Redistributive politics with target-specific beliefs Christina M. Fong, Panu Poutvaara

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Motivation and Research Question

- Beliefs on role of luck vs. effort \Leftrightarrow Redistributive preferences
 - well known fact in survey data
 - theoretically, different beliefs can be sustained in different equilibria (e.g. Alesina and Angeletos 2005)
- Why? People have a desire for "social justice"
 - aversion to unfair income distribution, *i.e.* belief that luck plays a relative big role in determining income
- This paper: beliefs about luck vs effort may depend on income levels
 - being rich may result from luck (unfair) or from hard work (fair)
 - being poor may result from unluck (unfair) or from laziness (fair)
- When asked about reasons (effort vs. luck) for being poor and rich, 42% of Americans give different answers
- Research question: if we allow beliefs about the causes of each income level to differ and move independently, what new theoretical insights do we get? Are these insights matched in the data?

My discussion

- Very interesting and novel approach to thinking about fairness concerns and redistribution
- Theory:
 - good starting point to build intuitions
 - some missing elements worth considering

• Empirical evidence:

- interesting new facts!
- more data to establish robustness of these facts?

A stylized model

- "Reduced form" version of an Alesina and Angeletos style model.
- Individual *i*'s utility:

$$U^i = u^i - \gamma^i \Omega^i$$
 $\Omega^i = \int_{k=0}^1 (u^i_k - \widehat{u}^i_k)^2 dk$

- What is the income generating process?
 - Not quite formalized, but a version of the following:

$$y^i = e^i + \varepsilon^i$$

- No heterogeneity in ability
- Assumptions on distribution of ϵ^i not spelled out

A stylized model

- The authors describe a discrete version of this process + (partially) exogenous effort choice.
- 5 groups of citizens:
 - Exogenous choice of high effort and high income ("hard-working rich")
 - Exogenous choice of low effort but high income ("entitled rich")
 - Endogenous choice between low and intermediate effort:
 - Low effort and low income ("lazy poor")
 - Intermediate effort and intermediate income ("middle class")
 - Intermediate effort and low income ("unlucky poor")
- Individual beliefs about effort are beliefs about two ratios:
 - importance of effort conditional on high income: ratio of hard working to entitled rich
 - importance of (lack of) effort conditional on low income: ratio of lazy to unlucky poor

Comments on model

- Useful framework to start building intuitions, but:
- Most individual choices of effort are exogenous
 - "hard-working rich" and "entitled rich" do not make effort choices
 - importance of effort to become rich is exogenous
- Beliefs about importance of effort are exogenous, rather than rational beliefs given societal outcomes
- Mapping between effort and income is rather peculiar
 - low effort can make you rich
 - intermediate effort cannot make you rich
- No voting: how are policies decided?
 - we can study preferences, not equilibrium policy outcomes
 - "moral release equilibrium" only possible if the rich decide policies
- Without specifying the primitives of the model, hard to study when different equilibria arise

Testable predictions

From the model:

- Beliefs about luck vs effort may depend on income levels
- Perceived share of "lucky rich" ↑:
 - \Rightarrow preferred tax on rich $\uparrow\uparrow\uparrow$
 - $\bullet \ \Rightarrow \ \mathsf{preferred} \ \mathsf{transfers} \ \mathsf{to} \ \mathsf{poor} \ \Uparrow$
 - \Rightarrow preferred tax on middle class \Downarrow (not tested)
- Perceived share of "lazy poor" ↑:
 - $\bullet \ \Rightarrow \ \mathsf{preferred} \ \mathsf{tax} \ \mathsf{on} \ \mathsf{rich} \ \Downarrow$
 - $\bullet \ \Rightarrow \ \mathsf{preferred} \ \mathsf{transfers} \ \mathsf{to} \ \mathsf{poor} \ \Downarrow \Downarrow$
 - \Rightarrow preferred tax on middle class \Downarrow (not tested)

In the data:

• These patterns hold in a Gallup 1998 survey (U.S.) and 2014 German Socioeconomic Panel (Germany)

Comments on Empirical Evidence

- Overall, 42% of U.S. respondents do not give same answer to both measures of beliefs; what about in Germany?
- When regressing preferences for taxing the rich and for transfers to the poor on beliefs about luck vs. effort for poor and for rich separately: beliefs about the poor matter more for transfers, beliefs about the rich matter more for taxation of the rich.
- Are these patterns confirmed in other surveys and countries?

