Italy.

Perceived inequality is measured by extending the International Social Survey Programme (ISSP) “type-of-society” approach across multiple geographical scales. Respondents were presented with five stylised diagrams representing alternative societal distributions, ranging from a strongly pyramidal and unequal structure (Type A) to comparatively egalitarian configurations (Types D and E). Unlike conventional applications, participants were asked to assess the type of society characterising three distinct geographical domains: their region of residence, Italy, and the world. Following Gimpelson and Treisman (2018), the five diagrams are subsequently converted into subjective Gini coefficients. This produces a scale-specific perception vector for each respondent and allows us to test directly whether the relationship between regional institutional conditions and perceived inequality changes as the geographical object of evaluation moves from the proximate regional environment to increasingly distant national and global scales.

Institutional quality is measured using the Institutional Quality Index (IQI) developed by Nifo and Vecchione and matched to respondents according to their NUTS-2 region of residence. The IQI combines 24 indicators into five dimensions: control of corruption, government effectiveness, regulatory quality, rule of law, and voice and accountability. All indicators range between zero and one, with higher values denoting better institutional quality. The Italian case displays pronounced subnational heterogeneity, with Northern and Central regions generally recording higher institutional quality than Southern regions and the Islands. This geographical variation provides the empirical basis for examining whether individuals exposed to different institutional environments develop systematically different perceptions of inequality.

Figure 1. Diagrams of types of society. Perception of Inequalities

Q. These five diagrams show different types of society. Please read the descriptions and look at the diagrams.

				
Type A	Type B	Type C	Type D	Tipo E
A small elite at the top, very few people in the middle and the great mass of people at the bottom.	A society like a pyramid with a small elite at the top, more people in the middle, and most at the bottom.	A pyramid except that just a few people are at the bottom.	A society with most people in the middle.	Many people near the top, and only a few near the bottom.

Which diagram comes closest to the type of society in:

	Type A	Type B	Type C	Type D	Type E
{region of declared residence}	☐	☐	☐	☐	☐
Italy	☐	☐	☐	☐	☐
The World	☐	☐	☐	☐	☐

Note: Author's own elaboration

The descriptive evidence first reveals a substantial divergence between objective and perceived inequality and, importantly, a clear scalar pattern. At the regional level, approximately 44% of respondents classify their society as highly unequal (Types A and B). The proportion rises to 58.8% when respondents evaluate Italy and to 86.6% when they evaluate the world. At the global level alone, 56.2% select the most unequal Type A distribution. These results indicate that perceived inequality is not spatially invariant: individuals systematically change their representation of social stratification depending on the geographical frame through which inequality is evaluated.

Table 1. Perception of inequalities at the Local (regional) level

Type-of-society	Percentage responders	Mean Regional GINI index	Gini (Gimpelson-Treisman)	GAP Inequality
A	14.30	0.296	0.42	overperception
B	29.82	0.287	0.35	overperception
C	24.06	0.283	0.30	(>)≈(=)
D	29.36	0.283	0.20	underperception
E	2.46	0.282	0.21	underperception

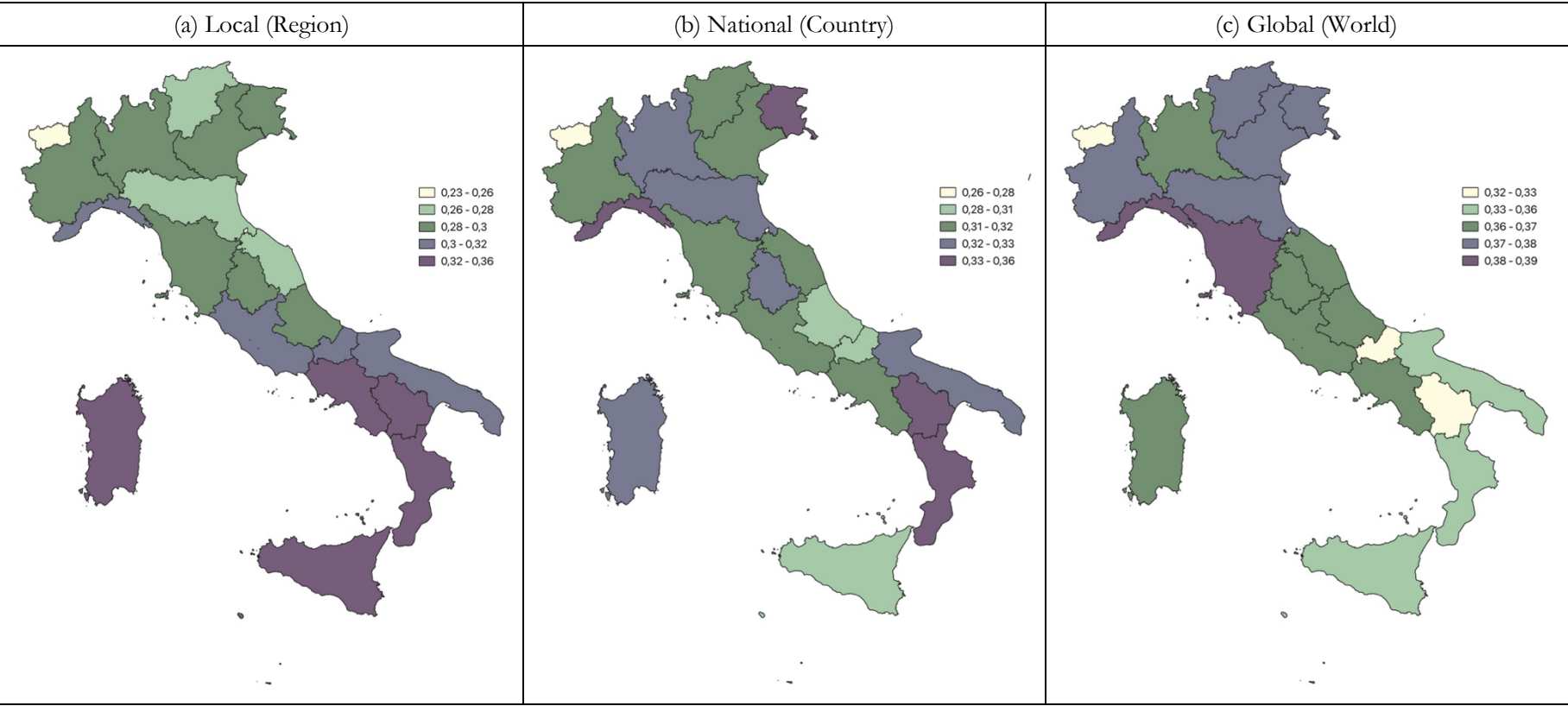
Table 2. Perception of inequalities at the National and Global level

Type-of-society	Gini (Gimpelson-Treisman)	National level		Global Level	
		Percentage responders	Mean Regional GINI index	Percentage responders	Mean Regional GINI index
A	0.42	19.06	0.288	56.19	0.285
B	0.35	39.74	0.285	30.44	0.287
C	0.30	23.98	0.285	5.30	0.288
D	0.20	15.14	0.288	5.73	0.289
E	0.21	2.08	0.282	2.31	0.285

The geographical distribution of these perceptions further reveals that spatial differentiation is strongest at the local scale and becomes progressively less pronounced as the scale of evaluation broadens. Regional perceptions are therefore more closely anchored in respondents' immediate socio-economic environments, whereas national and especially global assessments tend to converge towards a more unequal representation of society.