Survey data from Alesina, Stantcheva and Teso (2017)

- We separately ask about beliefs on why people are rich and why poor
- \bullet We ask about preferences for taxing the top 1% and top 10% of families
- We ask about transfers to unemployed and poor families
- Nationally representative samples from U.S., U.K., France, Italy, Sweden

U.S.: 27% off-diagonal

	Rich lucky	Rich effort
Poor unlucky	41.55%	12.28%
Poor no effort	15.07%	31.10%

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France: 28% off-diagonal

	Rich lucky	Rich effort
Poor unlucky	58.81%	18.12%
Poor no effort	10.22%	12.85%

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Sweden 31% off-diagonal

	Rich lucky	Rich effort
Poor unlucky	48.49%	18.27%
Poor no effort	12.75%	20.48%

U.S.: 27% off-diagonal

	Rich lucky	Rich effort
Poor unlucky	41.55%	12.28%
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Sweden 31% off-diagonal

	Rich lucky	Rich effort
Poor unlucky	48.49%	18.27%
Poor no effort	12.75%	20.48%

Italy 20% off-diagonal

	Rich lucky	Rich effort
Poor unlucky	74.36%	11.60%
Poor no effort	8.40%	5.64%

Beliefs, Taxes on the rich, and Transfers to the poor

	(1)	(2)	(3)	(4)	(5)	(6)
	Tax Rate Top 1%	Tax Rate Top 1%	Tax Rate Next 9%	Tax Rate Next 9%	Budget Safety Net	Budget Safety Net
Poor Lack Effort	-2.357**	-3.290***	-0.469	-0.388	-1.120**	-2.292***
	(0.991)	(0.794)	(0.441)	(0.453)	(0.462)	(0.336)
Rich Effort	-3.050***	-3.239***	-0.605	-1.723***	-0.084	0.176
	(0.969)	(0.806)	(0.436)	(0.449)	(0.461)	(0.356)
Country	US	EU	US	EU	US	EU
Observations	992	2,863	992	2,863	1,986	2,868

Beliefs and other policies?

• Patterns do not seem to hold with support for the estate tax

	(8) Support Estate Tax	(9) Support Estate Tax
Poor Lack Effort	-0.249***	-0.181***
	(0.067)	(0.059)
Rich Effort	-0.210***	-0.180***
	(0.066)	(0.056)
Country	ЦС	EU
Observations	1.095	EU 2.966
Observations	1,985	∠,000

• Interesting to think about implications of these beliefs for income taxation vs. equality of opportunity policies

Comments on Empirical Evidence

- Overall, 42% of U.S. respondents do not give same answer to both measures of beliefs; what about in Germany?
- When regressing preferences for taxing the rich and for transfers to the poor on beliefs about luck vs. effort for poor and for rich separately: beliefs about the poor matter more for transfers, beliefs about the rich matter more for taxes.
- Are these patterns confirmed in other surveys and countries?
- Who is more likely to hold these "off-diagonal" beliefs?

Conservatives more likely to hold "off-diagonal" beliefs

	Rich lucky	Rich effort
Poor unlucky	59.08%	9.80%
Poor no effort	9.26%	21.85%

Liberals: 19% off-diagonal

Conservatives 30% off-diagonal

	Rich lucky	Rich effort
Poor unlucky	23.85%	13.09%
Poor no effort	16.51%	46.54%

• Are "opposite" positions on taxation of the rich and on transfers to the poor more prevalent among conservatives?

Conclusion

- Great paper, plenty of food for thought
- Accounting for target-specific beliefs may open new paths in this area of research
- Lots of potential starting from the baseline model
- Worth including evidence from more countries
- Analysis of relationship between these beliefs and additional policies is worth exploring