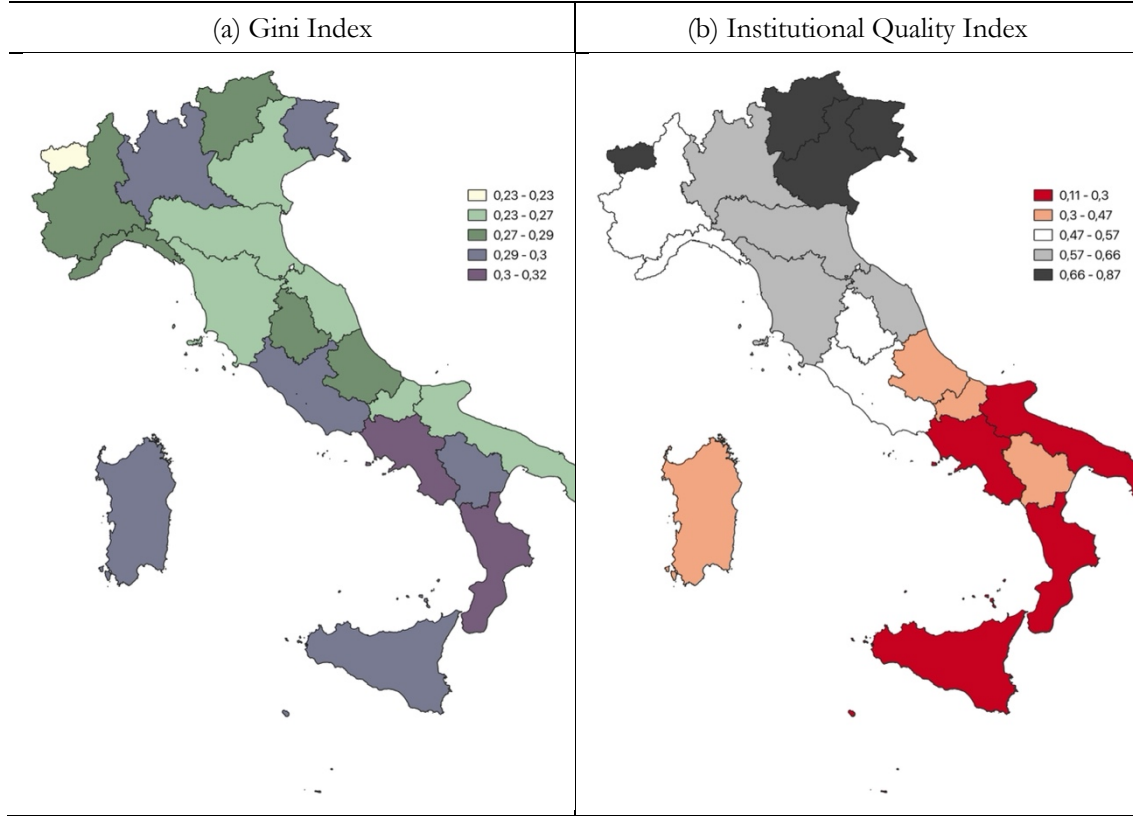
This geographical pattern can be compared with the spatial distributions of objective income inequality and institutional quality. Regional Gini coefficients display significant territorial heterogeneity, while institutional quality exhibits an especially pronounced North–South gradient. Regions characterised by comparatively lower institutional quality, particularly in Southern Italy and the Islands, broadly overlap with territories where respondents perceive greater inequality at the local level. This spatial correspondence provides an initial indication that institutional conditions may contribute to the way socio-economic disparities are experienced and interpreted within individuals' immediate territorial environments.

Figure 2. Geography of the Perception of Inequalities in Italy (NUTS-2)



Note: Author's own elaboration. Natural Breaks.

Figure 3. Gini Index and Institutional Quality Index. Year 2021



Note: Author's own elaboration. Natural Breaks.

To formally assess this relationship, we estimate separate OLS specifications for perceived inequality at the regional, national, and global scales, with standard errors clustered at the NUTS-2 level. Importantly, the models control for the regional Gini coefficient, allowing us to distinguish the relationship between institutional quality and how unequal a region *feels* from the effect of how unequal it objectively is. The specifications additionally account for demographic characteristics, occupation, geographical location, subjective social position, political orientation, political trust, income group, and pandemic-related economic vulnerability.

The econometric results provide strong evidence of scale dependence. Higher regional institutional quality is negatively and significantly associated with perceived inequality when respondents evaluate their own region. The overall IQI coefficient is negative and

statistically significant (-0.090), and the same pattern holds across its individual dimensions. The strongest associations emerge for rule of law (-0.107) and control of corruption (-0.094), followed by government effectiveness (-0.089), regulatory quality (-0.077), and voice and accountability (-0.075). Individuals living in regions characterised by better institutions therefore tend, conditional on objective inequality and individual characteristics, to perceive their regional society as less unequal.

Crucially, however, this relationship does not systematically extend to broader geographical scales. Regional institutional quality is not significantly associated with perceived inequality when respondents evaluate Italy, while it is also largely unrelated to perceptions of global inequality. The main exception is government effectiveness, which displays a positive association with global perceived inequality. The contrast across scales is the central empirical result of the paper: institutional quality appears to shape perceptions primarily when institutions and the socio-economic environment being evaluated are geographically proximate to individuals.

Table 5. Results

VARIABLES	LOCAL > REGIONAL LEVEL						NATIONAL > COUNTRY LEVEL						GLOBAL > WORLD LEVEL					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
<i>Income Inequality</i>																		
Gini Index	0.324*** [0.123]	0.419*** [0.120]	0.608*** [0.115]	0.527*** [0.116]	0.092 [0.146]	0.481*** [0.117]	0.065 [0.114]	0.063 [0.112]	0.059 [0.107]	0.062 [0.108]	-0.013 [0.133]	0.049 [0.107]	-0.067 [0.107]	-0.073 [0.105]	-0.142 [0.098]	-0.107 [0.099]	-0.103 [0.128]	-0.142 [0.100]
<i>Institutional Quality</i>																		
IQI	-0.090*** [0.015]						-0.000 [0.015]						0.022 [0.014]					
Corruption		-0.094*** [0.020]						-0.001 [0.020]						0.033* [0.018]				
Gov. effectiveness			-0.089*** [0.020]						0.023 [0.021]						0.049** [0.021]			
Regulatory quality				-0.077*** [0.020]						-0.004 [0.019]						0.030 [0.018]		
Rule of law					-0.107*** [0.020]						-0.017 [0.019]						0.006 [0.018]	
Voice and account.						-0.075*** [0.016]						-0.012 [0.015]						-0.009 [0.013]
<i>Individual traits</i>																		
Social ladder	-0.005*** [0.002]	-0.005*** [0.002]	-0.005*** [0.002]	-0.005*** [0.002]	-0.005*** [0.002]	-0.005*** [0.002]	-0.002 [0.001]	-0.002 [0.001]	-0.002 [0.001]	-0.002 [0.001]	-0.002 [0.001]	-0.002 [0.001]	-0.000 [0.001]	-0.000 [0.001]	0.000 [0.001]	-0.000 [0.001]	-0.000 [0.001]	-0.000 [0.001]
Political orientation	-0.003 [0.002]	-0.003 [0.002]	-0.003 [0.002]	-0.003 [0.002]	-0.002 [0.002]	-0.003 [0.002]	0.001 [0.002]	0.001 [0.002]	0.001 [0.002]	0.001 [0.002]	0.001 [0.002]	0.001 [0.002]	-0.004** [0.002]	-0.004** [0.002]	-0.004** [0.002]	-0.004** [0.002]	-0.004** [0.002]	-0.004** [0.002]
Political trust	-0.026*** [0.006]	-0.025*** [0.006]	-0.026*** [0.006]	-0.026*** [0.006]	-0.025*** [0.006]	-0.026*** [0.006]	-0.012** [0.005]	-0.012** [0.005]	-0.012** [0.005]	-0.013** [0.005]	-0.013** [0.005]	-0.013** [0.005]	0.015*** [0.005]	0.015*** [0.005]	0.014*** [0.005]	0.015*** [0.005]	0.015*** [0.005]	0.016*** [0.005]
<i>Controls</i>^a																		
Income Group	0.000 [0.001]	0.000 [0.001]	0.000 [0.001]	0.000 [0.001]	0.000 [0.001]	0.000 [0.001]	-0.001 [0.001]	-0.001 [0.001]	-0.001 [0.001]	-0.001 [0.001]	-0.001 [0.001]	-0.001 [0.001]	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]
Income loss	0.015*** [0.005]	0.014*** [0.005]	0.015*** [0.005]	0.015*** [0.005]	0.014*** [0.005]	0.014*** [0.005]	0.015*** [0.004]	0.015*** [0.004]	0.014*** [0.004]	0.015*** [0.004]	0.015*** [0.004]	0.015*** [0.004]	-0.005 [0.004]	-0.005 [0.004]	-0.006 [0.004]	-0.006 [0.004]	-0.005 [0.004]	-0.005 [0.004]
Observations	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298	1,298
R-squared	0.111	0.105	0.101	0.099	0.108	0.105	0.032	0.032	0.033	0.032	0.033	0.033	0.028	0.029	0.031	0.028	0.026	0.026

Note: Average marginal effects of OLS regression are reported. The dependent variable is the perception of inequalities at the local, national and global levels. Standard errors are clustered at the regional level (NUTS2) in brackets. Significances: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. ^a The table reports only the controls discussed in the manuscript.

A similar scalar pattern emerges for objective inequality. The regional Gini coefficient significantly predicts perceived inequality at the local level but loses explanatory relevance when respondents evaluate Italy or the world. Both institutional quality and actual income dispersion therefore appear most salient when the geographical scale of the explanatory condition corresponds to the territorial environment being evaluated. This supports an interpretation in which direct exposure and everyday encounters make economic disparities and institutional performance particularly visible locally. At broader geographical scales, perceptions are instead likely to depend increasingly on indirect information, media representations, ideological frameworks, and different comparative reference groups.

Individual-level variables provide further insight into the formation of inequality perceptions. Respondents who position themselves higher on the subjective social ladder tend to perceive less inequality, especially locally, whereas actual income groups do not significantly predict perceived inequality. Political trust is negatively associated with inequality perceptions across geographical scales, suggesting that greater confidence in political institutions is associated with viewing socio-economic systems as more legitimate and equitable. Pandemic-related income loss is associated with greater perceived inequality at the regional and national levels, further highlighting the importance of lived economic experiences. Political orientation, by contrast, becomes particularly relevant at the global scale, consistent with the idea that geographically distant assessments rely more strongly on ideological interpretations.

The results remain robust when political trust is matched to the corresponding geographical scale and when institutional quality and objective inequality are measured using their pre-pandemic 2019 values. The persistence of the local institutional-quality effect under these alternative specifications reduces concerns that the main findings merely capture generalised political distrust or temporary pandemic-related conditions.

Overall, the paper makes three main contributions. First, it extends the institutional-quality literature beyond objective economic outcomes by showing that governance quality is also associated with how individuals subjectively experience inequality. Second, it contributes to research on perceived inequality by identifying institutional context as a territorially embedded factor in the formation of distributive perceptions. Third, it introduces an explicitly geographical perspective by demonstrating that the institutional quality–perceived inequality nexus is scale-contingent. Geographical scale is therefore not simply the territorial level at which inequality is observed or measured; it constitutes

part of the interpretative process through which socio-economic disparities become visible, meaningful, and comparable.

These findings also have important policy implications. Improving regional institutional quality may generate benefits extending beyond conventional economic outcomes by influencing how citizens perceive disparities within their territories. Place-based strategies aimed at strengthening government effectiveness, integrity, rule of law, accountability, and institutional fairness may therefore contribute both to economic development and to reducing perceptions of territorial inequality. At the same time, the scale-dependent nature of the findings cautions against assuming that improvements in regional governance will automatically reshape perceptions formed at national or global levels. More broadly, understanding inequality requires attention not only to its objective distribution but also to the institutional and geographical contexts through which citizens experience, interpret, and ultimately judge socio-economic disparities.